UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2021
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

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McDONALD'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-2361282**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 North Carpenter Street, Chicago, Illinois	**60607**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (630) 623-3000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)
Common Stock, $0.01 par value	MCD

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's common stock held by non-affiliates as of June 30, 2021: $172,462,195,915.

The number of shares outstanding of the registrant's common stock as of January 31, 2022: 743,584,718.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2022 definitive proxy statement, which will be filed no later than 120 days after December 31, 2021.

McDONALD’S CORPORATION
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ORGANIZATION OF THIS ANNUAL REPORT ON FORM 10-K

The order and presentation of content in this Annual Report on Form 10-K ("Form 10-K") differs from the traditional U.S. Securities and Exchange Commission ("SEC") Form 10-K format. McDonald's Corporation believes the format used in this Form 10-K improves readability and better presents how it organizes and manages its business. See "Form 10-K Cross-Reference Index" for a cross-reference index to the traditional SEC Form 10-K format.

FORWARD-LOOKING STATEMENTS

The information in this report contains forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. 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 plans, strategies, prospects and expectations regarding the business and industry are forward-looking statements. They reflect expectations, are not guarantees of performance and speak only as of the dates the statements are made. Factors that could cause actual results to differ materially from those in the forward-looking statements include those reflected in the Risk Factors section on page 28 of this Form 10-K and elsewhere in McDonald's Corporation's filings with the SEC. Except as required by law, McDonald's Corporation does not undertake to update such forward-looking statements. You should not rely unduly on forward-looking statements.

ABOUT McDONALD'S

McDonald’s Corporation, the registrant, together with its subsidiaries, is referred to herein as the "Company." The Company, its franchisees and suppliers are referred to herein as the "System."

BUSINESS SUMMARY

GENERAL

For the year ended December 31, 2021, there were no material changes to the Company's corporate structure or in its method of conducting business. Refer to the Segment and Geographic Information section on page 50 of this Form 10-K for additional information.

DESCRIPTION OF THE BUSINESS

The Company franchises and operates McDonald’s restaurants, which serve a locally relevant menu of quality food and beverages in communities across 119 countries. Of the 40,031 McDonald's restaurants at year-end 2021, 37,295, or 93%, were franchised.

The Company’s reporting segments are aligned with its strategic priorities and reflect how management reviews and evaluates operating performance. Significant reportable segments include the United States ("U.S.") and International Operated Markets. In addition, there is the International Developmental Licensed Markets & Corporate segment, which includes markets in over 80 countries, as well as Corporate activities.

McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. The business relationship between McDonald’s and its independent franchisees is supported by adhering to standards and policies, including Global Brand Standards defined in 2021, and is of fundamental importance to overall performance and to protecting the McDonald’s brand.

The Company is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally relevant customer experiences and driving profitability. Franchising enables an individual to be their own employer and maintain control over all employment related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald’s global brand, operating system and financial resources.

Directly operating McDonald’s restaurants contributes significantly to the Company's ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in Company-owned and operated restaurants, and in collaboration with franchisees, the Company is able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald’s restaurants.

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms. The Company’s Other revenues are comprised of technology fees paid by franchisees, revenues from brand licensing arrangements and third-party revenues for the Dynamic Yield business.

Conventional Franchise

Under a conventional franchise arrangement, the Company generally owns or secures a long-term lease on the land and building for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company may co-invest with franchisees to fund improvements to their restaurants or operating systems. These investments, developed in collaboration with franchisees, are designed to cater to consumer preferences, improve local business performance and increase the value of the Company's brand through the development of modernized, more attractive and higher revenue generating restaurants.

The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to facilitate consistency and high quality at all McDonald’s restaurants. Conventional franchisees contribute to the Company's revenue, primarily through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. The Company's heavily franchised business model is designed to generate stable and predictable revenue, which is largely a function of franchisee sales, and resulting cash flow streams.

Developmental License or Affiliate

Under a developmental license or affiliate arrangement, licensees are responsible for operating and managing their businesses, providing capital (including the real estate interest) and developing and opening new restaurants. The Company generally does not invest any capital under a developmental license or affiliate arrangement, and it receives a royalty based on a percent of sales, and generally receives initial fees upon the opening of a new restaurant or grant of a new license.

While developmental license and affiliate arrangements are largely the same, affiliate arrangements are used in a limited number of foreign markets (primarily China and Japan) within the International Developmental Licensed Markets segment as well as a limited number of individual restaurants within the International Operated Markets segment, where the Company also has an equity investment and records its share of net results in equity in earnings of unconsolidated affiliates.

PURPOSE, MISSION AND VALUES

Through its size and scale, McDonald's embraces and prioritizes its role and commitment to the communities in which it operates through its:

- *Purpose* to feed and foster communities;
- *Mission* to create delicious feel-good moments for everyone; and
- *Core Values* that define who we are and how we run our business.

At McDonald's, we are guided by our five core values:

1. *Serve* – We put our customers and people first;
2. *Inclusion* – We open our doors to everyone;
3. *Integrity* – We do the right thing;
4. *Community* – We are good neighbors; and
5. *Family* – We get better together.

The Company believes that its people, all around the world, set it apart and bring these values to life on a daily basis.

HUMAN CAPITAL MANAGEMENT

The Company's people strategies aim to create an environment grounded in diversity, equity and inclusion—to continually evaluate and evolve compensation and benefits programs, while offering quality training and learning opportunities, and to uphold a high standard of health and safety for employees and customers alike.

You can find more information about the Company's human capital management and related initiatives on the "Our Purpose & Impact" section of its website, which is updated periodically as such matters evolve.

Our People

Company employees, which include those in the Company's corporate and other offices as well as in Company-owned and operated restaurants, totaled approximately 200,000 worldwide as of year-end 2021, of which over 75% were based outside of the U.S. In addition to Company employees, the over two million individuals who work in McDonald's franchised restaurants around the world are critical to the Company's success, enabling it to drive long-term value creation and further its purpose and mission. People are at the cornerstone of the Company's business and an essential part of the McDonald's System.

Diversity, Equity and Inclusion

The Company's aspiration is that no matter where you are in the world, when you interact with McDonald's, diversity, equity and inclusion ("DEI") are as evident and familiar as the Arches themselves. A diverse workforce is and will continue to be critical to McDonald's success, and the Company is committed to making this a continued priority. Under the leadership of its Board of Directors, the Company adheres to a global DEI strategy designed to drive accountability across the System to better represent the diverse communities in which McDonald's operates, to accelerate cultures of inclusion and belonging and to further dismantle barriers to economic opportunity.

The Company's DEI strategy reflects its commitment to deliver equitable treatment for all people and includes:

- ongoing efforts to improve the representation of women and historically underrepresented groups at all levels of the Company;

- a recruitment initiative to help increase the number of franchisees from all backgrounds, including historically underrepresented groups;
- best practice sharing with franchisees and suppliers to support them in furthering DEI progress within their own organizations;
- upholding human rights and cultivating a respectful workplace that is ethical, truthful and dependable; and
- a commitment to equitable pay among Company employees with comparable job responsibilities, experience, performance and contributions and fair treatment in access, opportunity and advancement for all.

While McDonald’s is proud of its more than 65-year history as an employer, this global DEI strategy is designed to facilitate continued growth in how the Company approaches equitable opportunity and its role in catalyzing it across the System and beyond. The Company is committed to accelerating representation, inclusion and opportunity for historically underrepresented groups, not only within the Company but across the System. This goal is underscored by the Company's Mutual Commitment to Diversity, Equity and Inclusion, a pledge that invites the Company’s U.S. suppliers to commit to accountability for DEI progress within their own organizations. Aligned with the

Company's purpose, mission and values, the Mutual Commitment draws on McDonald's size and scale and highlights its opportunity to accelerate meaningful change for employees, franchisees, suppliers, customers and communities.

Beginning in 2021, the Company began incorporating quantitative representation metrics for leadership into the calculation of annual incentive compensation for its executives. In addition to the Company's financial performance, executives are now measured on a variety of quantitative metrics related to championing the Company's core values, improving representation within leadership roles (Senior Director and above) for women and other historically underrepresented groups and assessing feelings of inclusion within the Company.

Also in 2021, the Company launched a franchisee recruitment initiative to help increase the number of franchisees from all backgrounds, including historically underrepresented groups, in the Company's U.S. and International Operated Markets segments. The Company expects to expand the number of new franchisees through efforts in three areas: recruitment, financing, and ongoing learning and development. This effort—tailored for each market—will seek to increase ownership opportunities for new talent worldwide, both in terms of the number of individual restaurants owned and the number of qualified franchisees overall. The Company has committed $250 million in the U.S. over five years to provide alternatives to traditional financing in order to help candidates—who may face socio-economic barriers—join the McDonald's System.

In order to support this DEI strategy with measurable data and transparent reporting, the Company published its first Diversity Snapshot in December 2021, which included data on employee, Board and franchisee representation and supplier diversity. As the Company progresses on its journey of accountability and transparency, it will continue to identify opportunities to further enhance its processes for collecting data and reporting measurable progress toward its DEI goals.

Workplace Health and Safety

McDonald's has always focused on protecting the health and safety of its people and customers. In early 2020, in response to the global COVID-19 pandemic, the Company established a framework called Safety+ in order to foster an environment where restaurant crew feel safe and supported, and customers have a variety of choices for contactless order and payment. Throughout 2021, the Company has continued to make informed decisions and apply appropriate precautionary measures to adapt to new and evolving safety risks, with guidance from expert health authorities in most of the countries in which it operates, as well as the World Health Organization. Further, the Company continued its engagement of Mayo Clinic, a global leader in serious and complex healthcare, to provide ongoing counsel and expertise on emerging science in infection prevention and control, and to identify best practices to help protect restaurant crew and customers. All of these efforts build upon the work McDonald's has been committed to for decades, rooted in its core value of putting its customers and people first.

Respectful Workplace Environment

Fostering safe, inclusive and respectful workplaces, wherever McDonald's does business, has been integral to the Company for its more than 65-year history. The Company understands the importance of providing a positive experience and making everyone feel valued, both in its offices and in McDonald's restaurants. In 2018, the Company introduced McDonald's Human Rights Policy, which outlines its commitment to respect its people and their rights. This commitment to respect human rights is also furthered by the Company's Standards of Business Conduct, which apply to Company employees, and its Supplier Code of Conduct, which sets forth human rights requirements for the Company's global suppliers. Company employees are trained on the Standards of Business Conduct and are required to annually certify their understanding of and commitment to upholding them. Further, in 2021 the Company announced a newly defined set of Global Brand Standards that extend requirements to all restaurants, whether Company-owned or franchised. The Global Brand Standards prioritize actions in four areas: harassment, discrimination and retaliation prevention; workplace violence prevention; restaurant employee feedback; and health and safety. Beginning in 2022, all restaurants will be assessed on the Global Brand Standards in accordance with the applicable McDonald's market's business evaluation processes.

As part of its commitment to a respectful workplace environment, the Company recognizes how important it is to provide channels for its employees to report human rights and similar concerns that may violate Company policies and standards. Employees can do so in many ways, including through an anonymous global channel, the Business Integrity Line, which is staffed by a live operator from an independent company and is available 24 hours a day, 365 days a year. This is complemented by additional reporting channels in many markets. The Company expects its employees and franchisees to uphold human rights and cultivate respectful workplaces, which builds trust, protects the integrity of the McDonald's brand and fuels Systemwide success.

Compensation, Benefits and Talent Development

The compensation and benefits provided to U.S. and internationally-based Company employees, including both corporate staff and Company-owned restaurant employees, is established based upon competitive considerations in the relevant labor market. The amount and type of compensation varies by an employee's level and location, and may include some combination of the following (in addition to base pay): cash bonuses, stock-based awards, retirement savings programs, and health and welfare benefits. In addition, Company employees may receive paid time off, family care resources, tuition assistance and flexible work schedules.

In 2021, the Company publicly communicated its ongoing commitment to equal pay, which is supported by an annual pay gap analysis that aims to ensure equitable pay practices are consistently implemented and executed across the Company. The results of the 2021 pay gap analysis showed that the Company has substantially attained equal pay for women globally (99.85%) and that there was no pay gap disfavoring historically underrepresented groups in the U.S. In line with its core values, the Company continuously emphasizes the importance of pay that is competitive, non-discriminatory, performance-based, transparent and compliant with legal and regulatory standards.

Additionally, McDonald’s has a long-standing commitment to providing training, education benefits and career path opportunities, which empower the people and communities it serves. The Company is committed to providing opportunities for people to enhance their skills and fulfill their potential through talent development programs, apprenticeship opportunities, language and technical skill training and support for continuing education, as it believes this helps to facilitate talent attraction, career development and retention. Further, McDonald’s Hamburger University has eight campuses around the world to provide training for Company employees as well as franchisees and their eligible employees. These are just a few examples of the important role education plays in the Company's business and the communities McDonald's serves.

Communities

McDonald’s embraces its role and commitment to the communities it serves. Through its Youth Opportunity program, the Company aims to reduce barriers to employment for two million young people by 2025 through pre-employment job readiness training, employment opportunities and workplace development programs. The Company is also proud to support the network of over 260 local chapters of Ronald McDonald House Charities (“RMHC”) spanning over 60 countries and regions that creates, finds and supports programs that directly improve the health and well-being of children and their families. In 2020, the Company announced a five-year, $100 million commitment to RMHC.

In addition, the Company maintains a Global Food Disposition Policy to help support its suppliers and distributors around the world in disposing of food in alignment with McDonald’s food waste hierarchy, including by enabling food donations wherever possible. This policy, which aims to avoid food waste and loss while also allowing the System to meet the needs of local communities, is a critical part of the Company's sustainability work and its purpose to feed and foster communities.

ENVIRONMENTAL MATTERS

The Company prioritizes action and progress across a range of environmental matters, and endeavors to improve its long-term sustainability and resiliency, which benefit the System and the communities McDonald's serves. The Company monitors environmental regulations and stakeholder expectations in order to be well-positioned to respond in a timely and appropriate manner, as it cannot predict the precise nature of how these matters will continue to evolve. Although any impact would likely vary by geographic region and/or market, the adoption of new environmental laws or regulations may increase costs and/or operational complexity for the Company.

To guide its management of environmental matters and to strengthen its resiliency, the Company has developed goals and commitments that are informed by relevant frameworks, including the Taskforce on Climate-Related Financial Disclosures. These include initiatives to reduce Systemwide greenhouse gas emissions, eliminate deforestation from the Company's global supply chain, efficiently manage natural resources, responsibly source ingredients and packaging and increase the availability of recycling in restaurants to reduce waste, which are areas of increasing importance to the Company and its stakeholders and where the Company believes it can have a significant impact and help to drive industry-wide change. In recent years, the Company has made significant progress on many of its global goals and commitments. You can find more information about these initiatives, as well as other environmental sustainability matters, on the “Our Purpose & Impact” section of the Company's website, which is updated periodically as progress and performance updates become available. Information can also be found in the Company's annual Climate Change, Forests and Water reports submitted to CDP, an organization that helps companies manage their environmental impacts, and in the Company's first Climate Risk & Resiliency Summary.

The Company is conducting and analyzing climate scenario modeling to continue to identify and further understand potential risks and opportunities and is working with expert partners to evaluate the potential significant impacts and implications for the System. The Company will continue to assess potential risks and opportunities to analyze possible significant impacts to the System because it believes taking action on environmental matters will drive long-term business value by ensuring that it is managing operational costs in its energy supply, improving the security of its raw material supply, stewarding the environment in its surrounding communities and reducing its exposure to increasing environmental risks, regulation and costs.

SUPPLY CHAIN, FOOD SAFETY AND QUALITY

The Company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers. The Company has established and enforces high food safety and quality standards and maintains quality centers around the world designed to promote consistency of these high standards. The quality management systems and processes involve ongoing product reviews, virtual supplier visits and third-party verifications. A Food Safety Advisory Council, comprised of the Company’s internal food safety experts as well as suppliers and outside academics, provides strategic global leadership for all aspects of food safety and quality. The Company also has ongoing programs to educate employees about food safety practices, including proper storage, handling and preparation of food for customers, and conducts trainings for its suppliers and restaurant operators to share best practices on food safety and quality.

The Company works closely with suppliers to encourage innovation and drive continuous improvement across its global supply chain. Leveraging its scale, supply chain infrastructure and risk management strategies, the Company collaborates with suppliers on contingency planning to achieve continuous supply and competitive, predictable costs over the long term. The Company also works closely with suppliers and other third-party experts to drive sustainable sourcing initiatives, including the environmental matters discussed above and improving the health and welfare of the animals within its supply chain. Led by its Chief Supply Chain Officer, the Company has developed and implemented a comprehensive strategy that its global supply chain organization leverages to identify, assess and manage risk in its supply chain.

To reinforce the importance of its values, the Company maintains a Supplier Code of Conduct that applies to all of its suppliers around the world. The Company expects all of its suppliers to meet the rigorous standards set forth in the Code, which cover areas including human rights, workplace environment, business integrity and environmental management. In addition, the Company has a comprehensive Supplier Workplace Accountability (SWA) program to help suppliers understand its expectations, verify compliance and work toward continuous improvement.

PRODUCTS

McDonald’s restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes.

McDonald’s menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, McDonald's Fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, bakery items, soft drinks, coffee, McCafé beverages and other beverages.

McDonald’s restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches, oatmeal, breakfast burritos and hotcakes.

In addition to these menu items, restaurants sell a variety of other products during limited-time promotions.

Taste, quality, choice, value and nutrition are important to customers, and the Company is continuously evolving its menu to meet its customers' needs, including testing new products on an ongoing basis.

MARKETING

McDonald’s global brand is well known. Marketing, promotional and public relations activities are designed with customers in mind and are focused on promoting the McDonald’s brand and differentiating the Company from its competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience, cultural relevance and the customer experience.

INTELLECTUAL PROPERTY

The Company owns or is licensed to use valuable intellectual property, including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the "McDonald's" trademark and the Golden Arches Logo to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. The Company's patents, copyrights and licenses are of varying durations.

COMPETITION

McDonald’s restaurants compete with international, national, regional and local retailers of traditional, fast casual and other food service competitors. The Company competes in the quick-service restaurant industry on the basis of price, convenience, service, experience, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company’s competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company measures itself using the informal eating out ("IEO") segment information, which is inclusive of the Company’s primary competition of quick-service restaurants. The IEO segment includes the following restaurant categories defined by Euromonitor International: limited-service restaurants (which combines quick-service eating establishments and 100% home delivery/takeaway providers), street stalls or kiosks, cafés, specialist coffee shops, self-service cafeterias and juice/smoothie bars. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than providers with limited table service.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 10 million outlets and generated $1 trillion in annual sales in 2020, the most recent year for which data is available. In 2020, McDonald’s Systemwide restaurant business accounted for 0.4% of those outlets and 9.3% of those sales.

Management also on occasion benchmarks McDonald’s against the entire restaurant industry, including the IEO segment defined above and all full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 19 million outlets and generated $2 trillion in annual sales in 2020. In 2020, McDonald’s Systemwide restaurant business accounted for 0.2% of those outlets and 4.6% of those sales.

GOVERNMENT REGULATIONS

The Company has global operations and is therefore subject to the laws of the United States and many foreign jurisdictions in which it operates and the rules and regulations of various governing bodies, which may differ among jurisdictions. Throughout 2020 and 2021, markets experienced varying levels of government restrictions on restaurant operating hours, limited dine-in capacity, dining room closures and, primarily in 2020, some instances of full restaurant closures. These government restrictions affected the Company's revenues for both periods, with results for 2021 reflecting recovery due to the greater impact of COVID-19 restrictions in 2020. As most revenues are based on a percent of sales, government restrictions as a result of COVID-19 may continue to have an impact on revenues. The Company does not believe that compliance with other current government regulations will have a material effect on the Company's capital expenditures, earnings or competitive position.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S VIEW OF THE BUSINESS

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance and financial measures which are considered to be non-GAAP, including comparable sales growth, Systemwide sales growth, after-tax return on invested capital from continuing operations, free cash flow and free cash flow conversion rate, as described below. Management believes these measures are important in understanding the financial performance of the Company.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as material regulatory and other income tax impacts, and bases incentive compensation plans on these results because the Company believes this better represents underlying business trends.
- Comparable sales are compared to the same period in the prior year and represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters (including restaurants temporarily closed due to COVID-19). Comparable sales exclude the impact of currency translation and the sales of any market considered hyper-inflationary (generally identified as those markets whose cumulative inflation rate over a three-year period exceeds 100%), which management believes more accurately reflects the underlying business trends. Comparable sales are driven by changes in guest counts and average check, the latter of which is affected by changes in pricing and product mix.
- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. This includes sales from digital channels, which are comprised of the mobile app, delivery and kiosk at both Company-operated and franchised restaurants. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates. Changes in Systemwide sales are primarily driven by comparable sales and net restaurant unit expansion.
- The Company's after-tax return on invested capital ("ROIC") from continuing operations is a metric that management believes measures capital-allocation effectiveness over time. Other companies may calculate ROIC differently, limiting the usefulness of the measure for comparisons with other companies. Refer to the reconciliation in Exhibit 99.1 to this Form 10-K for further information on the Company's calculation of ROIC.
- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company's ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value. Refer to the reconciliations in Exhibit 99.1 to this Form 10-K for further information on the Company's calculations of free cash flow and free cash flow conversion rate.

2021 FINANCIAL PERFORMANCE

In 2021, global comparable sales increased 17.0%, primarily due to strong sales performance across all segments from continued execution of the *Accelerating the Arches* strategy, as well as recovery from the impact of COVID-19 in the prior year.

- Comparable sales in the U.S. increased 13.8%, benefiting primarily from strong average check growth, successful menu and marketing promotions and growth in digital channels, which benefited from the launch of the Company's loyalty program.
- Comparable sales in the International Operated segment increased 21.6%, reflecting positive comparable sales across all markets, primarily driven by the U.K. and France.
- Comparable sales in the International Developmental Licensed segment increased 16.6%, reflecting positive comparable sales across all geographic regions.

In addition to the comparable sales results, the Company had the following financial results in 2021:

- Consolidated revenues increased 21% (18% in constant currencies) to $23.2 billion.
- Systemwide sales increased 21% (18% in constant currencies) to $112.5 billion.
- Consolidated operating income increased 41% (38% in constant currencies) to $10.4 billion. Refer to the Operating Income section on page 17 of this Form 10-K for additional details.
- Operating margin, defined as operating income as a percent of total revenues, increased from 38.1% in 2020 to 44.6% in 2021. Excluding net strategic gains detailed in the Operating Income section on page 17 of this Form 10-K, operating margin increased from 36.7% in 2020 to 43.4% in 2021.
- Diluted earnings per share of $10.04 increased 59% (56% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 12 of this Form 10-K for additional details.

- Cash provided by operations was $9.1 billion, a 46% increase from the prior year.
- Capital expenditures of $2.0 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.
- Free cash flow was $7.1 billion, a 54% increase from the prior year.
- Across the System, nearly 1,500 new restaurants (including those in developmental licensee and affiliate markets) were opened.
- The Company increased its quarterly cash dividend per share by 7% to $1.38 for the fourth quarter, equivalent to an annual dividend of $5.52 per share. The Company returned a total of $4.8 billion to shareholders through share repurchases and dividends in 2021.

STRATEGIC DIRECTION

In late 2020, the Company announced the *Accelerating the Arches* growth strategy (the "Strategy"). The Strategy, which encompasses all aspects of McDonald's business as the leading global omni-channel restaurant brand, reflects a refreshed purpose, updated values and growth pillars that build on the Company's competitive advantages. The Company's values, which underpin its success and are at the very heart of its Strategy, are discussed further in the Purpose, Mission and Values section on page 4 of this Form 10-K. In 2021, the Company made strides as it maximized the MCD growth pillars to create seamless, memorable customer experiences. Additionally, the creation of the Customer Experience Team brought together teams responsible for global marketing, digital, restaurant development and operations, enabling McDonald's to create an unparalleled customer experience at each physical and digital customer touchpoint.

GROWTH PILLARS

The growth pillars, rooted in the Company's identity, MCD, build on historic strengths and articulate areas of further opportunity. Under the Strategy, the Company will:

- **Maximize our Marketing** by investing in new, culturally relevant approaches, such as our Famous Orders platform, to effectively communicate the story of our brand, food and purpose. This also includes enhancing digital capabilities that provide a more personal connection with customers. The Company is committed to a marketing strategy that highlights value at every tier of the menu, as affordability remains a cornerstone of the McDonald's brand.

- **Commit to the Core** by tapping into customer demand for the familiar and focusing on serving delicious burgers, chicken and coffee. The Company is prioritizing chicken and beef offerings, as we expect they represent the largest growth opportunities. The Company recognizes there is significant opportunity to expand its chicken offerings by leveraging line extensions of customer favorites, such as the new Crispy Chicken Sandwich that launched in the U.S. in 2021 and the McSpicy Chicken Sandwich, which is now in many markets around the world. The Company is also implementing a series of operational and formulation changes designed to improve upon the great taste of our burgers. We also see a significant opportunity with coffee, and markets are leveraging the McCafé brand, experience, value and quality to drive long-term growth.

- **Double Down on the 3D's: Digital, Delivery and Drive Thru** by leveraging competitive strengths and building a powerful digital experience growth engine to enhance the customer experience. To unlock further growth, the Company is continuing to accelerate technology innovation so that, however customers choose to interact with McDonald's, they can enjoy a fast, easy experience that meets their needs. Notably, 2021 Systemwide sales from digital channels (which are comprised of the mobile app, delivery and kiosk) exceeded $18 billion, or over 25% of Systemwide sales in our top six markets.

    - ***Digital:*** The Company's digital experience growth engine — "MyMcDonald's" — is transforming its offerings across drive thru, takeaway, delivery, curbside pick-up and dine-in with digital enhancements. Through the digital tools, customers can access tailored offers, participate in a loyalty program, order through the mobile app and receive McDonald's food through the channel of their choice. The Company has successful loyalty programs in over 40 markets around the world, including "MyMcDonald's Rewards" in the U.S., Germany and Canada, each of which launched in 2021. The Company expects to complete the roll-out of loyalty programs across its top six markets in the first half of 2022. Just six months after its launch, MyMcDonald's Rewards in the U.S. has enrolled 30 million members, with over 21 million active loyalty members earning rewards.

- ***Delivery:*** The Company has expanded the number of restaurants offering delivery to over 33,000, representing over 80% of McDonald's restaurants, and delivery sales have grown significantly over the past few years. The Company is continuing to build on this progress and enhance the delivery experience for customers by adding the ability to order on the McDonald’s app and optimizing operations with a focus on speed and accuracy. In 2021, the Company entered into long-term strategic partnerships with two of its largest global delivery providers, UberEats and DoorDash, which are expected to benefit both customers and franchisees.
- ***Drive Thru:*** The Company has drive thru locations in over 25,000 restaurants globally, including nearly 95% of the 13,000+ locations in the U.S. This channel remains of heightened importance, and we expect that it will become even more critical to meet customers’ demand for flexibility and choice. The Company is building on its drive thru advantage, as the vast majority of new restaurant openings in the U.S. and International Operated Markets will include a drive thru.

Foundational to the *Accelerating the Arches* Strategy is keeping the customer at the center of everything we do, along with a relentless focus on running great restaurants. The Company believes this Strategy builds on our inherent strengths by harnessing our competitive advantages while leveraging our size, scale and agility to adapt and adjust to operating conditions and consumer demands. These efforts, coupled with investment in innovation, are designed to enhance the customer experience and deliver long-term profitable growth, which is aligned with the Company's capital allocation philosophy of investing in new restaurants and opportunities to grow the business, reinvesting in existing restaurants, and returning all free cash flow to shareholders over time through dividends and share repurchases.

OUTLOOK

Based on current conditions, the following information is provided to assist in forecasting the Company's results for 2022.

- The Company expects net restaurant unit expansion will contribute about 1.5% to 2022 Systemwide sales growth, in constant currencies.
- The Company expects full year 2022 selling, general & administrative expenses of between 2.2% and 2.3% of Systemwide sales.
- The Company expects operating margin percent to be in the low-to-mid 40% range.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2022 to be relatively flat to 2021.
- Under current tax legislation, the Company expects the effective income tax rate for the full year 2022 to be in the 20% to 22% range. Some volatility may result in a quarterly tax rate outside of the annual range.
- The Company expects 2022 capital expenditures to be approximately $2.2 to $2.4 billion, about half of which will be directed towards new restaurant unit expansion across the U.S. and International Operated Markets. About 40% will be dedicated to the U.S. business, most of which will go towards reinvestment, including the completion of restaurant modernization efforts. Globally, the Company expects to open over 1,800 restaurants. The Company will open over 500 restaurants in the U.S. and International Operated Markets segments, and developmental licensees and affiliates will contribute capital towards over 1,300 restaurant openings in their respective markets. The Company expects over 1,400 net restaurant additions in 2022.
- The Company expects to achieve a free cash flow conversion rate greater than 90%.

CONSOLIDATED OPERATING RESULTS

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes beginning on page 38 of this Form 10-K. This section generally discusses 2021 and 2020 items and the year-to-year comparisons between the years ended December 31, 2021 and 2020. Discussions of 2019 items and the year-to-year comparisons between the years ended December 31, 2020 and 2019 are not included in this Form 10-K and can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2020, filed with the SEC on February 23, 2021.

Impact of COVID-19 Restrictions on the Business

As a result of COVID-19, throughout 2020 and 2021, markets experienced varying levels of government restrictions on restaurant operating hours, limited dine-in capacity, dining room closures and, primarily in 2020, some instances of full restaurant closures. The Company has applied appropriate precautionary measures, including following the guidance of expert health authorities, and will continue to adapt and enhance its approach in order to protect the safety and well-being of its customers and people. As most revenues and the Company's share of net results in equity investments are based on sales results, consumer sentiment and government restrictions as a result of COVID-19 may continue to have an impact on results.

Operating results

	2021		2020		2019
Dollars and shares in millions, except per share data	***Amount***	***Increase/ (decrease)***	*Amount*	*Increase/ (decrease)*	*Amount*
Revenues					
Sales by Company-operated restaurants	**$ 9,787**	**20 %**	$ 8,139	(14 %)	$ 9,421
Revenues from franchised restaurants	**13,085**	**22**	10,726	(8)	11,656
Other revenues	**351**	**2**	343	19	288
Total revenues	**23,223**	**21**	19,208	(10)	21,365
Operating costs and expenses					
Company-operated restaurant expenses	**8,047**	**15**	6,981	(10)	7,761
Franchised restaurants-occupancy expenses	**2,335**	**6**	2,208	—	2,201
Other restaurant expenses	**260**	**(2)**	267	19	224
Selling, general & administrative expenses					
Depreciation and amortization	**330**	**10**	301	14	262
Other	**2,378**	**6**	2,245	14	1,967
Other operating (income) expense, net	**(483)**	**n/m**	(118)	2	(120)
Total operating costs and expenses	**12,867**	**8**	11,884	(3)	12,295
Operating income	**10,356**	**41**	7,324	(19)	9,070
Interest expense	**1,186**	**(3)**	1,218	9	1,122
Nonoperating (income) expense, net	**42**	**n/m**	(35)	50	(70)
Income before provision for income taxes	**9,128**	**49**	6,141	(23)	8,018
Provision for income taxes	**1,583**	**12**	1,410	(29)	1,993
Net income	**$ 7,545**	**59 %**	$ 4,731	(21 %)	$ 6,025
Earnings per common share—diluted	**$ 10.04**	**59 %**	$ 6.31	(20 %)	$ 7.88
Weighted-average common shares outstanding— diluted	**751.8**	**— %**	750.1	(2 %)	764.9

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changes in foreign currency exchange rates affect reported results, McDonald’s mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows.

Impact of foreign currency translation on reported results

	Reported amount			Currency translation benefit/(cost)		
In millions, except per share data	***2021***	*2020*	*2019*	***2021***	*2020*	*2019*
Revenues	**$23,223**	$19,208	$21,365	**$ 488**	$ (75)	$ (610)
Company-operated margins	**1,740**	1,158	1,660	**42**	(1)	(51)
Franchised margins	**10,750**	8,519	9,455	**223**	32	(256)
Selling, general & administrative expenses	**2,708**	2,546	2,229	**(28)**	(2)	29
Operating income	**10,356**	7,324	9,070	**231**	35	(280)
Net income	**7,545**	4,731	6,025	**150**	26	(165)
Earnings per common share—diluted	**10.04**	6.31	7.88	**0.20**	0.04	(0.21)

In 2021, results primarily reflected the strengthening of the British Pound, Euro, Australian Dollar and Canadian Dollar.

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2021, net income increased 59% (56% in constant currencies) to $7.5 billion and diluted earnings per common share increased 59% (56% in constant currencies) to $10.04. Foreign currency translation had a positive impact of $0.20 on diluted earnings per share.

Results in 2021 reflected stronger operating performance across all segments due to higher sales-driven restaurant margins as the Company continues to execute on its *Accelerating the Arches* Strategy. Results also benefited from fewer restaurant closures and reduced COVID-related government restrictions compared with the prior year.

Outlined below is additional information for the full year 2021, 2020 and 2019:

Diluted Earnings Per Common Share Reconciliation

	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
	2021	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
GAAP earnings per share-diluted	**$ 10.04**	$ 6.31	$ 7.88	**59 %**	(20 %)	**56 %**	(20 %)
Strategic (gains) charges	**(0.28)**	(0.26)	0.07				
Income tax (benefit) cost, net	**(0.48)**	—	(0.11)				
Non-GAAP earnings per share-diluted	**$ 9.28**	$ 6.05	$ 7.84	**53 %**	(23 %)	**50 %**	(23 %)

2021 results included:

- net pre-tax strategic gains of $339 million, or $0.33 per share, primarily related to the sale of McDonald's Japan stock. This reduced the Company's ownership to 35% and completed the planned partial divestiture of the Company's ownership in McDonald's Japan
- $54 million, or $0.05 per share, of strategic charges primarily related to the sale of McD Tech Labs
- $364 million, or $0.48 per share, of income tax benefits which related to the remeasurement of deferred taxes as a result of a change in the U.K. statutory income tax rate

2020 results included:

- net pre-tax strategic gains of $268 million, or $0.26 per share, primarily related to the sale of McDonald's Japan stock

2019 results included:

- $84 million, or $0.11 per share, of income tax benefit due to regulations issued in the fourth quarter 2019 related to the Tax Cuts and Jobs Act of 2017 (“Tax Act”)
- net pre-tax strategic charges of $74 million, or $0.07 per share, primarily related to impairment associated with the purchase of the Company's joint venture partner's interest in the India Delhi market, partly offset by gains on the sales of property at the former Corporate headquarters

Excluding the above 2021 and 2020 items, 2021 net income increased 54% (50% in constant currencies), and diluted earnings per share increased 53% (50% in constant currencies).

The Company repurchased 3.4 million shares of its stock for $846 million in 2021 and 4.3 million shares of its stock for $874 million in 2020.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. The Company’s Other revenues are comprised of fees paid by franchisees to recover a portion of costs incurred by the Company for various technology platforms, revenues from brand licensing arrangements to market and sell consumer packaged goods using the McDonald’s brand and third party revenues for the Dynamic Yield business.

Franchised restaurants represented 93% of McDonald's restaurants worldwide at December 31, 2021. The Company's heavily franchised business model is designed to generate stable and predictable revenue, which is largely a function of franchisee sales and resulting cash flow streams.

Revenues

			Amount	*Increase/ (decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2021***	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
Company-operated sales:							
U.S.	**$ 2,617**	$ 2,395	$ 2,490	**9 %**	(4 %)	**9 %**	(4 %)
International Operated Markets	**6,456**	5,114	6,334	**26**	(19)	**23**	(18)
International Developmental Licensed Markets & Corporate	**715**	630	597	**13**	6	**10**	7
Total	**$ 9,788**	$ 8,139	$ 9,421	**20 %**	(14 %)	**18 %**	(12 %)
Franchised revenues:							
U.S.	**$ 6,094**	$ 5,261	$ 5,353	**16 %**	(2 %)	**16 %**	(2 %)
International Operated Markets	**5,638**	4,348	5,064	**30**	(14)	**24**	(15)
International Developmental Licensed Markets & Corporate	**1,353**	1,117	1,239	**21**	(10)	**20**	(8)
Total	**$13,085**	$10,726	$11,656	**22 %**	(8 %)	**19 %**	(8 %)
Total Company-operated sales and Franchised revenues:							
U.S.	**$ 8,711**	$ 7,656	$ 7,843	**14 %**	(2 %)	**14 %**	(2 %)
International Operated Markets	**12,094**	9,462	11,398	**28**	(17)	**23**	(17)
International Developmental Licensed Markets & Corporate	**2,068**	1,747	1,836	**18**	(5)	**16**	(3)
Total	**$22,873**	$18,865	$21,077	**21 %**	(10 %)	**19 %**	(10 %)
Total Other revenues	**$ 350**	$ 343	$ 288	**2 %**	19 %	**— %**	19 %
Total Revenues	**$23,223**	$19,208	$21,365	**21 %**	(10 %)	**18 %**	(10 %)

In 2021, total Company-operated sales and franchised revenues increased 21% (19% in constant currencies). Results reflected strong sales performance across all segments and were driven by the U.K., France and Russia in the International Operated Markets segment. The International Developmental Licensed Markets segment reflected strong sales performance across all geographic regions.

TOTAL REVENUES BY SEGMENT

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U.S.

International Operated Markets

International Developmental Licensed Markets & Corporate

The following tables present comparable sales and Systemwide sales increases/(decreases):

Comparable sales increases/(decreases)

	2021	*2020*	*2019*
U.S.	**13.8 %**	0.4 %	5.0 %
International Operated Markets	**21.6**	(15.0)	6.1
International Developmental Licensed Markets & Corporate	**16.6**	(10.5)	7.2
Total	**17.0 %**	(7.7 %)	5.9 %

Due to the impact of COVID-19 in 2020, comparable sales growth from 2020 to 2021 may not be fully indicative of the Company's performance. Therefore in 2021, management also analyzed comparable sales growth on a two-year basis as a metric to compare results for 2021 against more normalized sales performance in 2019. The following chart presents comparable sales growth on a two-year basis by segment:

COMPARABLE SALES GROWTH ON A TWO-YEAR BASIS

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*Systemwide sales increases/(decreases)**

			Increase/(decrease) excluding currency translation	
	2021	*2020*	***2021***	*2020*
U.S.	**13 %**	— %	**13 %**	— %
International Operated Markets	**29**	(13)	**24**	(14)
International Developmental Licensed Markets & Corporate	**21**	(10)	**20**	(8)
Total	**21 %**	(7 %)	**18 %**	(7 %)

* Unlike comparable sales, the Company has not excluded sales from hyperinflationary markets from Systemwide sales as these sales are the basis on which the Company calculates and records revenues.

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):

Franchised sales

			Amount	*Increase/ (decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2021***	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
U.S.	**$ 43,344**	$38,123	$37,923	**14 %**	1 %	**14 %**	1 %
International Operated Markets	**33,097**	25,446	28,853	**30**	(12)	**24**	(13)
International Developmental Licensed Markets & Corporate	**26,234**	21,609	23,981	**21**	(10)	**21**	(8)
Total	**$102,675**	$85,178	$90,757	**21 %**	(6 %)	**18 %**	(6 %)
Ownership type							
Conventional franchised	**$ 75,956**	$63,297	$66,415	**20**	(5 %)	**18 %**	(5 %)
Developmental licensed	**15,151**	11,781	14,392	**29**	(18)	**28**	(14)
Foreign affiliated	**11,568**	10,100	9,950	**15**	2	**13**	—
Total	**$102,675**	$85,178	$90,757	**21 %**	(6 %)	**18 %**	(6 %)

RESTAURANT MARGINS

Franchised restaurant margins are measured as revenues from franchised restaurants less franchised restaurant occupancy costs. Franchised revenues include rent and royalties based on a percent of sales, and initial fees. Franchised restaurant occupancy costs include lease expense and depreciation, as the Company generally owns or secures a long-term lease on the land and building for the restaurant location.

Company-operated restaurant margins are measured as sales from Company-operated restaurants less costs for food & paper, payroll & employee benefits and occupancy & other operating expenses necessary to run an individual restaurant. Company-operated margins exclude costs that are not allocated to individual restaurants, primarily payroll & employee benefit costs of non-restaurant support staff, which are included in selling, general and administrative expenses.

Restaurant margins

	Amount			*Increase/ (decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2021***	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
Franchised:							
U.S.	**$ 4,906**	$ 4,097	$ 4,227	**20 %**	(3 %)	**20 %**	(3 %)
International Operated Markets	**4,516**	3,329	4,018	**36**	(17)	**29**	(19)
International Developmental Licensed Markets & Corporate	**1,328**	1,093	1,210	**22**	(10)	**20**	(8)
Total	**$10,750**	$ 8,519	$ 9,455	**26 %**	(10 %)	**24 %**	(10 %)
Company-operated:							
U.S.	**$ 511**	$ 405	$ 388	**26 %**	4 %	**26 %**	4 %
International Operated Markets	**1,208**	748	1,266	**61**	(41)	**56**	(41)
International Developmental Licensed Markets & Corporate	**n/m**	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$ 1,740**	$ 1,158	$ 1,660	**50 %**	(30 %)	**47 %**	(30 %)
Total restaurant margins:							
U.S.	**$ 5,417**	$ 4,502	$ 4,615	**20 %**	(2 %)	**20 %**	(2 %)
International Operated Markets	**5,724**	4,077	5,284	**40**	(23)	**34**	(24)
International Developmental Licensed Markets & Corporate	**n/m**	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$12,490**	$ 9,677	$11,115	**29 %**	(13 %)	**26 %**	(13 %)

n/m Not meaningful

In 2021, total restaurant margins increased 29% (26% in constant currencies), which reflected strong sales performance across all segments.

Franchised margins represented over 85% of restaurant margin dollars.

Franchised margins in the U.S. reflected higher depreciation costs related to investments in restaurant modernization while benefiting from the comparison to prior year support for marketing provided to franchisees to accelerate recovery and drive growth.

Total restaurant margins included $1,533 million of depreciation and amortization expenses in 2021.

RESTAURANT MARGINS BY TYPE (In millions)

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SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Selling, general & administrative expenses

Dollars in millions	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
	2021	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
U.S.	**$ 696**	$ 625	$ 587	**11 %**	7 %	**11 %**	7 %
International Operated Markets	**692**	700	629	**(1)**	11	**(5)**	11
International Developmental Licensed Markets & Corporate[(1)]	**1,320**	1,221	1,013	**8**	20	**8**	20
Total Selling, General & Administrative Expenses	**$2,708**	$2,546	$2,229	**6 %**	14 %	**5 %**	14 %
Less: Incentive-Based Compensation[(2)]	**439**	158	289	**n/m**	(45 %)	**n/m**	(45 %)
Total Excluding Incentive-Based Compensation	**$2,269**	$2,388	$1,940	**(5 %)**	23 %	**(6 %)**	23 %

(1) Includes home office support costs in areas such as facilities, finance, human resources, investments in strategic technology initiatives, legal, marketing, restaurant operations, supply chain and training.

(2) Includes all cash incentives and share-based compensation expense.

In 2021, consolidated selling, general & administrative expenses increased 6% (5% in constant currencies), reflecting an increase in incentive-based compensation expense driven by stronger than planned operating results and higher costs for investments in restaurant technology. These results also benefited from the comparison to the Company's five-year, $100 million commitment to RMHC, increased investments in brand communications and incremental marketing contributions in 2020.

Management believes that analyzing selling, general & administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES AS A PERCENT OF SYSTEMWIDE SALES

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OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	***2021***	*2020*	*2019*
Gains on sales of restaurant businesses	**$ (96)**	$ (23)	$ (127)
Equity in earnings of unconsolidated affiliates	**(177)**	(117)	(154)
Asset dispositions and other (income) expense, net	**75**	290	87
Impairment and other charges (gains), net	**(285)**	(268)	74
Total	**$ (483)**	$ (118)	$ (120)

- ***Gains on sales of restaurant businesses***

In 2021, gains on sales of restaurant businesses increased due to a higher number of restaurant sales, primarily in the U.S., the U.K. and Germany.

- ***Equity in earnings of unconsolidated affiliates***

In 2021, equity in earnings of unconsolidated affiliates increased due to the recovery from the impact of COVID-19, offset by lower equity in earnings as a result of the reduced ownership in McDonald's Japan.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net reflected lower bad debt expense and lower restaurant closing costs compared to the prior year, as well as higher gains on strategic property sales and the comparison to prior year payments to distribution centers for obsolete inventory to support franchisee liquidity.

- ***Impairment and other charges (gains), net***

In 2021, impairment and other charges (gains), net reflected $339 million of pre-tax strategic gains related to the sale of McDonald's Japan stock. These results were partly offset by $54 million of strategic charges primarily related to the sale of McD Tech Labs.

The results in 2020 reflected $274 million of pre-tax strategic gains related to the sale of McDonald's Japan stock. Results for the year 2020 also reflected the write-off of impaired software of $26 million, partly offset by $13 million of income associated with the Company's sale of its business in the India Delhi market.

The results in 2019 reflected $99 million of impairment associated with the purchase of the Company's joint venture partner's interest in the India Delhi market, partly offset by $20 million of gains on the sales of property at the former Corporate headquarters.

OPERATING INCOME

Operating income

	Amount			*Increase/(decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2021***	*2020*	*2019*	***2021***	*2020*	***2021***	*2020*
U.S.	**$ 4,755**	$3,789	$4,069	**25 %**	(7 %)	**25 %**	(7 %)
International Operated Markets	**5,130**	3,315	4,789	**55**	(31)	**48**	(32)
International Developmental Licensed Markets & Corporate	**471**	220	212	**n/m**	4	**n/m**	12
Total	**$10,356**	$7,324	$9,070	**41 %**	(19 %)	**38 %**	(20 %)
Operating margin	**44.6 %**	38.1 %	42.5 %				
Non-GAAP operating margin	**43.4 %**	36.7 %	42.8 %				

- ***Operating Income:*** Operating income increased 41% (38% in constant currencies). Results for the year 2021 reflected $339 million of net strategic gains, primarily related to the sale of McDonald's Japan stock, partly offset by $54 million of strategic charges primarily related to the sale of McD Tech Labs. Results for 2020 included $268 million of net strategic gains, primarily related to the sale of McDonald's Japan stock. Excluding these current year and prior year items, operating income increased 43% (39% in constant currencies) for 2021.
    - ***U.S.:*** The operating income increase was driven by strong sales performance, higher gains on sales of restaurants and the comparison to approximately $100 million of incremental marketing support in the prior year.
    - ***International Operated Markets:*** The operating income increase was driven by strong sales performance, primarily in the U.K. and France, as well as lower store closing costs and bad debt expense. Results also reflected the comparison to over $100 million of incremental marketing support in the prior year.

- ***International Developmental Licensed Markets & Corporate:*** Excluding strategic gains and charges, results reflected strong sales performance across most of the segment and higher Corporate general and administrative expenses due to increased incentive-based compensation expense in the current year. Results also reflected the comparison to the Company's five-year commitment to RMHC and higher investments in brand communications in the prior year.

*OPERATING INCOME BY SEGMENT**

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U.S.

International Operated Markets

International Developmental Licensed Markets & Corporate*

*The IDL segment data in this graphic excludes Corporate activities, which is a Non-GAAP presentation.

- ***Operating margin:*** Operating margin is defined as operating income as a percent of total revenues. The contributions to operating margin differ by segment due to each segment's ownership structure, primarily due to the relative percentage of franchised versus Company-operated restaurants. Additionally, temporary restaurant closures, which vary by segment, impact the contribution of each segment to the consolidated operating margin.

  Excluding the net strategic gains, the increase in operating margin percent for 2021 was due to strong sales-driven restaurant margin growth and higher other operating income, partly offset by higher incentive-based compensation expense.

*NON-GAAP OPERATING MARGIN PERCENT ROLL-FORWARD**

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Non-GAAP operating margin   Increase   Decrease

*The operating margin roll-forward excludes the strategic gains and charges previously described.

INTEREST EXPENSE

Interest expense decreased 3% (4% in constant currencies) and increased 9% (8% in constant currencies) in 2021 and 2020, respectively. Results in 2021 reflected lower average debt balances.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2021***	*2020*	*2019*
Interest income	**$ (9)**	$ (18)	$ (37)
Foreign currency and hedging activity	**37**	(3)	(48)
Other expense	**14**	(14)	15
Total	**$ 42**	$ (35)	$ (70)

Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2021, 2020 and 2019 the reported effective income tax rates were 17.3%, 23.0% and 24.9%, respectively.

Results for 2021 included $364 million of income tax benefits due to a change in the U.K. statutory income tax rate. Excluding the income tax benefits and the tax impact of net strategic gains, the effective income tax rate for the year was 21.1%.

The effective income tax rate for 2020 included $50 million of income tax benefits due to new U.S. tax regulations and $48 million of income tax benefits related to the impact of a tax rate change in the U.K.

The effective income tax rate for 2019 reflected $84 million of income tax benefit due to regulations issued in the fourth quarter 2019 related to the Tax Act. Excluding the income tax benefit, the effective income tax rate was 25.9% for the year 2019.

Consolidated deferred tax assets, net of valuation allowance, was $6.6 billion in 2021 and $6.5 billion in 2020. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included on page 43 of this Form 10-K.

CASH FLOWS

The Company has a long history of generating significant cash from operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $9.1 billion in 2021, an increase of $2.9 billion or 46%. Free cash flow was $7.1 billion in 2021, an increase of $2.5 billion or 54%. The Company's free cash flow conversion rate was 94% in 2021 and 98% in 2020. Cash provided by operations increased in 2021 compared to 2020 due to improved operating results and changes in working capital, partly offset by higher income tax payments.

Cash used for investing activities totaled $2.2 billion in 2021, an increase of $620 million compared with 2020. The increase was primarily due to higher capital expenditures and purchases of restaurant businesses, partly offset by higher sales of restaurant businesses and property.

Cash used for financing activities totaled $5.6 billion in 2021, an increase of $3.3 billion compared with 2020. The increase was primarily due to $1.1 billion in net debt repayments in 2021 compared with $2.2 billion in net debt issuances in 2020.

The Company's cash and equivalents balance was $4.7 billion and $3.4 billion at year end 2021 and 2020, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2021, the Company opened 1,494 restaurants and closed 661 restaurants. In 2020, the Company opened 977 restaurants and closed 643 restaurants. The increase in openings in 2021 was primarily due to recovery from the impact of COVID-19 in the prior year.

Systemwide restaurants at year end

	2021	*2020*	*2019*
U.S.	**13,438**	13,682	13,846
International Operated Markets	**10,785**	10,560	10,465
International Developmental Licensed Markets & Corporate	**15,808**	14,956	14,384
Total	**40,031**	39,198	38,695

RESTAURANTS BY OWNERSHIP TYPE

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Franchised restaurants Company-operated restaurants

Approximately 93% of the restaurants at year-end 2021 were franchised, including 95% in the U.S., 84% in International Operated Markets and 98% in the International Developmental Licensed Markets.

Capital expenditures increased $399 million or 24% in 2021 due to higher reinvestment in existing restaurants and an increase in new restaurant openings that required the Company's capital. Capital expenditures decreased $753 million or 31% in 2020 primarily due to lower reinvestment in existing restaurants as a result of COVID-19.

CAPITAL EXPENDITURES BY TYPE (In millions)

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** Primarily corporate equipment and other office-related expenditures.*

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald’s restaurants in the U.S. averaged approximately $4.4 million in 2021.

As of December 31, 2021 and 2020, the Company owned approximately 55% of the land and 80% of the buildings for restaurants in its consolidated markets.

SHARE REPURCHASES AND DIVIDENDS

In 2021, the Company returned approximately $4.8 billion to shareholders, primarily through dividends paid.

Shares repurchased and dividends

In millions, except per share data	***2021***	*2020*	*2019*
Number of shares repurchased	**3.4**	4.3	25.0
Shares outstanding at year end	**745**	745	746
Dividends declared per share	**$ 5.25**	$ 5.04	$ 4.73
Treasury stock purchases *(in Shareholders' equity)*	**$ 846**	$ 874	$ 4,980
Dividends paid	**3,919**	3,753	3,582
Total returned to shareholders	**$ 4,765**	$ 4,627	$ 8,562

In December 2019, the Company's Board of Directors approved a share repurchase program, effective January 1, 2020, that authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2021, approximately 3.4 million shares were repurchased for $845.5 million, bringing total purchases under the program to approximately 7.7 million shares or $1.7 billion.

The Company has paid dividends on its common stock for 46 consecutive years and has increased the dividend amount every year. The 2021 full year dividend of $5.25 per share reflects the quarterly dividend paid for each of the first three quarters of $1.29 per share, with an increase to $1.38 per share paid in the fourth quarter. This 7% increase in the quarterly dividend equates to a $5.52 per share annual dividend and reflects the Company’s confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

FINANCIAL POSITION AND CAPITAL RESOURCES

TOTAL ASSETS AND RETURN

Total assets increased $1.2 billion or 2% in 2021, primarily due to an increase in Cash and equivalents driven by improved operating results. Net property and equipment decreased $0.2 billion in 2021, primarily due to depreciation and the impact of foreign exchange rates. Net property and equipment and the Lease right-of-use asset, net represented approximately 46% and approximately 25%, respectively, of total assets at year-end. Approximately 84% of total assets were in the U.S. and International Operated Markets at year-end 2021.

The Company's after-tax ROIC from continuing operations is a metric that management believes measures capital-allocation effectiveness over time and was 21.5%, 14.9% and 19.2% as of December 31, 2021, 2020 and 2019, respectively. The increase from 2020 to 2021 was primarily due to improved operating results and recovery from the impact of COVID-19 as well as lower average debt balances compared to the prior year. Refer to the reconciliation in Exhibit 99.1 to this Form 10-K.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2021 totaled $35.6 billion, compared with $37.4 billion at December 31, 2020. The net decrease in 2021 was due to net repayments of $1.1 billion and the impact of changes in exchange rates on foreign currency denominated debt of $731 million.

Debt highlights[(1)]

	2021	*2020*	*2019*
Fixed-rate debt as a percent of total debt[(2,3)]	**95 %**	95 %	92 %
Weighted-average annual interest rate of total debt[(3)]	**3.2**	3.2	3.2
Foreign currency-denominated debt as a percent of total debt[(2)]	**36**	36	38
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)[(2)]	**115**	126	131
Cash provided by operations as a percent of total debt[(2)]	**26**	17	24

(1) All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year. See reconciliation in Exhibit 99.1.

(2) Based on debt obligations before the effects of fair value hedging adjustments and deferred debt costs. These effects are excluded as they have no impact on the obligation at maturity. See the Debt Financing footnote on page 57 of this Form 10-K.

(3) Includes the effect of interest rate swaps used to hedge debt.

Standard & Poor's and Moody's currently rate the Company's commercial paper A-2 and P-2, respectively, and its long-term debt BBB+ and Baa1, respectively. To access the debt capital markets, the Company relies on credit-rating agencies to assign short-term and long-term credit ratings.

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. In December 2019, the Company's Board of Directors authorized $15 billion of borrowing capacity with no specified expiration date, of which $8.3 billion remains outstanding as of December 31, 2021. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In April 2020, the Company's Board of Directors provided additional authorization to issue commercial paper and draw on lines of credit agreements up to $8 billion in addition to the $15 billion authorized as referenced above. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $4.5 billion available under committed line of credit agreements (see the Debt Financing footnote on page 57 of this Form 10-K). As of December 31, 2021, the Company's subsidiaries also had $263 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating swaps and using derivatives. The Company does not hold or issue derivatives for trading purposes. All swaps are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt was $12.8 billion and $13.7 billion for the years ended December 31, 2021 and 2020, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies footnote related to financial instruments and hedging activities on page 47 of this Form 10-K for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2021, neither the Company nor its counterparties were required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

In millions of U.S. Dollars	***2021***	*2020*
British Pounds Sterling	**$1,293**	$1,374
Canadian Dollars	**904**	878
Australian Dollars	**855**	913
Russian Ruble	**518**	533
Polish Zloty	**427**	393

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2021 levels nor a 10% adverse change in foreign currency rates from 2021 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY AND USES OF CASH

The Company generates significant cash from operations and expects available cash and cash equivalents, future operating cash flows and its ability to issue debt to be sufficient to finance its foreseeable operating needs and other cash requirements.

Consistent with prior years, the Company expects existing domestic cash and equivalents, domestic cash flows from operations, the ability to issue domestic debt and repatriation of a portion of foreign earnings to continue to be sufficient to fund its domestic operating, investing and financing activities. The Company also continues to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund its foreign operating, investing and financing activities. In the future, should more capital be required to fund activities in the U.S. than is generated by domestic operations and is available through the issuance of domestic debt, the Company could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

The Company has significant operations outside the U.S. where it earns approximately 65% of its operating income. A significant portion of these historical earnings have been reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of its international operations.

Sources of Liquidity

The Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Minimum rent payments under franchise arrangements are based on the Company's underlying investment in owned sites and parallel the Company's underlying lease obligations and escalations on properties that are leased. The Company believes that control over the real estate enables it to achieve restaurant performance levels that are among the highest in the industry. Refer to the Franchise Arrangements footnote on page 51 of this Form 10-K for additional information on future gross minimum payments due to the Company under existing conventional franchise arrangements.

Additionally, the Company is authorized to utilize up to $15 billion of borrowing capacity in various forms by the Board of Directors, of which $8.3 billion remains outstanding as of December 31, 2021, as well as the ability to issue commercial paper and draw on lines of credit agreements up to $8 billion. Refer to the Financing and Market Risk section on page 22 of this Form 10-K.

Material Cash Requirements and Uses of Cash

Material cash requirements primarily consist of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. Refer to the Leasing Arrangements footnote on page 52 and the Debt Financing footnote on page 57 of this Form 10-K for more information.

The Company also records liabilities related to supplemental benefit plans maintained in the U.S. as well as liabilities for gross unrecognized tax benefits on certain tax positions. Details related to these obligations are provided in the Employee Benefit Plan footnote on page 56 and the Income Taxes footnote on page 54 of this Form 10-K.

The Company contracts with vendors and suppliers in the normal course of business. These contracts may include items related to construction projects, inventory, energy, marketing, technology and other services. Generally, these items are shorter term in nature and have no minimum payment requirements. These expenses, along with other standard operating expenses incurred, are funded from operating cash flows and reflected in other areas of this Form 10-K (e.g., franchised margins, Company-operated margins and selling, general & administrative expenses that are reflected in the Consolidated Statement of Income and capital expenditures that are reflected on the Consolidated Statement of Cash Flows).

Additionally, the Company has guaranteed certain loans totaling approximately $110 million at December 31, 2021. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of the System. At December 31, 2021, there was no carrying value for obligations under these guarantees in the Consolidated Balance Sheet.

OTHER MATTERS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to confirm that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. Refer to the Property and Equipment section in the Summary of Significant Accounting Policies footnote on page 44 of this Form 10-K and the Property and Equipment footnote on page 51 of this Form 10-K for additional information.

- ***Leasing Arrangements***

The Lease right-of-use asset and Lease liability include an assumption on renewal options that have not yet been exercised by the Company. The Company also uses an incremental borrowing rate in calculating the Lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. Refer to the Leasing section in the Summary of Significant Accounting Policies footnote on page 44 of this Form 10-K and the Leasing Arrangements footnote on page 52 of this Form 10-K for additional information.

- ***Long-lived assets impairment review***

Long-lived assets (including goodwill) are reviewed for impairment annually. If qualitative indicators of impairment are present, such as changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends, the Company will use these and other factors in estimating future cash flows when testing for the recoverability of its long-lived assets. Estimates of future cash flows are highly subjective judgements based on the Company's experience and knowledge of its operations. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, it may be required to record impairment charges. Refer to the Long-lived Assets and Goodwill sections in the Summary of Significant Accounting Policies footnote on page 45 of this Form 10-K for additional information.

- ***Litigation accruals***

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. Refer to the Contingencies footnote on page 53 of this Form 10-K for additional information.

- ***Income taxes***

The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company operates within, and is subject to audit in, multiple taxing jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter.

Refer to the Income Taxes section in the Summary of Significant Accounting Policies footnote on page 46 of this Form 10-K and the Income Taxes footnote on page 54 of this Form 10-K for additional information.

EFFECTS OF CHANGING PRICES — INFLATION

Broader inflationary pressures in the economy are expected to continue to impact the restaurant industry through supply chain and labor cost challenges—fueled in part by pent-up demand, supply chain interruptions and rising energy prices. The Company has demonstrated an ability to manage these inflationary cost increases effectively through its rapid inventory turnover, ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

Other Key Information

FIVE-YEAR SUMMARY

In millions, except per share and unit amounts	2021	2020	2019	2018	2017
	Years ended December 31,				
Consolidated Statement of Income Data					
Revenues					
Sales by Company-operated restaurants	$ 9,787	$ 8,139	$ 9,421	$ 10,013	$ 12,719
Revenues from franchised restaurants	13,085	10,726	11,656	11,012	10,101
Other revenues	351	343	288	233	140
Total revenues	23,223	19,208	21,365	21,258	22,960
Operating income	10,356	7,324	9,070	8,823	9,553
Net income	7,545	4,731	6,025	5,924	5,192
Consolidated Statement of Cash Flows Data					
Cash provided by operations	$ 9,142	$ 6,265	$ 8,122	$ 6,967	$ 5,551
Cash used for (provided by) investing activities	2,166	1,546	3,071	2,455	(562)
Capital expenditures	2,040	1,641	2,394	2,742	1,854
Cash used for financing activities	5,596	2,249	4,995	5,950	5,311
Treasury stock purchases(1)	846	874	4,980	5,247	4,651
Common stock dividends	3,919	3,753	3,582	3,256	3,089
Financial Position					
Total assets(2)	$ 53,854	$ 52,627	$ 47,511	$ 32,811	$ 33,804
Total debt	35,623	37,440	34,177	31,075	29,536
Total shareholders' equity (deficit)	(4,601)	(7,825)	(8,210)	(6,258)	(3,268)
Shares outstanding	745	745	746	767	794
Per Common Share Data					
Earnings-diluted	$ 10.04	$ 6.31	$ 7.88	$ 7.54	$ 6.37
Dividends declared	5.25	5.04	4.73	4.19	3.83
Market price at year end	268.07	214.58	197.61	177.57	172.12
Restaurant Information and Other Data					
Restaurants at year end					
Company-operated restaurants	2,736	2,677	2,636	2,770	3,133
Franchised restaurants	37,295	36,521	36,059	35,085	34,108
Total Systemwide restaurants	40,031	39,198	38,695	37,855	37,241
Franchised sales(3)	$ 102,675	$ 85,178	$ 90,757	$ 86,134	$ 78,191

(1) *Represents treasury stock purchases as reflected in Shareholders' equity. Treasury stock purchases decreased from 2019 to 2020 as the Company suspended its share repurchase program in March 2020. The Company resumed its share repurchase program in the third quarter of 2021.*

(2) *Total assets increased from 2018 to 2019 primarily due to the Company's Lease right-of-use asset recorded as a result of the adoption of Accounting Standard Codification ("ASC") Topic 842, "Leases" ("ASC 842").*

(3) *While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2021.*

STOCK PERFORMANCE GRAPH

At least annually, McDonald's considers which companies comprise a readily identifiable investment peer group. The Company is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of its revenues and income is generated outside the U.S. In addition, because of its size, McDonald's inclusion in those indices tends to skew the results. Therefore, the Company believes that such a comparison is not meaningful.

The Company's market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average ("DJIA") since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, the Company believes that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index ("S&P 500 Index") and to the DJIA companies for the five-year period ended December 31, 2021. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2016. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the DJIA Index, which is not weighted by market capitalization and may be composed of different companies during the period under consideration.

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Company/ Index	**12/31/2016**	**12/31/2017**	**12/31/2018**	**12/31/201**
McDonald's Corporation	$100	$145	$153	$175
S&P 500 Index	$100	$122	$116	$153
Dow Jones Industrials	$100	$128	$124	$155

Source: S&P Capital IQ

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION AND DIVIDEND POLICY

The Company’s common stock trades under the symbol "MCD" and is listed on the New York Stock Exchange in the U.S.

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2022 was estimated to be 3,400,000.

Given the Company’s returns on its capital investments and significant cash provided by operations, management believes it is prudent to reinvest in the business to drive profitable growth and use excess cash flow to return cash to shareholders over time through dividends and share repurchases. The Company has paid dividends on common stock for 46 consecutive years through 2021 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2021*:

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)*	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)*
October 1-31, 2021	1,343,834	241.93	1,343,834	$13,741,799,249
November 1-30, 2021	1,070,261	250.85	1,070,261	13,473,328,837
December 1-31, 2021	750,182	257.22	750,182	13,280,370,238
Total	3,164,277	248.57	3,164,277	

* *Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.*

(1) On December 31, 2019, the Company's Board of Directors approved a share repurchase program, effective January 1, 2020, that authorized the purchase of up to $15 billion of the Company's outstanding common stock.

RISK FACTORS

Our business results are subject to a variety of risks, including those that are described below and elsewhere in our filings with the SEC. The risks described below are not the only risks we face. Additional risks not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business. If any of these risks materialize or intensify, our expectations (or the underlying assumptions) may change and our performance may be adversely affected.

GLOBAL PANDEMIC

The COVID-19 pandemic has adversely affected and is expected to continue to adversely affect our financial results, condition and outlook.

Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our financial results, condition and outlook. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and McDonald's global restaurant operations since early 2020, and has resulted in increased pressure on labor availability and supply chain management. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and we expect will continue to cause, consumer behavior to change, worsening or volatile economic conditions in certain markets, and increased regulatory complexity and compliance costs, each of which could continue to adversely affect our business. In addition, our global operations have been disrupted to varying degrees in different markets and may continue to be disrupted to varying degrees given the unpredictability of the virus, its resurgences and variants and government responses thereto as well as potentially permanent changes to the industry in which we operate. While we cannot predict the duration or scope of the COVID-19 pandemic, the resurgence of infections or the emergence of new variants in one or more markets, the availability, acceptance or effectiveness of vaccines or vaccination rates across the globe, the pandemic has negatively impacted our business and is expected to continue to impact our financial results, condition and outlook in a way that may be material.

The COVID-19 pandemic may also heighten other risks disclosed in these Risk Factors, including, but not limited to, those related to labor availability and costs, supply chain interruptions, commodity costs, consumer behavior, consumer perceptions of our brand and competition.

STRATEGY AND BRAND

If we do not successfully evolve and execute against our business strategies, including the Accelerating the Arches strategy, we may not be able to drive business growth.

To drive Systemwide sales, operating income and free cash flow growth, our business strategies must be effective in maintaining and strengthening customer appeal and capturing additional market share. Whether these strategies are successful depends mainly on our System's ability to:

- capitalize on our global scale, iconic brand and local market presence to build upon our historic strengths and competitive advantages, such as our marketing, core menu items and digital, delivery and drive thru;
- continue to innovate and differentiate the McDonald's experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- accelerate technology investments for a fast and easy customer experience;
- continue to run great restaurants by driving efficiencies and expanding capacities while continuing to prioritize health and safety;
- identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;
- accelerate our existing strategies, including through growth opportunities and potential acquisitions, investments and partnerships; and
- evolve and adjust our business strategies in response to, among other things, changing consumer behavior, operational restrictions and impacts to our results of operations and liquidity, including as a result of the COVID-19 pandemic.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand, including our corporate purpose, mission and values. Brand value is based in part on consumer perceptions, which are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, the manner in which we source commodities and general business practices across the System, including the people practices at McDonald’s restaurants. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health, environmental and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the “informal eating out” (“IEO”) segment or perceptions of our brand, generally or relative to available alternatives. Our business could also be impacted by business incidents or practices, whether actual or perceived, particularly if they receive considerable publicity or result in litigation, as well as by our position or perceived lack of position on environmental, social responsibility, public policy, geopolitical and similar matters. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment or our brand, culture, operations, suppliers or franchisees. If we are unsuccessful in addressing adverse commentary or perceptions, whether or not accurate, our brand and financial results may suffer.

If we do not anticipate and address evolving consumer preferences and effectively execute our pricing, promotional and marketing plans, our business could suffer.

Our continued success depends on our System's ability to build upon our historic strengths and competitive advantages. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics and trends in food sourcing, food preparation, food offerings, and consumer behavior and preferences, including with respect to environmental and social responsibility matters, in the IEO segment. If we are not able to predict, or quickly and effectively respond to, these changes, or if our competitors predict or respond more effectively, our financial results could be adversely impacted.

Our ability to build upon our strengths and advantages also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer behavior and preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies and marketing plans, as well as the value proposition they represent, are expected to continue to be important components of our business strategy. However, they may not be successful, or may not be as successful as the efforts of our competitors, which could negatively impact sales, guest counts and market share.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in reaching our customers in the way we intend. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels, including digital marketing, allows us to reach our customers effectively, efficiently and in ways that are meaningful to them. If our advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Our investments to enhance the customer experience, including through technology, may not generate the expected results.

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in technology and modernization, digital engagement and delivery in order to transform the customer experience. As part of these investments, we are continuing to place emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, mobile ordering and payment systems, and enhancing our drive thru technologies, which may not generate expected results. We also continue to offer and refine our delivery initiatives, including through growing awareness and trial. Utilizing a third-party delivery service may not have the same level of profitability as a non-delivery transaction, and may introduce additional food quality, food safety and customer satisfaction risks. If these customer experience initiatives are not well executed, or if we do not fully realize the intended benefits of these significant investments, our business results may suffer.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores, coffee shops and online retailers. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by a contracting IEO segment or by new or continuing actions, product offerings or consolidation of our competitors and third-party partners, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, successfully develop and introduce new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations, manage our investments in technology and modernization, and respond effectively to our competitors' actions or offerings or to unforeseen disruptive actions. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald's brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. It may be costly and time consuming to protect our intellectual property, and the steps we have taken to do so in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

OPERATIONS

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory, geopolitical and economic environments within and among the more than 100 countries where McDonald's restaurants operate, and our ability to achieve our business objectives depends on the System's success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System's ability to leverage operating successes across markets and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our, our franchisees' or our suppliers' operations, and asset seizures. Trade policies, tariffs and other regulations affecting trade between the U.S. and other countries could adversely affect our business and operations. These and other government actions may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental actions.

Additionally, there are challenges and uncertainties associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. In many cases, such challenges may be exacerbated by the lack of an independent and experienced judiciary and uncertainty in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, the U.K.'s exit from the European Union has caused increased regulatory complexities and uncertainty in European economic conditions and may also cause uncertainty in worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue, and may result in increased supply chain costs for items that are imported from other countries. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions and related price increases can adversely affect us as well as our suppliers and franchisees, whose performance may have a significant impact on our results. Such interruptions and price increases could be caused by shortages, unexpected increases in demand, transportation issues, labor issues, weather-related events, natural disasters or other factors beyond the control of us or our suppliers or franchisees. If we experience interruptions in our System's supply chain, or if contingency planning is not effective, our costs could increase and/or the availability of products critical to our System's operations could be limited.

Our franchise business model presents a number of risks.

Our success as a heavily franchised business relies to a large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. In particular, our franchisees have also been impacted by the COVID-19 pandemic and the volatility associated with the pandemic. If franchisee sales trends worsen or volatility persists, our financial results could be negatively affected, which may be material.

Our success also relies on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, value/promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by their or our creditworthiness or by banks' lending practices. If our franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, our future growth and results of operations could be adversely affected.

Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand’s image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex. The benefits of our more heavily franchised structure depend on various factors including whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, whether we are able to successfully integrate them into our structure and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to labor, including availability and cost, could impact our business and results of operations.

Our success depends in part on our System's ability to proactively recruit, motivate and retain qualified individuals to work in McDonald's restaurants and to maintain appropriately-staffed restaurants in an intensely competitive labor market. If we or our franchisees are unable to adequately staff McDonald's restaurants, it could negatively impact our operations, including speed of service to customers, and customer satisfaction levels. The System's ability to meet its labor needs is generally subject to external factors, including the availability of sufficient workforce, unemployment levels and prevailing wages in the markets in which we operate.

Further, increased costs and competition associated with recruiting, motivating and retaining qualified employees, as well as costs associated with promoting awareness of the opportunities of working at McDonald's restaurants, could have a negative impact on our Company-operated margins and our franchisees' profitability.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers, including those giving rise to claims of harassment or discrimination (or perceptions thereof) or workplace safety, could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit, motivate and retain talent) or our franchisees and suppliers, whose performance may have a significant impact on our results.

Effective succession planning is important to our continued success.

Effective succession planning is important to our long-term success. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions could disrupt our business and adversely affect our results.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future, including in the supply chain, restaurants or delivery. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation, as well as our financial results.

If we do not effectively manage our real estate portfolio, our operating results may be negatively impacted.

We have significant real estate operations, primarily in connection with our restaurant business. We generally own or secure a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites. We seek to identify and develop restaurant locations that offer convenience to customers and long-term sales and profit potential. As we generally secure long-term real estate interests for our restaurants, we have limited flexibility to quickly alter our real estate portfolio. The competitive business landscape continues to evolve in light of changing business trends, consumer preferences, trade area demographics, consumer use of digital, delivery and drive thru, local competitive positions and other economic factors. If our restaurants are not located in desirable locations, or if we do not evolve in response to these factors, it could adversely affect Systemwide sales and profitability.

Our real estate values and the costs associated with our real estate operations are also impacted by a variety of other factors, including governmental regulations, insurance, zoning, tax and eminent domain laws, interest rate levels and the cost of financing. A significant change in real estate values, or an increase in costs as a result of any of these factors, could adversely affect our operating results.

Information technology system failures or interruptions, or breaches of network security, may impact our operations or cause reputational harm.

We are increasingly reliant upon technology systems, such as point-of-sale, technologies that support our digital and delivery solutions, and technologies that facilitate communication and collaboration with affiliated entities, customers, employees, franchisees, suppliers, service providers or other independent third parties to conduct our business, whether developed and maintained by us or provided by third parties. Any failure or interruption of these systems could significantly impact our or our franchisees' operations, or our customers' experience and perceptions.

Security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees) or the systems of third-party providers. These may include such things as unauthorized access, phishing attacks, account takeovers, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by hackers. Certain of these technology systems contain personal, financial and other information of our customers, employees, franchisees, business customers and other third parties, as well as financial, proprietary and other confidential information related to our business. Despite response procedures and measures in place in the event of an incident, a security breach could result in disruptions, shutdowns, or the theft or unauthorized disclosure of such information. The actual or alleged occurrence of any of these incidents could result in mitigation costs, reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

We also provide certain technology systems to businesses that are unaffiliated with the McDonald’s System and a failure, interruption or breach of these systems may cause harm to those unaffiliated parties, which may result in liability to us or reputational harm.

Despite the implementation of security measures, any of these technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Certain technology systems may also become vulnerable, unreliable or inefficient in cases where technology vendors limit or terminate product support and maintenance. Our increasing reliance on third-party systems also subjects us to risks faced by those third-party businesses, including operational, security and credit risks. If technology systems were to fail or otherwise be unavailable, or if business continuity or disaster recovery plans were not effective, and we were unable to recover in a timely manner, we could experience an interruption in our or our franchisees' operations.

LEGAL AND REGULATORY

Increasing regulatory and legal complexity may adversely affect our business and financial results.

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, restaurant operations, product packaging, marketing, the nutritional and allergen content and 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. We also are subject to increasing public focus, including by governmental and non-governmental organizations, on environmental, social responsibility and corporate governance ("ESG") initiatives. 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, which have increased and may continue to increase our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

We are also subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations and proceedings, shareholder proceedings, employment and personal injury claims, landlord/tenant disputes, supplier-related disputes, and claims by current or former franchisees. Regardless of whether claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations.

Litigation and regulatory action concerning our relationship with franchisees and the legal distinction between our franchisees and us for employment law or other purposes, if determined adversely, could increase costs, negatively impact our business operations and the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions.

Our results could also be affected by the following:

- the relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- the cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and
- adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices.

A judgment significantly in excess of any applicable insurance coverage or third-party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from claims may hurt our business. If we are unable to effectively manage the risks associated with our complex regulatory and legal environment, it could have a material adverse effect on our business and financial condition.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings.

In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

If we fail to comply with privacy and data collection laws, we could be subject to legal proceedings and penalties, which could negatively affect our financial results or brand perceptions.

We are subject to legal and compliance risks and associated liability related to privacy and data collection, protection and management as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees, franchisees or other third parties. For example, the General Data Protection Regulation ("GDPR") requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. We are also subject to U.S. federal and state and foreign laws and regulations in this area such as the California Consumer Privacy Act ("CCPA"). These regulations have been subject to frequent change, and there may be markets or jurisdictions that propose or enact new or emerging data privacy requirements in the future. Failure to comply with GDPR, CCPA or other privacy and data collection laws could result in legal proceedings and substantial penalties and materially adversely impact our financial results or brand perceptions.

MACROECONOMIC AND MARKET CONDITIONS

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, including inflationary pressures, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics, pandemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in our markets could pressure our operating performance and our business continuity disruption planning, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates and unfavorable currency fluctuations could adversely affect reported earnings.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities, distribution and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef, chicken and pork, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. Our System can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, our collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and the price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- the unpredictable nature of global economic and market conditions;
- governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic, trade or other matters, even when the matter in question does not directly relate to our business;
- trading activity in our common stock, in derivative instruments with respect to our common stock or in our debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our common stock by significant shareholders; or trading activity that results from the ordinary

course rebalancing of stock indices in which McDonald’s may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;

- the impact of our stock repurchase program or dividend rate; and
- the impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies, including through acquisitions, in light of changing business, legal and tax considerations and evolve our corporate structure.

Our business is subject to an increasing focus on ESG matters.

In recent years, there has been an increasing focus by stakeholders – including employees, franchisees, customers, suppliers, governmental and non-governmental organizations and investors – on ESG matters. A failure, whether real or perceived, to address ESG matters or to achieve progress on our ESG initiatives could adversely affect our business, including by heightening other risks disclosed in these Risk Factors, such as those related to consumer behavior, consumer perceptions of our brand, labor availability and costs, supply chain interruptions, commodity costs, and legal and regulatory complexity. Conversely, our taking a position, whether real or perceived, on ESG, public policy, geopolitical and similar matters could adversely impact our business.

The standards we set for ourselves regarding ESG matters, and our ability to meet such standards, may also impact our business. For example, we are working to manage risks and costs to our System related to climate change, greenhouse gases, and diminishing energy and water resources, and we have announced initiatives relating to, among other things, environmental sustainability, responsible sourcing and increasing diverse representation across our System. We may face increased scrutiny related to reporting on and achieving these initiatives, as well as continued public focus on similar matters, such as packaging and waste, animal health and welfare, deforestation and land use. We may also face increased pressure from stakeholders to provide expanded disclosure and establish additional commitments, targets or goals, and take actions to meet them, which could expose us to additional market, operational, execution and reputational costs and risks. Moreover, addressing ESG matters requires Systemwide coordination and alignment, and the standards by which certain ESG matters are measured are evolving and subject to assumptions that could change over time.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, climate change or terrorist activities (or expectations about them) can adversely affect consumer behavior and confidence levels, supply availability and costs and local operations in impacted markets, all of which can affect our results and prospects. Climate change may also 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 some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

LEGAL PROCEEDINGS

The Company has pending a number of lawsuits that have been filed in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's business. The following is a brief description of the more significant types of such claims and lawsuits. In addition, the Company is subject to various national and local laws and regulations that impact various aspects of its business, as discussed under "Government Regulations" below. While the Company does not believe that any such claims, lawsuits, laws or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, it could result in a material adverse impact on the Company's net income for the period in which it occurs and/or future periods.

- ***Franchising***

A substantial number of McDonald's restaurants are franchised to independent owner/operators and developmental licensees under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its current or former franchisees relating to a broad range of subjects, including, but not limited to, quality, service and cleanliness issues, menu pricing, contentions regarding franchise grants or terminations, alleged discrimination, delinquent payments of rents and fees and claims for additional franchises or franchise renewals. Occasional disputes also arise between the Company and individuals who claim they should have been granted a franchise or who challenge the legal distinction between the Company and its franchisees for employment law purposes.

- ***Suppliers***

The Company and its affiliates and subsidiaries generally do not supply food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers, including service providers, that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its current or former suppliers relating to, for example, compliance with product specifications and the Company's business relationship with suppliers. Occasional disputes also arise between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes occasionally arise regarding hiring, termination, promotion and pay practices, including, but not limited to, wage and hour disputes, alleged discrimination and compliance with labor and employment laws.

- ***Customers***

McDonald’s restaurants – whether owned by subsidiaries of the Company, independent owner/operators or developmental licensees – regularly serve a broad segment of the public. In so doing, disputes occasionally arise as to products, service, incidents, pricing, advertising, nutritional and other disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

- ***Intellectual Property***

The Company has registered trademarks, service marks, patents and copyrights, some of which are of material importance to its business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third-party intellectual property.

- ***Government Regulations***

National and local governments have adopted laws and regulations involving various aspects of the restaurant business, including, but not limited to, advertising, franchising, health, safety, environment, competition, zoning, employment and taxation. The Company is occasionally involved in litigation or other proceedings regarding these matters. While the Company strives to comply with all applicable existing statutory and administrative rules, it cannot predict the effect on its operations of these matters or the issuance of any future additional requirements.

PROPERTIES

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the System. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns or secures a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites, which facilitates long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network.

In addition, the Company primarily leases real estate in connection with its corporate headquarters, field and other offices.

Additional information about the Company's properties is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations section beginning on page 8 of this Form 10-K and in the Financial Statements and Supplementary Data section beginning on page 37 of this Form 10-K.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following are the Executive Officers of the Company (as of the date of this filing):

Ian Borden, 53, is President, International, a position he has held since January 2020. Prior to that, Mr. Borden served as President – International Developmental Licensed Markets from January 2019 to December 2019 and as President – Foundational Markets from July 2015 to December 2018. Mr. Borden has served the Company for 27 years.

Heidi Capozzi, 52, is Corporate Executive Vice President – Chief People Officer, a position she has held since April 2020. Prior to joining the Company, Ms. Capozzi served as Senior Vice President of Human Resources for The Boeing Company, a manufacturer of commercial jetliners and defense, space and security systems, from 2016 to April 2020.

Francesca A. DeBiase, 56, is Corporate Executive Vice President – Global Chief Supply Chain Officer, a position she has held since October 2020. Prior to that, Ms. DeBiase served as Corporate Executive Vice President – Worldwide Supply Chain and Sustainability from April 2018 to October 2020 and as Corporate Senior Vice President – Worldwide Supply Chain and Sustainability from March 2015 to March 2018. Ms. DeBiase has served the Company for 30 years.

Joseph Erlinger, 48, is President, McDonald's USA, a position he has held since November 2019. Prior to that, Mr. Erlinger served as President – International Operated Markets from January 2019 to October 2019 and as President – High Growth Markets from September 2016 to December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer – High Growth Markets (serving in dual roles from September 2016 to January 2017). Mr. Erlinger has served the Company for nearly 20 years.

Katherine Beirne Fallon, 46, is Corporate Executive Vice President – Chief Global Impact Officer, a position she has held since October 2020. Prior to joining the Company, Ms. Fallon served as Executive Vice President, Global Corporate Affairs for Hilton, a global hospitality company, from November 2016 to October 2020.

Daniel Henry, 51, is Corporate Executive Vice President – Chief Information Officer, a position he has held since May 2018. Prior to that, Mr. Henry served as Corporate Vice President – Chief Information Officer from October 2017 to April 2018. Prior to joining the Company, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture for American Airlines, an international airline company, from April 2012 to October 2017. Mr. Henry has served the Company for four years.

Catherine Hoovel, 51, is Corporate Senior Vice President – Corporate Controller, a position she has held since July 2021. Prior to that, Ms. Hoovel served as Corporate Vice President – Chief Accounting Officer from October 2016 to July 2021 and as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Ms. Hoovel has served the Company for 25 years.

Christopher Kempczinski, 53, is President and Chief Executive Officer, a position he has held since November 2019. Prior to that, Mr. Kempczinski served as President, McDonald’s USA from December 2016 to October 2019 and as Corporate Executive Vice President – Strategy, Business Development and Innovation from October 2015 to December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International. Mr. Kempczinski has served the Company for six years.

Kevin Ozan, 58, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. Prior to that, Mr. Ozan served as Corporate Senior Vice President – Controller from February 2008 to February 2015. Mr. Ozan has served the Company for 24 years.

Desiree Ralls-Morrison, 55, is Corporate Executive Vice President, General Counsel and Secretary, a position she has held since April 2021. Prior to joining the Company, Ms. Ralls-Morrison served as Senior Vice President, General Counsel and Corporate Secretary for Boston Scientific, a medical device manufacturer, from November 2017 to April 2021 and as Senior Vice President, General Counsel and Corporate Secretary for Boehringer Ingelheim USA, a pharmaceutical company, from October 2013 to October 2017.

Manu Steijaert, 51, is Corporate Executive Vice President – Chief Customer Officer, a position he has held since August 2021. Prior to that, Mr. Steijaert served as Vice President, International Operated Markets from January 2019 to July 2021 and as Managing Director, Netherlands from July 2015 through January 2019. Mr. Steijaert has served the Company for nearly 20 years.

AVAILABILITY OF COMPANY INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the SEC. Such reports may be obtained by visiting the SEC's website at www.sec.gov.

Financial and other information can also be accessed on the investor section of the Company's website at www.investor.mcdonalds.com. The Company uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters for each committee of the Company's Board of Directors, including the Audit & Finance Committee, Compensation Committee, Governance Committee, Public Policy & Strategy Committee and Sustainability & Corporate Responsibility Committee; the Code of Conduct for the Board of Directors; and the Company's Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623.

The websites included in this Form 10-K, including those of the Company and the SEC, are provided for convenience only. Information contained on or accessible through such websites is not incorporated herein and does not constitute a part of this Form 10-K or the Company's other filings with the SEC.

Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	*Years ended December 31,* ***2021***	*2020*	*2019*
REVENUES			
Sales by Company-operated restaurants	**$ 9,787.4**	$ 8,139.2	$ 9,420.8
Revenues from franchised restaurants	**13,085.4**	10,726.1	11,655.7
Other revenues	**350.1**	342.5	287.9
Total revenues	**23,222.9**	19,207.8	21,364.4
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**3,096.8**	2,564.2	2,980.3
Payroll & employee benefits	**2,677.2**	2,416.4	2,704.4
Occupancy & other operating expenses	**2,273.3**	2,000.6	2,075.9
Franchised restaurants-occupancy expenses	**2,335.0**	2,207.5	2,200.6
Other restaurant expenses	**260.4**	267.0	223.8
Selling, general & administrative expenses			
Depreciation and amortization	**329.7**	300.6	262.5
Other	**2,377.8**	2,245.0	1,966.9
Other operating (income) expense, net	**(483.3)**	(117.5)	(119.8)
Total operating costs and expenses	**12,866.9**	11,883.8	12,294.6
Operating income	**10,356.0**	7,324.0	9,069.8
Interest expense-net of capitalized interest of $6.8, $6.0 and $7.4	**1,185.8**	1,218.1	1,121.9
Nonoperating (income) expense, net	**42.3**	(34.8)	(70.2)
Income before provision for income taxes	**9,127.9**	6,140.7	8,018.1
Provision for income taxes	**1,582.7**	1,410.2	1,992.7
Net income	**$ 7,545.2**	$ 4,730.5	$ 6,025.4
Earnings per common share–basic	**$ 10.11**	$ 6.35	$ 7.95
Earnings per common share–diluted	**$ 10.04**	$ 6.31	$ 7.88
Dividends declared per common share	**$ 5.25**	$ 5.04	$ 4.73
Weighted-average shares outstanding–basic	**746.3**	744.6	758.1
Weighted-average shares outstanding–diluted	**751.8**	750.1	764.9

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions Years ended December 31,	***2021***	*2020*	*2019*
Net income	**$7,545.2**	$4,730.5	$6,025.4
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income ("AOCI"), including net investment hedges	**(216.2)**	46.0	127.5
Reclassification of (gain) loss to net income	**34.7**	17.1	46.8
Foreign currency translation adjustments-net of tax benefit (expense) of $(186.5), $204.8, and $(55.4)	**(181.5)**	63.1	174.3
Cash flow hedges:			
Gain (loss) recognized in AOCI	**57.6**	(129.1)	17.3
Reclassification of (gain) loss to net income	**28.9**	5.8	(37.7)
Cash flow hedges-net of tax benefit (expense) of $(24.9), $36.6, and $6.1	**86.5**	(123.3)	(20.4)
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**108.1**	(43.5)	(24.5)
Reclassification of (gain) loss to net income	**—**	(0.4)	(2.6)
Defined benefit pension plans-net of tax benefit (expense) of $(36.6), $9.3, and $5.2	**108.1**	(43.9)	(27.1)
Total other comprehensive income (loss), net of tax	**13.1**	(104.1)	126.8
Comprehensive income	**$7,558.3**	$4,626.4	$6,152.2

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	*December 31,* ***2021***	*2020*
ASSETS		
Current assets		
Cash and equivalents	**$4,709.2**	$ 3,449.1
Accounts and notes receivable	**1,872.4**	2,110.3
Inventories, at cost, not in excess of market	**55.6**	51.1
Prepaid expenses and other current assets	**511.3**	632.7
Total current assets	**7,148.5**	6,243.2
Other assets		
Investments in and advances to affiliates	**1,201.2**	1,297.2
Goodwill	**2,782.5**	2,773.1
Miscellaneous	**4,449.5**	3,527.4
Total other assets	**8,433.2**	7,597.7
Lease right-of-use asset, net	**13,552.0**	13,827.7
Property and equipment		
Property and equipment, at cost	**41,916.6**	41,476.5
Accumulated depreciation and amortization	**(17,196.0)**	(16,518.3)
Net property and equipment	**24,720.6**	24,958.2
Total assets	**$53,854.3**	$52,626.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$1,006.8**	$ 741.3
Lease liability	**705.5**	701.5
Income taxes	**360.7**	741.1
Other taxes	**236.7**	227.0
Accrued interest	**363.3**	388.4
Accrued payroll and other liabilities	**1,347.0**	1,138.3
Current maturities of long-term debt	**—**	2,243.6
Total current liabilities	**4,020.0**	6,181.2
Long-term debt	**35,622.7**	35,196.8
Long-term lease liability	**13,020.9**	13,321.3
Long-term income taxes	**1,896.8**	1,970.7
Deferred revenues - initial franchise fees	**738.3**	702.0
Other long-term liabilities	**1,081.0**	1,054.1
Deferred income taxes	**2,075.6**	2,025.6
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**8,231.6**	7,903.6
Retained earnings	**57,534.7**	53,908.1
Accumulated other comprehensive income (loss)	**(2,573.7)**	(2,586.8)
Common stock in treasury, at cost; 915.8 and 915.2 million shares	**(67,810.2)**	(67,066.4)
Total shareholders' equity (deficit)	**(4,601.0)**	(7,824.9)
Total liabilities and shareholders' equity (deficit)	**$53,854.3**	$52,626.8

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Years ended December 31,	***2021***	*2020*	*2019*
Operating activities			
Net income	**$7,545.2**	$ 4,730.5	$ 6,025.4
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,868.1**	1,751.4	1,617.9
Deferred income taxes	**(428.3)**	6.4	149.7
Share-based compensation	**139.2**	92.4	109.6
Net gain on sale of restaurant businesses	**(97.8)**	(28.2)	(128.2)
Other	**(339.1)**	(75.2)	49.2
Changes in working capital items:			
Accounts receivable	**309.9**	(6.8)	27.0
Inventories, prepaid expenses and other current assets	**(62.2)**	(68.6)	128.8
Accounts payable	**225.0**	(137.5)	(26.8)
Income taxes	**(302.5)**	(43.6)	173.4
Other accrued liabilities	**284.0**	44.4	(3.9)
Cash provided by operations	**9,141.5**	6,265.2	8,122.1
Investing activities			
Capital expenditures	**(2,040.0)**	(1,640.8)	(2,393.7)
Purchases of restaurant and other businesses	**(374.2)**	(66.1)	(540.9)
Sales of restaurant businesses	**196.2**	76.3	340.8
Sales of property	**106.2**	27.4	151.2
Other	**(53.9)**	57.4	(628.5)
Cash used for investing activities	**(2,165.7)**	(1,545.8)	(3,071.1)
Financing activities			
Net short-term borrowings	**15.1**	(893.1)	799.2
Long-term financing issuances	**1,154.4**	5,543.0	4,499.0
Long-term financing repayments	**(2,240.0)**	(2,411.7)	(2,061.9)
Treasury stock purchases	**(845.5)**	(907.8)	(4,976.2)
Common stock dividends	**(3,918.6)**	(3,752.9)	(3,581.9)
Proceeds from stock option exercises	**285.7**	295.5	350.5
Other	**(46.7)**	(122.0)	(23.5)
Cash used for financing activities	**(5,595.6)**	(2,249.0)	(4,994.8)
Effect of exchange rates on cash and equivalents	**(120.1)**	80.2	(23.7)
Cash and equivalents increase	**1,260.1**	2,550.6	32.5
Cash and equivalents at beginning of year	**3,449.1**	898.5	866.0
Cash and equivalents at end of year	**$4,709.2**	$ 3,449.1	$ 898.5
Supplemental cash flow disclosures			
Interest paid	**$1,197.3**	$ 1,136.0	$ 1,066.5
Income taxes paid	**2,403.9**	1,441.9	1,589.7

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

In millions, except per share data	Common stock issued: Shares	Common stock issued: Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss): Pensions	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Foreign currency translation	Common stock in treasury: Shares	Common stock in treasury: Amount	Total shareholders' equity (deficit)
Balance at December 31, 2018	1,660.6	$16.6	$7,376.0	$50,487.0	$(216.6)	$ 32.4	$(2,425.3)	(893.5)	$(61,528.5)	$ (6,258.4)
Net income				6,025.4						6,025.4
Other comprehensive income (loss), net of tax					(27.1)	(20.4)	174.3			126.8
Comprehensive income										6,152.2
Common stock cash dividends ($4.73 per share)				(3,581.9)						(3,581.9)
Treasury stock purchases								(25.0)	(4,980.5)	(4,980.5)
Share-based compensation			109.6							109.6
Stock option exercises and other			168.3					4.2	180.4	348.7
Balance at December 31, 2019	1,660.6	16.6	7,653.9	52,930.5	(243.7)	12.0	(2,251.0)	(914.3)	(66,328.6)	(8,210.3)
Net income				4,730.5						4,730.5
Other comprehensive income (loss), net of tax					(43.9)	(123.3)	63.1			(104.1)
Comprehensive income										4,626.4
Common stock cash dividends ($5.04 per share)				(3,752.9)						(3,752.9)
Treasury stock purchases								(4.3)	(874.1)	(874.1)
Share-based compensation			92.4							92.4
Stock option exercises and other			157.3					3.4	136.3	293.6
Balance at December 31, 2020	1,660.6	16.6	7,903.6	53,908.1	(287.6)	(111.3)	(2,187.9)	(915.2)	(67,066.4)	(7,824.9)
Net income				**7,545.2**						**7,545.2**
Other comprehensive income (loss), net of tax					**108.1**	**86.5**	**(181.5)**			**13.1**
Comprehensive income										**7,558.3**
Common stock cash dividends ($5.25 per share)				**(3,918.6)**						**(3,918.6)**
Treasury stock purchases								**(3.4)**	**(845.5)**	**(845.5)**
Share-based compensation			**139.2**							**139.2**
Stock option exercises and other			**188.8**					**2.8**	**101.7**	**290.5**
Balance at December 31, 2021	**1,660.6**	**$16.6**	**$8,231.6**	**$57,534.7**	**$(179.5)**	**$ (24.8)**	**$(2,369.4)**	**(915.8)**	**$(67,810.2)**	**$ (4,601.0)**

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

NATURE OF BUSINESS

The Company franchises and operates McDonald's restaurants in the global restaurant industry. All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchised arrangements, and developmental licensees or affiliates under license agreements.

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2021***	*2020*	*2019*
Conventional franchised	**21,607**	21,712	21,837
Developmental licensed	**7,913**	7,663	7,648
Foreign affiliated	**7,775**	7,146	6,574
Total Franchised	**37,295**	36,521	36,059
Company-operated	**2,736**	2,677	2,636
Total Systemwide restaurants	**40,031**	39,198	38,695

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements for periods prior to purchase and sale.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less (primarily McDonald's China and Japan) are accounted for by the equity method.

On an ongoing basis, the Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the variable interest entity consolidation guidance. The Company has concluded that consolidation of any such entity is not appropriate for the periods presented.

ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Generally, the functional currency of operations outside the U.S. is the respective local currency.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Income Taxes

In December 2019, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update ("ASU") No. 2019-12, "Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes" ("ASU 2019-12"), which simplifies the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company adopted the new standard effective January 1, 2021. The adoption of the standard did not have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements Not Yet Adopted

Reference Rate Reform

In March 2020, the FASB issued ASU No. 2020-04, “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting" (“ASU 2020-04”). The pronouncement provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The adoption of ASU 2020-04 will not have a material impact on the Company's consolidated financial statements.

Leases

In July 2021, the FASB issued No. ASU 2021-05, "Leases (Topic 842): Lessors—Certain Leases with Variable Lease Payments" ("ASU 2021-05"). The pronouncement amends the current guidance on classification for a lease that includes variable lease payments that do not depend on an index or rate. Under the amended guidance, a lessor must classify as an operating lease any lease that would otherwise be classified as a sales-type or direct financing lease and that would result in the recognition of a selling loss at lease commencement. ASU 2021-05 is effective for fiscal years beginning after December 15, 2021, including applicable interim periods. The adoption of this standard is not expected to have a material effect on the Company’s consolidated financial statements.

REVENUE RECOGNITION

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. The Company’s Other revenues are comprised of fees paid by franchisees to recover a portion of costs incurred by the Company for various technology platforms, revenues from brand licensing arrangements to market and sell consumer packaged goods using the McDonald’s brand and third party revenues for the Dynamic Yield business.

Sales by Company-operated restaurants are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. Royalty revenues are based on a percent of sales and recognized at the time the underlying sales occur. Rental income includes both minimum rent payments, which are recognized straight-line over the franchise term (with the exception of rent concessions as a result of COVID-19 – refer to the Leasing section that follows) and variable rent payments based on a percent of sales, which are recognized at the time the underlying sales occur. Initial fees are recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years.

The Company provides goods or services related to various technology platforms to certain franchisees that are distinct from the franchise agreement because they do not require integration with other goods or services that the Company provides. The Company has determined that it is the principal in these arrangements. Accordingly, the related revenue is presented on a gross basis on the Consolidated Statement of Income. These revenues are recognized as the goods or services are transferred to the franchisee, and related expenses are recognized as incurred. Brand licensing arrangement revenues are based on a percent of sales and are recognized at the time the underlying sales occur. Dynamic Yield third party revenues are generated from providing software as a service solutions to customers and are recognized over the applicable subscription period as the service is performed.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–the lesser of useful lives of assets or lease terms, which generally include certain option periods; and equipment–3 to 12 years.

The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

The Company may share in the cost of certain restaurant improvements with its franchisees, primarily in the U.S. Since McDonald's manages the project and provides up front funding in these instances, during the project the Company estimates which costs are the responsibility of McDonald's and which are the responsibility of the franchisee, and allocates the corresponding costs between Property and equipment and Accounts receivable. Upon the completion of the project, the allocation of costs is finalized and may result in immaterial adjustments to the balances and associated depreciation expense.

Refer to the Property and Equipment footnote on page 51 of this Form 10-K for additional information.

LEASING

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Lease right-of-use asset and Lease liability reflect the present value of the Company’s estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using the rate implicit in each lease, if determinable, or a collateralized incremental borrowing rate considering the term of the lease and particular currency environment. Leases with an initial term of 12 months or less, primarily related to leases of office equipment, are not included in the Lease right-or-use asset or Lease liability and continue to be recognized in the Consolidated Statement of Income on a straight-line basis over the lease term.

The Company has elected not to separate non-lease components from lease components in its lessee portfolio. To the extent that occupancy costs, such as site maintenance, are included in the asset and liability, the impact is immaterial and is generally limited to Company-owned restaurant locations. For franchised locations, which represent the majority of the restaurant portfolio, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-restaurant related leases such as office buildings, vehicles and office equipment. These leases are not a material subset of the Company’s lease portfolio.

In 2020, the Company elected the practical expedient to account for COVID-19 related rent concessions as if they were part of the enforceable rights and obligations of the parties under the existing lease contract. This was elected for the Company's entire lessee and lessor portfolio for any rent deferrals or rent abatements. For the lessee portfolio, the Company elected not to remeasure the Lease right- of-use asset and Lease liability if a rent deferral or a rent abatement was granted. Refer to the Leasing Arrangements footnote on page 52 of this Form 10-K for additional information on the Lease right-of-use asset and Lease liability.

The Company deferred collection of approximately $490 million of rental income on revenue that was recognized in 2020, and has collected substantially all of these deferrals as of December 31, 2021. Rental income includes both minimum rent payments and variable rent payments based on a percent of sales.

Refer to the Franchise Arrangements footnote on page 51 of this Form 10-K for additional information on deferred collections of rental income as well as royalties.

CAPITALIZED SOFTWARE

Capitalized software is stated at cost and amortized using the straight-line method over the estimated useful life of the software, which primarily ranges from 2 to 7 years. Customer facing software is typically amortized over a shorter useful life, while back office and Corporate systems may have a longer useful life. Capitalized software less accumulated amortization is recorded within Miscellaneous other assets on the Consolidated Balance Sheet and was (in millions): 2021-$795.0; 2020-$691.2; 2019-$665.4.

The Company reviews capitalized software for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or if an indicator of impairment exists, which occurs more regularly throughout the year, such as when new software may be ready for its intended use. The Company did not identify any indicators of impairment of capitalized software for the year ended December 31, 2021. Results for 2020 reflected write-offs of impaired software of $26.3 million.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald’s restaurant assets for potential impairment, assets are initially grouped together in the U.S. at a field office level, and internationally, at a market level. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, an individual restaurant’s cash flows are not generally independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management and the Company's Board of Directors, as required, have approved and committed to a plan to dispose of the assets, the assets are available for disposal and the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value, among other factors. Generally, such losses are related to restaurants that have closed and ceased operations as well as other assets that meet the criteria to be considered “held for sale."

GOODWILL

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurants and other businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in subsidiaries or affiliates, and it is generally assigned to the reporting unit (defined as each individual market) expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the reporting unit.

The following table presents the 2021 activity in goodwill by segment:

In millions	*U.S.*	*International Operated Markets*	*International Developmental Licensed Markets & Corporate*	*Consolidated*
Balance at December 31, 2020	$1,625.5	$1,147.6	$ —	$2,773.1
Net restaurant purchases (sales)	47.9	16.9	—	64.8
Currency translation	—	(55.4)	—	(55.4)
Balance at December 31, 2021	**$1,673.4**	**$1,109.1**	**$ —**	**$2,782.5**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever indicators of impairment exist. If an indicator of impairment exists, the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recorded for the difference. In the current period, the Company performed a qualitative assessment and did not identify any indicators of impairment. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Goodwill on the Consolidated Balance Sheet reflects accumulated impairment losses of $14.5 million as of December 31, 2021 and 2020.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives based upon a percent of sales, and were (in millions): 2021–$377.6; 2020–$325.5; 2019–$365.8. The increase in 2021 is primarily due to sales recovery in the International Operated Markets, as COVID-19 had a greater impact in the prior year.

In addition, significant advertising costs are incurred by conventional franchisees through contributions to advertising cooperatives in individual markets that are also based upon a percent of sales. In the markets that make up the vast majority of the Systemwide advertising spend, including the U.S., McDonald’s is not the primary beneficiary of these entities, and therefore has concluded that consolidation would not be appropriate, as the Company does not have the power through voting or similar rights to direct the activities of the cooperatives that most significantly impact their economic performance.

Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses are included in Selling, general & administrative expenses and were (in millions): 2021–$82.9; 2020–$329.2; 2019–$81.5. Results for 2020 included about $175 million of incremental marketing contributions by the Company to the System's advertising cooperative arrangements across the U.S. and International Operated Markets, as well as higher investments in brand communications.

INCOME TAXES

Income Tax Uncertainties

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial reporting basis and the tax basis of existing assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies, including the sale of appreciated assets, in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

Refer to the Income Taxes footnote on page 54 of this Form 10-K for additional information.

Accounting for Global Intangible Low-Taxed Income ("GILTI")

The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and foreign currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

- ***Certain Financial Assets and Liabilities Measured at Fair Value***

The following tables present financial assets and liabilities measured at fair value on a recurring basis by the valuation hierarchy as defined in the fair value guidance:

December 31, 2021

In millions	*Level 1* [(1)]	*Level 2*	*Carrying Value*
Derivative assets	$ 209.8	$ 79.8	$ 289.6
Derivative liabilities		$ (7.9)	$ (7.9)

December 31, 2020

In millions	*Level 1* [(1)]	*Level 2*	*Carrying Value*
Derivative assets	$ 185.6	$ 41.4	$ 227.0
Derivative liabilities		$ (97.5)	$ (97.5)

(1) Level 1 is comprised of derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.

- ***Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2021, the Company did not record any material fair value adjustments to long-lived assets (including goodwill).

- ***Certain Financial Assets and Liabilities not Measured at Fair Value***

At December 31, 2021, the fair value of the Company's debt obligations was estimated at $40.0 billion, compared to a carrying amount of $35.6 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount of cash and equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. The Company's derivatives that are designated for hedge accounting consist mainly of interest rate swaps, foreign currency forwards, and cross-currency interest rate swaps, and are classified as either fair value, cash flow or net investment hedges. Further details are explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company enters into certain derivatives that are not designated for hedge accounting. The Company has entered into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. The Company has also used certain derivatives to mitigate the share price risk related to its sale of stock in McDonald's Japan. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Further details are explained in the "Undesignated Derivatives" section.

All derivatives (including those not designated for hedge accounting) are recognized on the Consolidated Balance Sheet at fair value and classified based on the instruments' maturity dates. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to AOCI and/or current earnings.

The following table presents the fair values of derivative instruments included on the Consolidated Balance Sheet as of December 31, 2021 and 2020:

	Derivative Assets			Derivative Liabilities		
In millions	*Balance Sheet Classification*	***2021***	*2020*	*Balance Sheet Classification*	***2021***	*2020*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	**$ 42.4**	$ —	Accrued payroll and other liabilities	**$ (3.3)**	$(64.5)
Interest rate	Prepaid expenses and other current assets	**0.3**	—	Accrued payroll and other liabilities	**—**	—
Foreign currency	Miscellaneous other assets	**28.0**	5.6	Other long-term liabilities	**(0.5)**	(15.0)
Interest rate	Miscellaneous other assets	**8.6**	35.8	Other long-term liabilities	**(4.1)**	—
Total derivatives designated as hedging instruments		**$ 79.3**	$ 41.4		**$ (7.9)**	$(79.5)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$ 9.5**	$185.6	Accrued payroll and other liabilities	**$ —**	$ (8.6)
Foreign currency	Prepaid expenses and other current assets	**0.5**	—	Accrued payroll and other liabilities	**—**	(9.4)
Equity	Miscellaneous other assets	**200.3**	—			
Total derivatives not designated as hedging instruments		**$210.3**	$185.6		**$ —**	$(18.0)
Total derivatives		**$289.6**	$227.0		**$ (7.9)**	$(97.5)

The following table presents the pre-tax amounts from derivative instruments affecting income and AOCI for the year ended December 31, 2021 and 2020, respectively:

In millions	Location of gain or loss recognized in income on derivative	Gain (loss) recognized in AOCI		Gain (loss) reclassified into income from AOCI		Gain (loss) recognized in income on derivative	
		2021	2020	**2021**	2020	**2021**	2020
Foreign currency	Nonoperating income/ expense	**$ 74.2**	$ (76.6)	**$ (30.9)**	$ (2.1)		
Interest rate	Interest expense	**—**	(90.8)	**(6.3)**	(5.4)		
Cash flow hedges		**$ 74.2**	$ (167.4)	**$ (37.2)**	$ (7.5)		
Foreign currency denominated debt	Nonoperating income/ expense	**$ 725.8**	$ (989.7)	**$ 47.1**	$ 33.7		
Foreign currency derivatives	Nonoperating income/ expense	**40.2**	(12.3)				
Foreign currency derivatives[1]	Interest expense					**$ 14.7**	$ 14.7
Net investment hedges		**$ 766.0**	$(1,002.0)	**$ 47.1**	$ 33.7	**$ 14.7**	$ 14.7
Foreign currency	Nonoperating income/ expense					**$ 9.4**	$ (29.0)
Equity	Selling, general & administrative expenses					**99.3**	44.4
Equity	Other operating income/ expense, net					**(11.3)**	(16.0)
Undesignated derivatives						**$ 97.4**	$ (0.6)

[1] The amount of gain (loss) recognized in income related to components excluded from effectiveness testing.

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At December 31, 2021, the carrying amount of fixed-rate debt that was effectively converted was an equivalent notional amount of $1.5 billion, which included an increase of $4.8 million of cumulative hedging adjustments. For the year ended December 31, 2021, the Company recognized a $31.0 million loss on the fair value of interest rate swaps, and a corresponding gain on the fair value of the related hedged debt instrument to interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover up to the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2021, the Company had derivatives outstanding with an equivalent notional amount of $1.3 billion that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at December 31, 2021, the $24.8 million in cumulative cash flow hedging losses, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company uses foreign currency denominated debt (third party and intercompany) as well as foreign currency derivatives to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of Other comprehensive income ("OCI") and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of December 31, 2021, $12.4 billion of the Company's third party foreign currency denominated debt, $1.4 billion of intercompany foreign currency denominated debt, and $477 million of foreign currency derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting. Therefore, the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in Selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. The Company has also used certain derivatives to mitigate the share price risk related to its sale of stock in McDonald's Japan. The changes in the fair value of the undesignated derivatives used for the most recent sale transaction were recognized immediately in earnings in Other operating (income) expense, net. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. The changes in the fair value of these derivatives are recognized in Nonoperating (income) expense, net, along with the currency gain or loss from the hedged balance sheet position.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at December 31, 2021 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2021, neither the Company nor its counterparties were required to post collateral on any derivative position, other than on certain hedges of the Company’s supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

SHARE-BASED COMPENSATION

The Company has a share-based compensation plan, which authorizes the granting of various equity-based incentives including stock options and restricted stock units (“RSUs”) to employees and nonemployee directors.

Share-based compensation, which includes the portion vesting of all share-based awards granted based on the grant date fair value, is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company’s stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. In addition, the Company estimates forfeitures when determining the amount of compensation costs to be recognized each period.

The fair value of each RSU granted is equal to the market price of the Company’s stock at date of grant. For performance-based RSUs, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

Refer to the Share-based Compensation footnote on page 58 of this Form 10-K for additional information.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2021–5.5; 2020–5.5; 2019–6.8. Share-based compensation awards that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2021–2.2; 2020–1.8; 2019–0.1.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents. As of December 31, 2021, Cash and equivalents was $4.7 billion, of which $3.4 billion consisted of certificates of deposit.

Segment and Geographic Information

McDonald's operates under an organizational structure with the following global business segments reflecting how management reviews and evaluates operating performance:

- U.S. - the Company's largest market. The segment is 95% franchised as of December 31, 2021.
- International Operated Markets - comprised of markets, or countries in which the Company operates and franchises restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K. The segment is 84% franchised as of December 31, 2021.
- International Developmental Licensed Markets & Corporate - comprised primarily of developmental licensee and affiliate markets in the McDonald's system. Corporate activities are also reported in this segment. The segment is 98% franchised as of December 31, 2021.

In April and October 2019, the Company completed the acquisitions of Dynamic Yield and Apprente, respectively. The related financial performance is reflected within the International Developmental Licensed Markets & Corporate segment from the dates of acquisition. In December 2021, the Company completed the divestiture of Apprente (McD Tech Labs).

All intercompany revenues and expenses are eliminated in computing revenues and operating income. Corporate general & administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financial instruments and home office facilities.

In millions	***2021***	*2020*	*2019*
U.S.	**$ 8,865.0**	$ 7,828.5	$ 8,002.8
International Operated Markets	**12,219.8**	9,570.7	11,480.1
International Developmental Licensed Markets & Corporate	**2,138.1**	1,808.6	1,881.5
Total revenues	**$ 23,222.9**	$ 19,207.8	$ 21,364.4
U.S.	**$ 4,754.7**	$ 3,789.1	$ 4,068.7
International Operated Markets	**5,130.6**	3,315.1	4,789.0
International Developmental Licensed Markets & Corporate	**470.7**	219.8	212.1
Total operating income	**$ 10,356.0**	$ 7,324.0	$ 9,069.8
U.S.	**$ 21,280.3**	$ 21,010.0	$ 21,376.9
International Operated Markets	**24,186.1**	24,744.0	22,847.5
International Developmental Licensed Markets & Corporate	**8,387.9**	6,872.8	3,286.4
Total assets	**$ 53,854.3**	$ 52,626.8	$ 47,510.8
U.S.	**$ 940.7**	$ 890.4	$ 1,480.5
International Operated Markets	**1,050.6**	731.5	886.6
International Developmental Licensed Markets & Corporate	**48.7**	18.9	26.6
Total capital expenditures	**$ 2,040.0**	$ 1,640.8	$ 2,393.7
U.S.	**$ 840.7**	$ 813.8	$ 730.2
International Operated Markets	**726.4**	678.5	669.3
International Developmental Licensed Markets & Corporate	**301.0**	259.1	218.4
Total depreciation and amortization	**$ 1,868.1**	$ 1,751.4	$ 1,617.9

Total long-lived assets, primarily property and equipment and the Company's Lease right-of-use asset, were (in millions)–Consolidated: 2021–$39,267.0; 2020–$39,696.3; U.S.-based: 2021–$19,600.1; 2020–$19,509.7.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, 2021	2020
Land	$ 6,487.6	$ 6,349.1
Buildings and improvements on owned land	18,666.0	18,218.9
Buildings and improvements on leased land	13,283.3	13,364.5
Equipment, signs and seating	3,032.0	3,119.0
Other	447.7	425.0
Property and equipment, at cost	41,916.6	41,476.5
Accumulated depreciation and amortization	(17,196.0)	(16,518.3)
Net property and equipment	$ 24,720.6	$ 24,958.2

Depreciation and amortization expense for property and equipment was (in millions): 2021–$1,530.7; 2020–$1,469.4; 2019–$1,392.2.

Franchise Arrangements

Conventional franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and royalties to the Company based upon a percent of sales with minimum rent payments. Minimum rent payments are based on the Company's underlying investment in owned sites and parallel the Company's underlying leases and escalations on properties that are leased. Under the franchise arrangement, franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. At the end of the 20-year franchise arrangement, the Company maintains control of the underlying real estate and building and can either enter into a new 20-year franchise arrangement with the existing franchisee or a different franchisee, or close the restaurant. Franchisees generally pay related occupancy costs including property taxes, insurance and site maintenance.

Developmental licensees and affiliates operating under license agreements pay a royalty to the Company based upon a percent of sales, and generally pay initial fees.

McDonald's has elected to allocate consideration in the franchise contract among lease and non-lease components in the same manner that it has historically: rental income (lease), royalty income (non-lease) and initial fee income (non-lease). This disaggregation and presentation of revenue is based on the nature, amount, timing and certainty of the revenue and cash flows. The allocation has been determined based on a mix of both observable and estimated standalone selling prices (the price at which an entity would sell a promised good or service separately to a customer).

Revenues from franchised restaurants consisted of:

In millions	2021	2020	2019
Rents	$ 8,381.1	$ 6,844.7	$ 7,500.2
Royalties	4,645.1	3,831.5	4,107.1
Initial fees	59.2	49.9	48.4
Revenues from franchised restaurants	$ 13,085.4	$ 10,726.1	$ 11,655.7

As rent and royalties are based upon a percent of sales, government restrictions as a result of COVID-19 had a negative impact on revenues in 2020. The Company granted the deferrals of cash collection for certain rent and royalties earned from franchisees in substantially all markets primarily in the first half of 2020. In total, the Company deferred collection of approximately $1 billion and has collected substantially all of these deferrals as of December 31, 2021.

Future gross minimum rent payments due to the Company under existing conventional franchise arrangements are:

In millions	*Owned sites*	*Leased sites*	*Total*
2022	$ 1,577.0	$ 1,485.6	$ 3,062.6
2023	1,523.5	1,426.6	2,950.1
2024	1,484.0	1,372.0	2,856.0
2025	1,439.3	1,311.0	2,750.3
2026	1,390.9	1,255.5	2,646.4
Thereafter	10,441.4	9,076.4	19,517.8
Total minimum payments	$17,856.1	$15,927.1	$33,783.2

At December 31, 2021, net property and equipment under franchise arrangements totaled $19.9 billion (including land of $5.8 billion) after deducting accumulated depreciation and amortization of $12.7 billion.

Leasing Arrangements

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Company determines whether an arrangement is a lease at inception. Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options. Renewal options are typically solely at the Company's discretion. Escalation terms vary by market with examples including fixed-rent escalations, escalations based on an inflation index and fair-value market adjustments. The timing of these escalations generally range from annually to every five years.

The following table provides detail of rent expense:

In millions	***2021***	*2020*	*2019*
Restaurants	**$1,486.3**	$1,399.5	$1,530.4
Other	**74.0**	79.8	76.4
Total rent expense	**$1,560.3**	$1,479.3	$1,606.8

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2021–$69.2; 2020–$53.7; 2019–$74.4. Franchised restaurants: 2021–$160.0; 2020–$136.5; 2019–$200.7. These variable rent payments are based on a percent of sales and, as sales decreased in 2020 as a result of COVID-19, the related rent expense also decreased.

The Lease right-of-use asset and Lease liability reflect the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Lease right-of-use asset and Lease liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation.

The Company's lease portfolio includes both operating and finance leases, however as of December 31, 2021, the vast majority of the portfolio was classified as operating leases.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. The weighted average discount rate used for leases was 3.7% as of December 31, 2021 and 3.8% as of December 31, 2020.

As of December 31, 2021, maturities of lease liabilities for the Company's lease portfolio were as follows:

In millions	*Total **
2022	$ 1,205.7
2023	1,173.5
2024	1,138.5
2025	1,098.9
2026	1,043.7
Thereafter	13,784.7
Total lease payments	19,445.0
Less: imputed interest	(5,718.6)
Present value of lease liability	$ 13,726.4

* Total lease payments include option periods that are reasonably assured of being exercised.

The decrease in the present value of the lease liability since December 31, 2020 is approximately $0.3 billion. The lease liability will continue to be impacted by new leases, lease modifications, lease terminations, reevaluation of lease terms, and foreign currency.

As of December 31, 2021 and 2020, the Weighted Average Lease Term remaining that is included in the maturities of lease liabilities was 20 years.

Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in a particular matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Other Operating (Income) Expense, Net

In millions	***2021***	*2020*	*2019*
Gains on sales of restaurant businesses	**$ (96.6)**	$ (23.3)	$ (127.5)
Equity in earnings of unconsolidated affiliates	**(176.7)**	(117.4)	(153.8)
Asset dispositions and other (income) expense, net	**75.4**	290.7	87.2
Impairment and other charges (gains), net	**(285.4)**	(267.5)	74.3
Total	**$ (483.3)**	$ (117.5)	$ (119.8)

- ***Gains on sales of restaurant businesses***

The Company’s purchases and sales of businesses with its franchisees are aimed at maintaining an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of the Company's business.

- ***Equity in earnings of unconsolidated affiliates***

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates but does not control. The Company records equity in (earnings) losses from these entities representing McDonald’s share of results for markets in both the International Operated Markets and International Developmental Licensed Markets segments. For foreign affiliated markets — primarily China and Japan— results are reported after interest expense and income taxes.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings, reserves for bad debts, asset write-offs due to restaurant reinvestment, strategic sale of properties, and other miscellaneous income and expenses.

- ***Impairment and other charges (gains), net***

Impairment and other charges (gains), net includes losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value, as well as charges associated with strategic initiatives, such as refranchising and restructuring activities. The realized gains/losses from the divestiture of ownership percentages of subsidiaries are reflected in this category, including the gains on sale of McDonald's Japan stock in 2020 and 2021, which reduced the Company's ownership in McDonald's Japan from 49% to 35%.

Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	***2021***	*2020*	*2019*
U.S.	**$2,413.9**	$1,390.4	$2,159.1
Outside the U.S.	**6,714.0**	4,750.3	5,859.0
Income before provision for income taxes *	**$9,127.9**	$6,140.7	$8,018.1

* Income before provision for income taxes increased in 2021 due to stronger operating performance and recovery from the impact of COVID-19.

The provision for income taxes, classified by the timing and location of payment, was as follows:

In millions	***2021***	*2020*	*2019*
U.S. federal	**$ 887.6**	$ 554.1	$ 521.8
U.S. state	**228.1**	119.1	194.7
Outside the U.S.	**895.3**	730.6	1,126.5
Current tax provision	**2,011.0**	1,403.8	1,843.0
U.S. federal	**(177.4)**	870.3	38.5
U.S. state	**(24.1)**	73.3	20.0
Outside the U.S.	**(226.8)**	(937.2)	91.2
Deferred tax provision	**(428.3)**	6.4	149.7
Provision for income taxes	**$ 1,582.7**	$ 1,410.2	$ 1,992.7

Net deferred tax (assets) liabilities consisted of:

In millions	*December 31,* ***2021***	*2020*
Lease right-of-use asset	**$3,462.7**	$3,427.3
Property and equipment	**1,648.6**	1,600.4
Intangible assets	**696.0**	1,046.2
Other	**490.8**	322.4
Total deferred tax liabilities	**6,298.1**	6,396.3
Lease liability	**(3,516.9)**	(3,462.0)
Intangible assets	**(2,524.6)**	(2,095.9)
Property and equipment	**(647.1)**	(593.8)
Deferred foreign tax credits	**(311.5)**	(289.3)
Employee benefit plans	**(153.6)**	(190.8)
Deferred revenue	**(121.4)**	(154.8)
Operating loss carryforwards	**(96.1)**	(86.8)
Other	**(284.4)**	(449.0)
Total deferred tax assets before valuation allowance	**(7,655.6)**	(7,322.4)
Valuation allowance	**1,076.1**	816.0
Net deferred tax (assets) liabilities	**$(281.4)**	$ (110.1)
Balance sheet presentation:		
Deferred income taxes	**$2,075.6**	$2,025.6
Other assets-miscellaneous	**(2,357.0)**	(2,135.7)
Net deferred tax (assets) liabilities	**$(281.4)**	$ (110.1)

At December 31, 2021, the Company had net operating loss carryforwards of $464.1 million, of which $263.9 million has an indefinite carryforward. The remainder will expire at various dates from 2022 to 2040.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2021	2020	2019
Statutory U.S. federal income tax rate	**21.0 %**	21.0 %	21.0 %
State income taxes, net of related federal income tax benefit	**1.8**	1.8	1.8
Foreign income taxed at different rates	**0.9**	0.4	1.6
Tax impact of intercompany transactions	**0.1**	2.1	—
Global intangible low-tax income ("GILTI")	**0.3**	1.2	1.3
Foreign-derived intangible income ("FDII")	**(2.6)**	(3.4)	(1.3)
U.S./Foreign tax law changes	**(3.9)**	(1.8)	—
Foreign tax credit redetermination regulations	—	—	(1.0)
Other, net	**(0.3)**	1.7	1.5
Effective income tax rates	**17.3 %**	23.0 %	24.9 %

In 2021, U.S./Foreign tax law changes included a $364 million income tax benefit related to the remeasurement of deferred taxes as a result of a change in the U.K. statutory income tax rate.

As of December 31, 2021 and 2020, the Company's gross unrecognized tax benefits totaled $1,504.9 million and $1,479.2 million, respectively. After considering the deferred tax accounting impact, it is expected that about $990 million of the total as of December 31, 2021 would favorably affect the effective tax rate if resolved in the Company's favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

In millions	**2021**	2020
Balance at January 1	**$ 1,479.2**	$ 1,439.1
Decreases for positions taken in prior years	**(31.9)**	(71.4)
Increases for positions taken in prior years	**26.1**	38.5
Increases for positions related to the current year	**60.7**	89.6
Settlements with taxing authorities	**(16.8)**	(3.9)
Lapsing of statutes of limitations	**(12.4)**	(12.7)
Balance at December 31[(1)]	**$ 1,504.9**	$ 1,479.2

(1) *Of this amount, $1,157.5 million and $1,137.8 million are included in Long-term income taxes for 2021 and 2020, respectively, and $332.0 million and $325.0 million are included in Prepaid expenses and other current assets for 2021 and 2020, respectively, on the Consolidated Balance Sheet. The remainder is included in Deferred income taxes on the Consolidated Balance Sheet.*

In 2015, the U.S. Internal Revenue Service (the "IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and, during 2020 and 2021, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2021, the Company does not yet have a signed agreement with the IRS related to the settlement of these issues.

In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process.

The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. While the Company cannot estimate the impact to the effective tax rate, it is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $1,030 million within the next 12 months. This would be due to the possible settlement of the IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In conjunction with the tax audits in certain foreign jurisdictions, regulatory actions could lead to related non-tax fines in addition to any potential audit settlement amounts. The outcome of such matters, none of which are estimable as of December 31, 2021, is inherently unpredictable and subject to significant uncertainties. It is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on the unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate.

The Company operates within multiple tax jurisdictions and is subject to audit in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

The Company had $183.6 million and $177.4 million accrued for interest and penalties related to tax matters at December 31, 2021 and 2020, respectively. The Company recognized interest and penalties related to tax matters of $24.4 million in 2021, $32.4 million in 2020, and $39.9 million in 2019, which are included in the provision for income taxes.

As of December 31, 2021, the Company has accumulated undistributed earnings generated by its foreign subsidiaries, which were predominantly taxed in the U.S. as a result of the transition tax provisions enacted under the Tax Cuts and Jobs Act of 2017. Management does not assert that these previously-taxed unremitted earnings are indefinitely reinvested in operations outside the U.S. Accordingly, the Company has provided deferred taxes for the tax effects incremental to the transition tax. The Company has not provided for deferred taxes on outside basis differences in its investments in its foreign subsidiaries that are unrelated to these accumulated undistributed earnings, as these outside basis differences are indefinitely reinvested. A determination of the unrecognized deferred taxes related to these other components of the outside basis differences is not practicable.

Employee Benefit Plans

The Company's 401(k) Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows eligible participants to make pre-tax contributions that are matched each pay period (with an annual true-up) through cash contributions.

All current account balances, future contributions and related earnings can be invested in nine investment alternatives (including a target date fund series), as well as McDonald's stock in accordance with each participant's investment elections. Future participant contributions are limited to 20% investment in McDonald's stock and participants may not transfer their existing account balance into McDonald's stock if the transfer would cause the value of their interest in the fund to exceed 20% of their total 401(k) Plan account balance. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain unfunded nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive an annual Company-match allocation that cannot be made under the 401(k) Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401(k) Plan, net of expenses. Total liabilities were $456.8 million and $431.2 million at December 31, 2021 and 2020, respectively, and were primarily included in Other long-term liabilities on the Consolidated Balance Sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2021, derivatives with a fair value of $200.3 million indexed to the Company's stock and a total return swap with a notional amount of $218.8 million indexed to certain market indices were included at their fair value in Miscellaneous other assets and Prepaid expenses and other current assets, respectively, on the Consolidated Balance Sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company's stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401(k) Plan and nonqualified benefits and related hedging activities, were (in millions): 2021–$39.5; 2020–$37.0; 2019–$30.4. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2021–$41.8; 2020–$36.6; 2019–$35.3.

The total combined liabilities for international retirement plans were $41.7 million and $45.5 million at December 31, 2021 and 2020, respectively. Other post-retirement benefits and post-employment benefits were immaterial to the Consolidated Income Statement.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2021, the Company had two line of credit agreements available, with a combined commitment amount of $4.5 billion. The $1.0 billion line of credit agreement was unused and expired on February 24, 2022. The $3.5 billion line of credit remains unused, expiring in December 2024, and incurs fees of 0.08% per annum on the total commitment. Fees and interest rates on the $3.5 billion line of credit are primarily based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 2.4% at December 31, 2021 (based on $263.1 million of foreign currency bank line borrowings) and 1.9% at December 31, 2020 (based on $265.7 million of foreign currency bank line borrowings).

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The Company has no current plans to retire a significant amount of its debt prior to maturity, but continues to look for ways to optimize its debt portfolio.

The following table summarizes the Company's debt obligations (interest rates and debt amounts reflected in the table include the effects of interest rate swaps used to hedge debt).

		Interest rates[(1)] December 31		*Amounts outstanding December 31*	
In millions of U.S. Dollars	*Maturity dates*	***2021***	*2020*	***2021***	*2020*
Fixed		**3.9 %**	3.9 %	**$21,833.7**	$22,734.5
Floating		**1.6**	0.9	**1,150.0**	1,150.0
Total U.S. Dollar	2022-2050			**22,983.7**	23,884.5
Fixed		**1.4**	1.5	**8,682.3**	9,453.9
Floating		**2.1**	2.1	**341.1**	366.5
Total Euro	2022-2033			**9,023.4**	9,820.4
Fixed		**3.4**	3.4	**797.9**	845.1
Floating		**1.2**	1.2	**217.9**	230.8
Total Australian Dollar	2024-2029			**1,015.8**	1,075.9
Total British Pounds Sterling - Fixed	2032-2054	**4.2**	4.2	**1,145.0**	1,156.4
Total Canadian Dollar - Fixed	2025	**3.1**	3.1	**790.6**	784.9
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**108.6**	121.1
Fixed		**0.2**	0.2	**438.2**	451.9
Floating		**2.4**	1.9	**257.1**	265.7
Total other currencies[(2)]	2022-2024			**695.3**	717.6
Debt obligations before fair value adjustments and deferred debt costs[(3)]				**35,762.4**	37,560.8
Fair value adjustments[(4)]				**4.8**	35.8
Deferred debt costs				**(144.5)**	(156.2)
Total debt obligations				**$35,622.7**	$37,440.4

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Consists of Swiss Francs and Korean Won.

(3) Aggregate maturities for 2021 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2022–$0.0; 2023–$2,535.7; 2024–$5,400.5; 2025–$3,136.4; 2026–$2,460.0; Thereafter–$22,229.8. These amounts include a reclassification of short-term obligations totaling $2.5 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2024.

(4) The carrying value of underlying items in fair value hedges, in this case debt obligations, are adjusted for fair value changes to the extent they are attributable to the risk designated as being hedged. The related hedging instruments are also recorded at fair value on the Consolidated Balance Sheet.

Share-based Compensation

The Company maintains a share-based compensation plan, which authorizes the granting of various equity-based incentives including stock options and RSUs to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plan was 36.6 million at December 31, 2021, including 23.3 million available for future grants.

Share-based compensation expense and the effect on diluted earnings per common share were as follows:

In millions, except per share data	***2021***	*2020*	*2019*
Share-based compensation expense	**$ 139.2**	$ 92.4	$ 109.6
After tax	**$ 120.4**	$ 78.3	$ 94.2
Earnings per common share-diluted	**$ 0.16**	$ 0.10	$ 0.12

As of December 31, 2021, there was $144.9 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.0 years.

STOCK OPTIONS

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date.

The following table presents the weighted-average assumptions used in the option pricing model for the 2021, 2020 and 2019 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2021	*2020*	*2019*
Expected dividend yield	**2.4 %**	2.3 %	2.7 %
Expected stock price volatility	**21.8 %**	19.1 %	18.9 %
Risk-free interest rate	**0.7 %**	1.4 %	2.5 %
Expected life of options *(in years)*	**5.7**	5.7	5.8
Fair value per option granted	**$ 30.91**	$ 29.40	$ 25.60

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2021, 2020 and 2019, the total intrinsic value of stock options exercised was $302.0 million, $290.4 million and $356.1 million, respectively. Cash received from stock options exercised during 2021 was $285.7 million and the tax benefit realized from stock options exercised totaled $60.2 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2021, 2020 and 2019, and changes during the years then ended, is presented in the following table:

Options	2021 Shares in millions	2021 Weighted-average exercise price	2021 Weighted-average remaining contractual life in years	2021 Aggregate intrinsic value in millions	2020 Shares in millions	2020 Weighted-average exercise price	2019 Shares in millions	2019 Weighted-average exercise price
Outstanding at beginning of year	**13.4**	**$139.44**			14.6	$124.21	16.6	$ 113.06
Granted	**2.1**	**215.73**			1.8	214.18	2.0	175.17
Exercised	**(2.4)**	**115.29**			(2.8)	104.58	(3.6)	97.70
Forfeited/expired	**(1.1)**	**160.50**			(0.2)	184.69	(0.4)	154.65
Outstanding at end of year	**12.0**	**$156.13**	**5.8**	**$1,343.7**	13.4	$139.44	14.6	$124.21
Exercisable at end of year	**7.8**	**$130.70**	**4.5**	**$1,078.2**	8.8		9.2	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of the Company's common stock or cash, at the Company's discretion. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2021, 2020 and 2019 is presented in the following table:

	2021		2020		2019	
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.3**	**$176.81**	1.4	$150.95	1.5	$132.56
Granted	**0.6**	**206.92**	0.6	201.92	0.6	171.48
Vested	**(0.4)**	**153.55**	(0.6)	127.99	(0.6)	116.42
Forfeited	**(0.2)**	**168.38**	(0.1)	172.45	(0.1)	153.58
Nonvested at end of year	**1.3**	**$197.10**	1.3	$176.81	1.4	$150.95

The total fair value of RSUs vested during 2021, 2020 and 2019 was $80.0 million, $119.4 million and $111.0 million, respectively. The tax benefit realized from RSUs vested during 2021 was $14.3 million.

SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with the SEC. There were no subsequent events that required recognition or disclosure.

Management’s Assessment of Internal Control Over Financial Reporting

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

I. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

II. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

III. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company’s internal control over financial reporting as of December 31, 2021. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control – Integrated Framework (2013 Framework).

Based on management’s assessment using those criteria, as of December 31, 2021, management believes that the Company’s internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2021, 2020 and 2019 and the Company’s internal control over financial reporting as of December 31, 2021. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD’S CORPORATION

February 24, 2022

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald’s Corporation (the Company) as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

	Valuation of Unrecognized Tax Benefits and Related Re
Description of the Matter	As described in the income taxes footnote to the consolid unrecognized tax benefits, which includes transfer pric December 31, 2021. The Company, like other multi-nat federal, state and foreign tax authorities, and tax assess returns have been filed. Accordingly, tax liabilities are reco tax position does not meet the more likely than not thresh meet the more likely than not threshold, a tax liabilit management's assessment of how the tax position will ulti be subject to regulatory actions related to these tax mat regulatory actions when a loss is probable and the amount Auditing the measurement of unrecognized tax benefits ar related to transfer pricing used in intercompany tran measurement is based on judgmental interpretations of because the pricing of the intercompany transactions is ba of outcomes (e.g., the price that would be charged in an arr
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, a controls over the Company's process to assess the tec unrecognized tax benefits and related regulatory liabilities review of the unrecognized tax benefit calculations, whic transactions used to determine the ranges of outc management's transfer pricing studies, and the assessmen With the assistance of our income tax professionals, we among others, evaluating the technical merits of the measurement of unrecognized tax benefits and liabilities r transfer pricing. For example, we assessed the inputs utiliz the transfer pricing studies executed by management, and methods and industry benchmarks. We also reviewed t relevant tax and regulatory authorities and any advice o advisors. In addition, we used our knowledge of historical other market information to evaluate the technical merits of

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1964.

Chicago, Illinois
February 24, 2022

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of McDonald's Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald's Corporation's internal control over financial reporting as of December 31, 2021, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald's Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald's Corporation as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2021, and the related notes and our report dated February 24, 2022 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois
February 24, 2022

Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company’s management, including the Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of December 31, 2021. Based on that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of such date to provide reasonable assurances that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company is in the process of implementing a comprehensive, multi-year finance and technology transformation initiative to migrate its general ledger, financial close and consolidation processes onto new financial systems. The Company is performing the implementation in the ordinary course of business to increase efficiency and to modernize the tools and technology used in its key financial processes. This is not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. As the phased implementation of the systems continues, the Company may have changes to its processes and procedures that are expected to enhance the Company's internal control over financial reporting. As such changes occur, the Company will continue to monitor and modify, as needed, the design and operating effectiveness of key control activities to align with the new business processes and capabilities of the new financial systems.

Except for these changes, the Company’s management, including the CEO and CFO, confirm there has been no change in the Company's internal control over financial reporting during the fiscal quarter ended December 31, 2021 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT’S REPORT

Management’s Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in the consolidated financial statements.

Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table summarizes information about the Company’s equity compensation plans as of December 31, 2021. All outstanding awards relate to the Company’s common stock. Shares issued under all of the following plans may be from the Company’s treasury, newly issued or both.

Equity compensation plan information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	13,317,975 *(1)*	$160.17	23,256,766
Equity compensation plans not approved by security holders	—	—	—
Total	13,317,975	$160.17	23,256,766

(1) Includes 111,543 stock options granted under the McDonald’s Corporation 2001 Omnibus Stock Ownership Plan and 11,892,151 stock options and 1,314,281 restricted stock units granted under the McDonald's Corporation Amended and Restated 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2021.

Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements are filed as part of this Form 10-K and begin on page 38 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the required information is included in the consolidated financial statements and accompanying notes filed as part of this Form 10-K.

b. Exhibits

The exhibits below are filed as part of this Form 10-K.

McDonald's Corporation Exhibit Index

Exhibit Number	Description
(3)	Articles of incorporation; bylaws

(a) Restated Certificate of Incorporation, effective as of May 23, 2019, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2019.

(b) By-Laws, as amended and restated with effect as of December 6, 2019, incorporated herein by reference from Exhibit 3 of Form 8-K (File No. 001-05231), filed December 10, 2019.

(4) Instruments defining the rights of security holders, including indentures*

(a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.

(b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.

(c) Description of Securities, incorporated herein by reference from Exhibit 4(c) of Form 10-K (File No. 001-05231), filed February 26, 2020.

(10) Material contracts

(a) McDonald's Corporation Directors' Deferred Compensation Plan, amended and restated effective as of December 31, 2021, filed herewith.**

(b) McDonald's Corporation Board of Directors Deferred Compensation Plan, effective as of January 1, 2022, filed herewith.**

(c) McDonald's Deferred Compensation Plan, effective as of January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**

(i) First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, incorporated herein by reference from Exhibit 10(b)(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2018.**

(d) McDonald's Amended and Restated Deferred Compensation Plan, effective as of May 26, 2020, incorporated herein by reference from Exhibit 10(c) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(i) First Amendment to the McDonald's Amended and Restated Deferred Compensation Plan, effective as of December 1, 2021, filed herewith.**

(e) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**

(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**

(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, as amended, effective as of January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**

(f) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective as of July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective as of February 11, 2009, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**

(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective as of February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**

(g) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective as of June 1,

(h) McDonald's Corporation Amended and Restated 2012 Omnibus Stock Ownership Plan, effective as of May 21, 2020, incorporated herein by reference from Exhibit 10(g) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(i) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**

(j) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(k) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(l) Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**

(m) Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(n) Separation Agreement and General Release between Douglas Goare and the Company, dated January 7, 2019, incorporated herein by reference from Exhibit 10(r) of Form 10-K (File No. 001-05231), for the year ended December 31, 2018.**

(o) McDonald's Corporation Target Incentive Plan, effective as of January 1, 2013, amended and restated effective as of February 13, 2019, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(p) McDonald's Corporation Officer Severance Plan, amended and restated effective as of January 1, 2019, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(q) Form of 2019 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(r) Form of 2019 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(s) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(s) Separation Agreement and General Release between Stephen Easterbrook and the Company, dated October 31, 2019, incorporated herein by reference from Exhibit 10.1 of Form 8-K (File No. 001-05231), filed November 4, 2019.

(t) Separation Agreement and General Release between Silvia Lagnado and the Company, dated August 14, 2019, incorporated herein by reference from Exhibit 10(t) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(u) Separation Agreement and General Release between Silvia Lagnado and the Company, dated October 31, 2019, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(v) Separation Agreement and General Release between Jerome N. Krulewitch and the Company, dated October 13, 2020, incorporated herein by reference from Exhibit 10(v) of Form 10-K (File No. 001-05231), for the year ended December 31, 2020.**

(w) Form of Executive Time-Based Restricted Stock Unit Award Agreement in connection with the Amended and Restated 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(v) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2021.**

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Registered Public Accounting Firm.

(24) Power of Attorney.

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer.

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer.

(32.1) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
(104)	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the SEC, are not included herein as the securities authorized thereunder, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the SEC upon request has been filed with the SEC.

** Denotes compensatory plan.

Form 10-K Cross-Reference Index

(a) - Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2021.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

By /s/ Kevin M. Ozan

Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer

February 24, 2022

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated below on the 24th day of February, 2022:

By /s/ Lloyd H. Dean
Lloyd H. Dean
Director

By /s/ Robert A. Eckert
Robert A. Eckert
Director

By /s/ Catherine M. Engelbert
Catherine M. Engelbert
Director

By /s/ Margaret H. Georgiadis
Margaret H. Georgiadis
Director

By /s/ Enrique Hernandez, Jr.
Enrique Hernandez, Jr.
Chairman of the Board and Director

By /s/ Catherine Hoovel
Catherine Hoovel
Corporate Senior Vice President – Corporate Controller
(Principal Accounting Officer)

By /s/ Christopher J. Kempczinski
Christopher J. Kempczinski
President, Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ Richard H. Lenny
Richard H. Lenny
Director

By /s/ John J. Mulligan
John J. Mulligan
Director

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Sheila A. Penrose
Sheila A. Penrose
Director

By /s/ John W. Rogers, Jr.
John W. Rogers, Jr.
Director

By /s/ Paul S. Walsh
Paul S. Walsh
Director

By /s/ Miles D. White
Miles D. White
Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2020
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

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McDONALD'S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-2361282**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 North Carpenter Street, Chicago,Illinois	**60607**
(Address of principal executive offices)	(Zip code)

Registrant's telephone number, including area code: (630) 623-3000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)
Common Stock, $0.01 par value	MCD

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2020 was $137,233,144,378.

The number of shares outstanding of the registrant's common stock as of January 31, 2021 was 745,572,145.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2021 definitive proxy statement, which will be filed no later than 120 days after December 31, 2020.

McDONALD'S CORPORATION
TABLE OF CONTENTS

ORGANIZATION OF OUR ANNUAL REPORT ON FORM 10-K

The order and presentation of content in our Annual Report on Form 10-K ("Form 10-K") differs from the traditional U.S. Securities and Exchange Commission ("SEC") Form 10-K format. We believe that our format improves readability and better presents how we organize and manage our business. See "Form 10-K Cross-Reference Index" for a cross-reference index to the traditional SEC Form 10-K format.

FORWARD-LOOKING STATEMENTS

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. 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 words, such as "could," "should," "continue," "estimate," "forecast," "intend," "look," “may,” “will,” “expect,” “believe,” “anticipate,” “plan,” "remain" and "confident" or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry, including those under "2020 Financial Performance", "Strategic Direction", "Outlook", or "Risk Factors" are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update such forward-looking statements. Our business results are subject to a variety of risks, including those considerations or risks that are reflected in the "Risk Factors" section, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations (or underlying assumptions) may change or not be realized and our performance may be adversely affected. Therefore, you should not rely unduly on any forward-looking statements.

ABOUT McDONALD'S

McDonald’s Corporation, the registrant, together with its subsidiaries, is referred to herein as the "Company." The Company, its franchisees and suppliers, are referred to herein as the "System."

BUSINESS SUMMARY

General

For the year ended December 31, 2020, there were no material changes to the Company's corporate structure or in its method of conducting business. The Company’s reporting segments are aligned with its strategic priorities and reflect how management reviews and evaluates operating performance. Significant reportable segments include the United States ("U.S.") and International Operated Markets ("IOM"). In addition, throughout this report we present the International Developmental Licensed Markets & Corporate segment ("IDL"), which includes markets in over 80 countries, as well as Corporate activities. Effective January 1, 2019, McDonald's changed its global operating structure. Refer to the Segment and Geographic Information section included on page 50 of this Form 10-K for additional information.

Description of business

- ***General***

The Company franchises and operates McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages in 119 countries. Of the 39,198 restaurants at year-end 2020, 36,521 were franchised, which is 93% of McDonald's restaurants.

McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. The business relationship between McDonald’s and its independent franchisees is supported by adhering to standards and policies and is of fundamental importance to overall performance and to protecting the McDonald’s brand.

The Company is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally relevant customer experiences and driving profitability. Franchising enables an individual to be their own employer and maintain control over all employment related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald’s global brand, operating system and financial resources.

Directly operating McDonald’s restaurants contributes significantly to our ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in our Company-owned and operated restaurants, and in collaboration with franchisees, we are able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald’s restaurants.

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms. The Company’s Other revenues are comprised of technology fees paid by franchisees, revenues from brand licensing arrangements, and third party revenues for the Dynamic Yield business.

Conventional Franchise

Under a conventional franchise arrangement, the Company generally owns or secures a long-term lease on the land and building for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are also responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company may co-invest with franchisees to fund improvements to their restaurants or their operating systems. These investments, developed in collaboration with franchisees, are designed to cater to consumer preferences, improve local business performance, and increase the value of our brand through the development of modernized, more attractive and higher revenue generating restaurants.

The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to facilitate consistency and high quality at all McDonald’s restaurants. Conventional franchisees contribute to the Company’s revenue, primarily through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. The Company's heavily franchised business model is designed to generate stable and predictable revenue, which is largely a function of franchisee sales, and resulting cash flow streams. As most revenues are based on a percent of sales, the Company expects that consumer sentiment and government regulations as a result of COVID-19 may continue to have a negative impact on revenue in the near term.

Developmental License or Affiliate

Under a developmental license or affiliate arrangement, licensees are responsible for operating and managing the business, providing capital (including the real estate interest) and developing and opening new restaurants. The Company generally does not invest any capital under a developmental license or affiliate arrangement, and it receives a royalty based on a percent of sales, and generally receives initial fees upon the opening of a new restaurant or grant of a new license.

While developmental license and affiliate arrangements are largely the same, affiliate arrangements are used in a limited number of foreign markets (primarily China and Japan) within the International Developmental Licensed Markets segment and a limited number of individual restaurants within the International Operated Markets segment, where the Company also has an equity investment and records its share of net results in Equity in earnings of unconsolidated affiliates.

As both royalty revenues and the Company's share of net results in equity investments are based on sales results, the Company may continue to experience a negative impact to revenues and Equity in earnings of unconsolidated affiliates as a result of COVID-19 in the near term.

- ***Supply chain, food safety, and quality***

The Company and its franchisees purchase food, packaging, equipment, and other goods from numerous independent suppliers. The Company has established and enforces high food safety and quality standards. The Company has quality centers around the world designed to promote consistency of its high standards. The quality management systems and processes not only involve ongoing product reviews, but also on-site and virtual supplier visits. A Food Safety Advisory Council, composed of the Company’s internal food safety experts, as well as suppliers and outside academia, provides strategic global leadership for all aspects of food safety. We have ongoing programs to educate employees about food safety practices, and our suppliers and restaurant operators participate in food safety trainings where we share best practices on food safety and quality. In addition, the Company works closely with suppliers to encourage innovation and drive continuous improvement. Leveraging scale, supply chain infrastructure and risk management strategies, the Company also collaborates with suppliers toward a goal of achieving competitive, predictable food and paper costs over the long term.

Independently owned and operated distribution centers, approved by the Company, distribute products and supplies to McDonald’s restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of food for customers.

As a result of the COVID-19 pandemic, the Company implemented a framework called Safety+ for enhanced hygiene and safety standards to help re-enforce customer and crew safety. Additionally, the Company worked closely with suppliers on contingency planning for continuous supply so that we were able to continue to operate safe restaurants, and we had no breaks in supply for food, packaging, toys or equipment globally throughout 2020 due to COVID-19.

- ***Products***

McDonald’s restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes.

McDonald’s menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, McDonald's Fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, bakery items, soft drinks, coffee, McCafé beverages and other beverages.

McDonald’s restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches, oatmeal, breakfast burritos and hotcakes.

In addition to these menu items, the restaurants sell a variety of other products during limited-time promotions.

Taste, quality, choice, value and nutrition are important to our customers, and we are continuously evolving our menu to meet our customers' needs, including testing new products on an ongoing basis.

- ***Marketing***

McDonald’s global brand is well known. Marketing, promotional and public relations activities are designed with customers in mind and are focused on promoting the McDonald’s brand and differentiating the Company from its competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience and the customer experience.

- ***Intellectual property***

The Company owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the "McDonald's" trademark and the Golden Arches Logo to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying durations.

- ### *Competition*

McDonald’s restaurants compete with international, national, regional and local retailers of traditional, fast casual and other food service competitors. The Company competes in the quick-service restaurant industry on the basis of price, convenience, service, experience, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company’s competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company measures itself using the informal eating out ("IEO") segment information, which is inclusive of the Company’s primary competition of quick-service restaurants. The IEO segment includes the following restaurant categories defined by Euromonitor International: limited-service restaurants (which combines quick-service eating establishments and 100% home delivery/takeaway providers), street stalls or kiosks, cafés, specialist coffee shops, self-service cafeterias and juice/smoothie bars. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than providers with limited table service.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.2 trillion in annual sales in 2019, the most recent year for which data is available. McDonald’s Systemwide 2019 restaurant business accounted for 0.4% of those outlets and 8.4% of the sales.

Management also on occasion benchmarks McDonald’s against the entire restaurant industry, including the IEO segment defined above and all full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 20 million outlets and generated $2.6 trillion in annual sales in 2019. McDonald’s Systemwide restaurant business accounted for 0.2% of those outlets and 3.8% of the sales.

- ### *Environmental matters*

The Company prioritizes progress across a range of environmental matters, and endeavors to improve our long-term sustainability and resiliency, which benefits McDonald’s and the communities it serves. The Company monitors environment-related governmental initiatives and consumer preferences, and while we cannot predict the precise nature of how these may evolve, the Company plans to respond in a timely and appropriate manner. Although any impact would likely vary by geographic region and/or market, we believe that the adoption of new regulations may increase costs or operational complexity for the Company.

To guide our management of environmental matters, the Company has developed goals and performance indicators that are updated periodically on the Company’s website, informed by relevant frameworks including the Sustainability Accounting Standards Board. These include goals and initiatives to reduce System greenhouse gas emissions, eliminate deforestation from our global supply chain, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste, which the Company recognizes are increasingly important to customers. The Company also discloses the impacts of environmental risks and opportunities in its annual CDP Climate Change, CDP Forests and CDP Water reports. In recent years, we have made significant progress on our global commitments where we can make a difference at scale and drive industry-wide change.

Actual or perceived effects of changes in climate, weather patterns, water resources, forests or other natural resources, or packaging waste could have a direct or indirect impact on the operations of the System in ways which we cannot fully predict at this time. The Company will continue to assess potential risks and opportunities to analyze possible material impacts to the System as we believe taking action on environmental matters will drive business value in the long-term by ensuring we are managing operational costs in our energy supply, improving the security of supply of our raw materials and reducing our exposure to increasing environmental risks, regulation and taxes.

- ### *Government regulations*

The Company has global operations and is therefore subject to the laws of the United States and multiple foreign jurisdictions in which the Company operates and the rules and regulations of various governing bodies, which may differ among jurisdictions. Throughout 2020, there were various instances around the world of COVID-19 related government restrictions on operating hours, dine-in capacity and in some cases, mandated full restaurant closures. These government restrictions negatively impacted the Company's revenues. The Company does not believe that compliance with other current government regulations will have a material effect on the Company's capital expenditures, earnings or competitive position.

- ***Human capital management***

Purpose, Mission, & Values

Through our size and scale, the Company is embracing and prioritizing our role and commitment to the communities in which we operate through our:

- *Purpose* to feed and foster communities,
- *Mission* to create delicious feel-good moments for everyone, and
- *Core values* that define who we are and how we run our business.

At McDonald's, we are guided by our five core values:

1. *Serve* – We put our customers and people first;
2. *Inclusion* – We open our doors to everyone;
3. *Integrity* – We do the right thing;
4. *Community* – We are good neighbors; and
5. *Family* – We get better together.

The Company believes that it is our people, all around the world, who set us apart and bring these values to life on a daily basis.

In addition, the Company's people strategies aim to create an environment grounded in diversity, equity and inclusion; continually evaluate and evolve compensation and benefits programs, while offering quality training and learning opportunities; and uphold a high standard of health and safety for employees and customers alike.

We encourage you to read more information within McDonald's "Purpose & Impact" section on the Company's website that includes additional information regarding our human capital management and other initiatives and is updated periodically as our strategies evolve. Our website is not deemed incorporated by reference into this Annual Report on Form 10-K, but does provide background for reference.

Our People

The Company's employees include those in our corporate and other offices as well as Company-owned and operated restaurant employees, totaling approximately 200,000 worldwide as of year-end 2020, of which over 75% are based outside of the U.S. In addition to Company employees, the over two million individuals who work in our independent Franchisee restaurants globally are critical to the Company's success, enabling us to drive long-term value creation and further our purpose and mission. People are at the cornerstone of our business and an essential part of the McDonald's System – our owner-operators, our suppliers, and the Company.

Diversity, Equity and Inclusion ("DEI")

At McDonald's, our aspiration is that no matter where you are in the world, when you interact with McDonald's, inclusivity and equity are evident. We believe that a diverse workforce is critical to McDonald's success, and we are committed to making this a continued priority for our Company. Our Board of Directors reflects this commitment as half of the 12 members are women or racially diverse, including the Chairman of the Board. With this leadership, the Company recently launched a new global DEI strategy designed to drive accountability across the System to better represent the diverse communities in which McDonald's operates, to accelerate cultures of inclusion and belonging, and to further dismantle barriers to economic opportunity.

The Company's enhanced DEI strategy builds on existing initiatives from across the business, including:

- the ongoing initiative to improve the representation of women at all levels of the Company,
- long-standing work designed to encourage franchisees and suppliers to create greater diversity in their own operations,
- upholding human rights and cultivating a respectful workplace that is ethical, truthful and dependable, and
- our commitment to equitable pay among Company employees with comparable job responsibilities, experience, performance and contributions.

While McDonald's is proud of our more than 65-year history as an employer, we expect our global DEI strategy to represent a step change in how we view equitable opportunity across our System and we are committed to accelerating the representation, inclusion and opportunity for historically underrepresented groups throughout our business. Aligned with our purpose, mission and values, this strategy will shape our future as a leading employer.

Beginning in 2021, the Company is incorporating quantitative human capital management related metrics to annual incentive compensation for its executives. In addition to the Company's financial performance, executives will be measured on their ability to champion our core values, improve diversity representation within leadership roles for both women and historically underrepresented groups, and create a strong culture of inclusion within the Company.

Workplace Health and Safety

McDonald’s has always focused on protecting the health and safety of our people and our customers. Throughout 2020, in response to the global COVID-19 pandemic, we have made informed decisions with the guidance from health ministries in most of the countries in which we operate, as well as the World Health Organization. As safety, hygiene and customers’ trust and confidence in our restaurants is critical in this environment, the Company has established even greater discipline in restaurant operations to meet those needs. McDonald’s engaged Mayo Clinic, a global leader in serious and complex healthcare, to provide ongoing counsel and expertise on emerging science in infection prevention and control, and to identify best practices to mitigate the spread of COVID-19. Over the last year, elevated standards informed by this engagement have been executed in the majority of McDonald’s over 39,000 restaurants, including more than 50 process changes in U.S. restaurants. Encompassed in a framework called Safety+, this effort builds on the Company’s history of safety-first leadership in McDonald’s restaurants, and supplements the work of global markets to help keep customers and crew safe.

Respectful Workplace Environment

Fostering safe, inclusive, and respectful workplaces, wherever we do business, has been integral to the Company for its more than 65 year history. We understand the importance of providing a positive experience in our offices and in the restaurants where everyone is valued. In 2018, we introduced McDonald's Human Rights Policy, which outlines our commitment to respect our people and their rights. Our commitment to respect human rights is also set out in our Standards of Business Conduct which apply to Company employees, and in our Supplier Code of Conduct, which contains our human rights requirements for our global suppliers. Company staff are trained regularly on the Standards and are required to annually certify their understanding of and commitment to upholding them.

Additionally, we recognize that developing respectful workplaces, where everyone’s rights are recognized, is an ongoing process that requires continuous effort and improvement. That’s why we worked with third party experts to strengthen our U.S. discrimination, harassment and anti-retaliation policy and provide enhanced interactive training for corporate staff and U.S. Company-owned restaurant employees. We have shared this policy and training with our franchisees and encourage them to utilize these tools and resources. We also recognize how important it is to provide channels for employees to report human rights concerns. Company employees can raise concerns in many ways, including through an anonymous global channel, the Business Integrity Line – staffed by a live operator from an independent company – 24 hours a day, 365 days a year. This is complemented by additional reporting channels in many markets. We expect our employees and franchisees to uphold human rights and cultivate respectful workplaces which builds trust, protects the integrity of our brand and fuels our success.

Compensation, Benefits, and Talent Development

The compensation and benefits provided to U.S. and internationally-based Company employees, including both corporate staff and Company-owned restaurant employees, is established based upon competitive considerations in the relevant labor market. The amount and type of compensation varies by level of employee as well as their location, and may include some combination of the following (in addition to base pay): cash bonuses, stock-based awards, retirement savings programs, and health and welfare benefits. In addition, Company employees may receive paid time off, family care resources, tuition assistance and flexible work schedules. In 2020, the Company placed a significant emphasis on wellbeing globally, deploying a multitude of new benefits focused on the physical, financial and mental health of our employees. For example, in the U.S., these enhancements included the introduction of new Emotional Wellbeing and Employee Assistance programs.

McDonald’s has a long-standing commitment to provide training, education benefits and career paths, which empower people and the communities we serve. McDonald’s is committed to providing opportunities for people to enhance their skills and fulfill their potential through talent development programs, apprenticeship opportunities, language and technical skill training, and by supporting continuing education. We believe this helps to facilitate talent attraction, career development and retention. Further, McDonald’s Hamburger University has eight campuses around the world to provide training for Company employees as well as franchisees and eligible employees from their organizations. These are just a few examples of how education plays an important role in our business and our communities.

Communities

The Company embraces our role and commitment to the communities we serve. Throughout the past year, McDonald’s rallied together with our suppliers, franchisees and partners, not just to keep restaurants open and running safely, but also to support our communities and first responders as seen through our donations of food and masks. Through the Company’s Youth Opportunity program, we aim to reduce barriers to employment for many at risk young people, through pre-employment job readiness training, employment opportunities, and workplace development programs. We are also proud of the network of over 260 local Chapters of Ronald McDonald House Charities (“RMHC”) spanning over 60 countries and regions that creates, finds and supports programs that directly improve the health and well-being of children and their families. In support of RMHC, in 2020, the Company announced our five-year commitment to RMHC totaling $100 million. The Company will continue to look for ways to utilize our size and scale to create an even bigger impact in the communities we serve in the future.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S VIEW OF THE BUSINESS

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance and financial measures which are considered to be non-GAAP, including comparable sales and comparable guest count growth, Systemwide sales growth, after-tax return on invested capital from continuing operations, free cash flow and free cash flow conversion rate, as described below. Management believes these measures are important in understanding the financial performance of the Company.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as income tax provision adjustments related to the Tax Cuts and Jobs Act of 2017 (“Tax Act”), and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.
- Comparable sales are compared to the same period in the prior year and represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters (including restaurants temporarily closed due to COVID-19 in 2020). Comparable sales exclude the impact of currency translation and the sales of any market considered hyper-inflationary (generally identified as those markets whose cumulative inflation rate over a three-year period exceeds 100%), which management believes more accurately reflects the underlying business trends. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix.
- Comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed.
- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance, because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The Company's revenues consist solely of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates. Changes in Systemwide sales are primarily driven by comparable sales and net restaurant unit expansion.
- The Company’s after-tax return on invested capital ("ROIC") from continuing operations is a metric that management believes measures our capital-allocation effectiveness over time. Other companies may calculate ROIC differently, limiting the usefulness of the measure for comparisons with other companies. Refer to the reconciliation in Exhibit 12 for further information on the Company's calculation of ROIC.
- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company’s ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value. Refer to the reconciliations in Exhibit 12 for further information on the Company's calculations of free cash flow and free cash flow conversion rate.

2020 FINANCIAL PERFORMANCE

In 2020, global comparable sales decreased 7.7% primarily as a result of COVID-19. Comparable guest counts were negative across all segments for the year.

- Comparable sales in the U.S. increased 0.4% benefiting from strong average check growth and positive comparable sales primarily at the dinner daypart. The Company's strategic marketing investments and promotional activity, along with growth in delivery, had a positive impact on comparable sales in the second half of 2020.
- Comparable sales in the International Operated segment decreased 15.0% reflecting negative comparable sales in most markets as a result of COVID-19. The comparable sales decline was primarily driven by France, the U.K., Germany, Italy and Spain, partly offset by positive results in Australia.
- Comparable sales in the International Developmental Licensed segment decreased 10.5% reflecting negative comparable sales primarily in Latin America and Asia, partly offset by strong comparable sales in Japan.

In addition to the comparable sales results, the Company had the following financial results in 2020:

- Consolidated revenues decreased 10% (10% in constant currencies).
- Systemwide sales decreased 7% (7% in constant currencies).
- Consolidated operating income decreased 19% (20% in constant currencies) and included $268 million of net strategic gains. Excluding these gains, operating income decreased 23% (23% in constant currencies), when also excluding $74 million of net strategic charges from the prior year. Refer to the Operating Income section on page 17 for additional details.

- Operating margin, defined as operating income as a percent of total revenues, decreased from 42.5% in 2019 to 38.1% in 2020. Excluding the items referenced in the previous bullet point, operating margin decreased from 42.8% in 2019 to 36.7% in 2020.
- Diluted earnings per share of $6.31 decreased 20% (20% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 12 for additional details.
- Cash provided by operations was $6.27 billion.
- Capital expenditures of $1.64 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.
- Free cash flow was $4.62 billion, a 19% decrease from the prior year.
- Across the System, nearly 1,000 restaurants (including those in our developmental licensee and affiliated markets) were opened.
- The Company increased its quarterly cash dividend per share by 3% to $1.29 for the fourth quarter, equivalent to an annual dividend of $5.16 per share.

STRATEGIC DIRECTION

In 2020, the Company announced a new growth strategy, Accelerating the Arches (the "Strategy"). The Strategy encompasses all aspects of McDonald's business as the leading global omni-channel restaurant brand, and includes a refreshed purpose, updated values, and new growth pillars that build on the Company's competitive advantages.

Purpose, Mission, & Values

The Company is embracing and prioritizing its role and commitments to the communities in which it operates through our:

- *Purpose* to feed and foster communities,
- *Mission* to create delicious feel-good moments for everyone, and
- *Core values* that define who we are and how we run our business.

Growth Pillars

The new growth pillars, rooted in the Company's identity, MCD, build on historic strengths and articulate areas of further opportunity. Under the Strategy, the Company will:

- **Maximize our Marketing** by investing in new, culturally relevant approaches to effectively communicate the story of our brand, food and purpose. This will focus on enhanced digital capabilities that provide a more personal connection with customers. The Company is also committed to a marketing strategy that highlights value at every tier of the menu, as affordability remains a cornerstone of the McDonald's brand.
- **Commit to the Core** by tapping into customer demand for the familiar and focusing on serving delicious burgers, chicken and coffee. The Company will prioritize chicken and beef offerings as we expect they represent the largest growth opportunities. The Company expects there is significant opportunity to expand its chicken offerings by leveraging line extensions of customer favorites. In addition, the Company plans to introduce a new Crispy Chicken Sandwich in the U.S. at the end of February. The Company will also implement a series of operational and formulation changes designed to improve upon the great taste of our burgers. We also see a significant opportunity with coffee, and markets will leverage the McCafe brand, experience, value and quality to drive long-term growth.
- **Double Down on the 3D's: Digital, Delivery and Drive Thru** by leveraging competitive strengths and building a powerful digital experience growth engine that provides a fast, easy experience for our customers. To unlock further growth, the Company will accelerate technology innovation so that when customers interact with McDonald's, they can enjoy a fast, easy experience that meets their needs.
    - Digital: The Company's new digital experience growth engine, "MyMcDonald's" will transform its digital offerings across drive thru, takeaway, delivery, curbside pick-up and dine-in. Through the digital tools across this platform, customers will receive tailored offers, be able to participate in a new loyalty program and order and receive McDonald's food through the channel of their choice. The Company expects to have elements of "MyMcDonald's" across its top six markets by the end of 2021, featuring loyalty programs in several of those markets, including a U.S. loyalty launch later in 2021. Across these top six markets, digital sales exceeded $10 billion or nearly 20% of Systemwide sales in 2020.
    - Delivery: Over the past three years, the Company has expanded the number of McDonald's restaurants offering delivery to nearly 30,000 restaurants, and delivery sales have grown significantly. The Company will build on this progress and enhance the delivery experience for customers by adding the ability to order on the McDonald's app, which is already available in several markets around the world, and optimizing operations with a focus on speed and accuracy.

◦ Drive Thru: The Company has drive thru locations in over 25,000 restaurants globally, including nearly 95% of the over 13,000 locations in the U.S. During the COVID-19 pandemic, this channel has heightened importance and we expect that it will become even more critical to meet customers' demand for flexibility and choice. The Company will build on its drive thru advantage as the vast majority of new restaurant openings in the U.S. and International Operated Markets will include a drive thru. The Company will test new concepts and technology to enhance the customer experience, including automated order taking; a new drive thru express pick-up lane for customers with a digital order; and a restaurant concept that offers drive thru, delivery and takeaway only to provide a faster, more convenient experience.

The Company's Strategy is underpinned by a relentless focus on running great restaurants, including improving speed of service to address customer needs. The Company believes this Strategy will build on our inherent strengths by harnessing our competitive advantages and investing in innovations that will enhance the customer experience and deliver long-term growth.

OUTLOOK

2021 Outlook

Based on current conditions, the following information is provided to assist in forecasting the Company's future results for 2021.

- The Company expects 2021 Systemwide sales growth, in constant currencies, in the low double digits, and expects net restaurant unit expansion to contribute about 1% to 2021 Systemwide sales growth.
- The Company expects operating margin percent to be in the low-to-mid 40% range.
- The Company expects full year 2021 selling, general and administrative expenses of approximately 2.3% of Systemwide sales, reflecting a decrease of about 2% to 4% in constant currencies.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2021 to decrease about 1% to 3% due primarily to lower average debt balances as the Company expects to pay down current debt levels to return to pre-COVID-19 leverage ratios.
- The Company expects the effective income tax rate for the full year 2021 to be in the 21% to 23% range. Some volatility may result in a quarterly tax rate outside of the annual range.
- The Company expects 2021 capital expenditures to be approximately $2.3 billion, about half of which will be directed towards new unit expansion across the U.S. and International Operated Markets.

  In 2021, about $1.1 billion will be dedicated to our U.S. business, about $500 million of which will be allocated to approximately 1,200 restaurant modernization projects. Globally, the Company expects to open over 1,300 restaurants. We will open nearly 500 restaurants in the U.S. and International Operated Markets segments, and our developmental licensee and affiliates will contribute capital towards over 800 restaurant openings in their respective markets. Additionally, the U.S. expects to close roughly 325 restaurants in 2021; a majority of which are lower sales volume McDonald's in Walmart locations. The Company expects about 650 net restaurant additions in 2021.
- The Company expects to achieve a free cash flow conversion rate greater than 90%.

2022 Outlook

The Company has provided a 2022 outlook that is detailed in its Form 10-Q for the quarter ended September 30, 2020.

CONSOLIDATED OPERATING RESULTS

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes included on pages 38 through 59 of this Form 10-K. This section generally discusses 2020 and 2019 items and the year-to-year comparisons between the year ended December 31, 2020 compared to the year ended December 31, 2019. Discussions of 2018 items and the year-to-year comparisons between the year ended December 31, 2019 compared to the year ended December 31, 2018 are not included in this Form 10-K and can be found in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, filed with the SEC on February 26, 2020.

Operating results

	2020		2019		2018
Dollars and shares in millions, except per share data	***Amount***	***Increase/ (decrease)***	*Amount*	*Increase/ (decrease)*	*Amount*
Revenues					
Sales by Company-operated restaurants	**$ 8,139**	**(14 %)**	$ 9,421	(6 %)	$10,013
Revenues from franchised restaurants	**10,726**	**(8)**	11,656	6	11,012
Other revenues	**343**	**19**	288	24	233
Total revenues	**19,208**	**(10)**	21,365	1	21,258
Operating costs and expenses					
Company-operated restaurant expenses	**6,981**	**(10)**	7,761	(6)	8,266
Franchised restaurants-occupancy expenses	**2,208**	**0**	2,201	12	1,973
Other restaurant expenses	**267**	**19**	224	20	186
Selling, general & administrative expenses					
Depreciation and amortization	**301**	**14**	262	22	215
Other	**2,245**	**14**	1,967	(1)	1,985
Other operating (income) expense, net	**(118)**	**2**	(120)	37	(190)
Total operating costs and expenses	**11,884**	**(3)**	12,295	(1)	12,435
Operating income	**7,324**	**(19)**	9,070	3	8,823
Interest expense	**1,218**	**9**	1,122	14	981
Nonoperating (income) expense, net	**(35)**	**50**	(70)	n/m	26
Income before provision for income taxes	**6,141**	**(23)**	8,018	3	7,816
Provision for income taxes	**1,410**	**(29)**	1,993	5	1,892
Net income	**$ 4,731**	**(21 %)**	$ 6,025	2 %	$ 5,924
Earnings per common share—diluted	**$ 6.31**	**(20 %)**	$ 7.88	5 %	$ 7.54
Weighted-average common shares outstanding— diluted	**750.1**	**(2 %)**	764.9	(3 %)	785.6

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows.

Impact of foreign currency translation on reported results

In millions, except per share data	Reported amount 2020	2019	2018	Currency translation benefit/(cost) 2020	2019	2018
Revenues	**$19,208**	$21,365	$21,258	**$ (75)**	$ (610)	$ 124
Company-operated margins	**1,158**	1,660	1,747	**(1)**	(51)	4
Franchised margins	**8,519**	9,455	9,039	**32**	(256)	57
Selling, general & administrative expenses	**2,546**	2,229	2,200	**(2)**	29	(13)
Operating income	**7,324**	9,070	8,823	**35**	(280)	56
Net income	**4,731**	6,025	5,924	**26**	(165)	33
Earnings per common share—diluted	**6.31**	7.88	7.54	**0.04**	(0.21)	0.04

In 2020, results primarily reflected the strengthening of the Euro and British Pound, partly offset by the weakening of the Brazilian Real. In 2019, results reflected the weakening of the Euro and most other major currencies.

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2020, net income decreased 21% (22% in constant currencies) to $4.7 billion and diluted earnings per common share decreased 20% (20% in constant currencies) to $6.31. Foreign currency translation had a positive impact of $0.04 on diluted earnings per share.

Results in 2020 reflected sales declines in the International Operated Markets and International Developmental Licensed Markets segments as a result of COVID-19.

Results in 2020 also included the following:

- Higher Selling, General and Administrative Expenses reflecting:
    - $100 million for the Company's five year commitment to Ronald McDonald House Charities;
    - one-time investments in renewed brand communications as part of the “Serving Here” campaign launch that was announced with the new growth strategy, *Accelerating the Arches*; and
    - partly offset by lower incentive-based compensation expense.
- Over $200 million of incremental franchisee support for the year for marketing to accelerate recovery and drive growth across the U.S. and International Operated Markets, a majority of which was recorded in Selling, General and Administrative Expenses.
    - About $100 million was recorded in the U.S. and the remaining support was recorded in the International Operated Markets segment.
- Higher restaurant closing costs of $68 million in both the International Operated Markets and in the U.S. The U.S. costs were primarily related to planned closings of McDonald’s in Walmart locations.
- Lower gains on sales of restaurant businesses.
- An increase of reserves for bad debts of $58 million related to rent and royalty deferrals.

Outlined below is additional information for the full year 2020, 2019, and 2018:

Diluted Earnings Per Common Share Reconciliation

	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
	2020	2019	2018	**2020**	2019	**2020**	2019
GAAP earnings per share-diluted	**$ 6.31**	$ 7.88	$ 7.54	**(20 %)**	5 %	**(20 %)**	7 %
Strategic (gains) charges	**(0.26)**	0.07	0.26				
Income tax (benefit) cost, net	**—**	(0.11)	0.10				
Non-GAAP earnings per share-diluted	**$ 6.05**	$ 7.84	$ 7.90	**(23)%**	(1)%	**(23)%**	2 %

2020 results included:

- net pre-tax strategic gains of $268 million, or $0.26 per share, primarily related to the sale of McDonald's Japan stock, which reduced the Company's ownership by about 6%.

2019 results included:

- $84 million, or $0.11 per share, of income tax benefit due to regulations issued in the fourth quarter 2019 related to the Tax Act.
- net pre-tax strategic charges of $74 million, or $0.07 per share, primarily related to impairment associated with the purchase of our joint venture partner's interest in the India Delhi market, partly offset by gains on the sales of property at the former Corporate headquarters.

2018 results included:

- net tax cost of $75 million, or $0.10 per share, associated with the final 2018 adjustments to the provisional amounts recorded in December 2017 under the Tax Act.
- $234 million, or $0.26 per share, of pre-tax strategic impairment and restructuring charges.

Excluding the above 2020 and 2019 items, 2020 net income decreased 24% (25% in constant currencies), and diluted earnings per share decreased 23% (23% in constant currencies).

Diluted earnings per share for 2020 and 2019 benefited from a decrease in diluted weighted average shares outstanding. In early March 2020, the Company suspended its share repurchase program. The Company repurchased 4.3 million shares of its stock for $874 million in 2020 and 25.0 million shares of its stock for $5 billion in 2019.

RESTAURANT UPDATE

The Company has continued to follow the guidance of expert health authorities to ensure the appropriate precautionary steps are taken to protect the health and safety of our people and our customers.

As a result of COVID-19, throughout 2020, there have been numerous instances of government restrictions on restaurant operating hours, limited dine-in capacity in most countries and, in some cases, mandated dining room closures particularly in the International Operated Markets. These restrictions, which have carried into 2021, are impacting most of the Company's key markets outside of the U.S., particularly those with fewer drive thru restaurant locations. The Company expects some restrictions in various markets so long as the COVID-19 pandemic continues.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. The Company’s Other revenues are comprised of fees paid by franchisees to recover a portion of costs incurred by the Company for various technology platforms, revenues from brand licensing arrangements to market and sell consumer packaged goods using the McDonald’s brand, and third party revenues for the Dynamic Yield business.

Franchised restaurants represented 93% of McDonald's restaurants worldwide at December 31, 2020. The Company's heavily franchised business model is designed to generate stable and predictable revenue, which is largely a function of franchisee sales and resulting cash flow streams. As most revenues are based on a percent of sales, the Company expects that government regulations as a result of COVID-19 resurgences will continue to have a negative impact on revenue in the near term.

Revenues

			Amount	Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	***2020***	*2019*	*2018*	***2020***	*2019*	***2020***	*2019*
Company-operated sales:							
U.S.	**$ 2,395**	$ 2,490	$ 2,665	**(4 %)**	(7 %)	**(4 %)**	(7 %)
International Operated Markets	**5,114**	6,334	6,668	**(19)**	(5)	**(18)**	(1)
International Developmental Licensed Markets & Corporate	**630**	597	680	**6**	(12)	**7**	(7)
Total	**$ 8,139**	$ 9,421	$10,013	**(14 %)**	(6 %)	**(12 %)**	(3 %)
Franchised revenues:							
U.S.	**$ 5,261**	$ 5,353	$ 5,001	**(2 %)**	7 %	**(2 %)**	7 %
International Operated Markets	**4,348**	5,064	4,839	**(14)**	5	**(15)**	10
International Developmental Licensed Markets & Corporate	**1,117**	1,239	1,172	**(10)**	6	**(8)**	10
Total	**$10,726**	$11,656	$11,012	**(8 %)**	6 %	**(8 %)**	9 %
Total Company-operated sales and Franchised revenues:							
U.S.	**$ 7,656**	$ 7,843	$ 7,666	**(2 %)**	2 %	**(2 %)**	2 %
International Operated Markets	**9,462**	11,398	11,507	**(17)**	(1)	**(17)**	4
International Developmental Licensed Markets & Corporate	**1,747**	1,836	1,852	**(5)**	(1)	**(3)**	4
Total	**$18,865**	$21,077	$21,025	**(10 %)**	0 %	**(10 %)**	3 %
Total Other revenues	**$ 343**	$ 288	$ 233	**19 %**	24 %	**19 %**	25 %
Total Revenues	**$19,208**	$21,365	$21,258	**(10 %)**	1 %	**(10 %)**	3 %

In 2020, total Company-operated sales and franchised revenues decreased 10% (10% in constant currencies), primarily reflecting sales declines in the International Operated Markets segment as a result of COVID-19. Results also reflected positive sales performance in the U.S., which was more than offset by support provided for marketing, through incentives to franchisees, to accelerate recovery and drive growth, including the free Thank You Meals served across the country to first responders and health care workers.

Revenue declines were more significant in the International Operated Markets segment, driven by the temporary restaurant closures and limited operations. While performance was mixed, the ability of each market to drive sales and revenue growth is also impacted by the number of drive thru restaurant locations. The revenue declines were driven by the U.K., France, Germany, Italy and Spain.

TOTAL REVENUES BY SEGMENT

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U.S.

International Operated Markets

International Developmental Licensed Markets & Corporate

The following tables present comparable sales and Systemwide sales increases/(decreases):

Comparable sales increases/(decreases)

	2020	*2019*	*2018*
U.S.	**0.4 %**	5.0 %	2.5 %
International Operated Markets	**(15.0)**	6.1	6.1
International Developmental Licensed Markets & Corporate	**(10.5)**	7.2	5.6
Total	**(7.7 %)**	5.9 %	4.5 %

*Systemwide sales increases/(decreases)**

			Increase/(decrease) excluding currency translation	
	2020	*2019*	**2020**	*2019*
U.S.	**0 %**	5 %	**0 %**	5 %
International Operated Markets	**(13)**	3	**(14)**	8
International Developmental Licensed Markets & Corporate	**(10)**	5	**(8)**	10
Total	**(7 %)**	4 %	**(7 %)**	7 %

* Unlike comparable sales, the Company has not excluded hyper-inflationary market results from Systemwide sales as these sales are the basis on which the Company calculates and records revenues.

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):

Franchised sales

	Amount			*Increase/ (decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	**2020**	*2019*	*2018*	**2020**	*2019*	**2020**	*2019*
U.S.	**$38,123**	$37,923	$35,860	**1 %**	6 %	**1 %**	6 %
International Operated Markets	**25,446**	28,853	27,557	**(12)**	5	**(13)**	10
International Developmental Licensed Markets & Corporate	**21,609**	23,981	22,717	**(10)**	6	**(8)**	10
Total	**$85,178**	$90,757	$86,134	**(6 %)**	5 %	**(6 %)**	8 %
Ownership type							
Conventional franchised	**$63,297**	$66,415	$63,251	**(5)**	5 %	**(5)%**	7 %
Developmental licensed	**11,781**	14,392	13,519	**(18)**	6	**(14)**	13
Foreign affiliated	**10,100**	9,950	9,364	**2**	6	**0**	7
Total	**$85,178**	$90,757	$86,134	**(6 %)**	5 %	**(6 %)**	8 %

RESTAURANT MARGINS

Restaurant margins

Dollars in millions	*Amount* **2020**	*2019*	*2018*	*Increase/ (decrease)* **2020**	*2019*	*Increase/ (decrease) excluding currency translation* **2020**	*2019*
Franchised:							
U.S.	**$ 4,097**	$ 4,227	$ 4,070	**(3 %)**	4 %	**(3 %)**	4 %
International Operated Markets	**3,329**	4,018	3,829	**(17)**	5	**(19)**	10
International Developmental Licensed Markets & Corporate	**1,093**	1,210	1,140	**(10)**	6	**(8)**	11
Total	**$ 8,519**	$ 9,455	$ 9,039	**(10 %)**	5 %	**(10 %)**	7 %
Company-operated:							
U.S.	**$ 405**	$ 388	$ 397	**4 %**	(2 %)	**4 %**	(2 %)
International Operated Markets	**748**	1,266	1,327	**(41)**	(5)	**(41)**	(1)
International Developmental Licensed Markets & Corporate	**n/m**	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$ 1,158**	$ 1,660	$ 1,747	**(30 %)**	(5 %)	**(30 %)**	(2 %)
Total restaurant margins:							
U.S.	**$ 4,502**	$ 4,615	$ 4,467	**(2 %)**	3 %	**(2 %)**	3 %
International Operated Markets	**4,077**	5,284	5,156	**(23)**	2	**(24)**	7
International Developmental Licensed Markets & Corporate	**n/m**	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$ 9,677**	$11,115	$10,786	**(13 %)**	3 %	**(13 %)**	6 %

n/m Not meaningful

In 2020, total restaurant margins decreased 13% (13% in constant currencies), which reflected sales declines in the International Operated Markets segment as a result of COVID-19, partly offset by positive sales performance in the U.S.

Franchised margins represented over 85% of restaurant margin dollars.

Franchised margins in the U.S. reflected higher depreciation costs related to investments in Experience of the Future ("EOTF"), as well as support provided for marketing to accelerate recovery and drive growth, including the free Thank You Meals served across the country to first responders and health care workers.

Company-operated margins in the U.S. and International Operated Markets segments reflected incremental COVID-19 expenses incurred for employee related costs, personal protective equipment, and signage and other restaurant costs.

Due to the nature of our operating model, franchised margin expenses (primarily comprised of lease expense and depreciation expense) are mainly fixed, whereas Company-operated restaurant expenses have more variable cost components. Total restaurant margins included $1,452 million of depreciation and amortization expenses in 2020.

RESTAURANT MARGINS BY TYPE (In millions)

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SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Selling, general & administrative expenses

	Amount			Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	***2020***	*2019*	*2018*	***2020***	*2019*	***2020***	*2019*
U.S.	**$ 625**	$ 587	$ 591	**7 %**	(1 %)	**7 %**	(1 %)
International Operated Markets	**700**	629	641	**11**	(2)	**11**	3
International Developmental Licensed Markets & Corporate[(1)]	**1,221**	1,013	968	**20**	5	**20**	5
Total Selling, General & Administrative Expenses	**$2,546**	$2,229	$2,200	**14 %**	1 %	**14 %**	3 %
Less: Incentive-Based Compensation[(2)]	**158**	289	284	**(45 %)**	2 %	**(45 %)**	3 %
Total Excluding Incentive-Based Compensation	**$2,388**	$1,940	$1,916	**23 %**	1 %	**23 %**	3 %

(1) *Included in International Developmental Licensed Markets & Corporate are home office support costs in areas such as facilities, finance, human resources, investments in strategic technology initiatives, legal, marketing, restaurant operations, supply chain and training.*

(2) *Includes all cash incentives and share-based compensation expense.*

In 2020, consolidated selling, general and administrative expenses increased 14% (14% in constant currencies). The results reflected about $175 million of incremental marketing contributions by the Company to the System's advertising cooperative arrangements across the U.S. and International Operated Markets to accelerate recovery and drive growth; the Company's five year commitment totaling $100 million to RMHC; one-time investments in renewed brand communications as part of the “Serving Here” campaign launch that was announced with the new growth strategy, *Accelerating the Arches*; and higher investments in strategic technology initiatives. These results were partly offset by lower incentive-based compensation expense and travel costs.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.7% in 2020, 2.2% in 2019 and 2.3% in 2018. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	***2020***	*2019*	*2018*
Gains on sales of restaurant businesses	**$ (23)**	$ (127)	$ (304)
Equity in earnings of unconsolidated affiliates	**(117)**	(154)	(152)
Asset dispositions and other (income) expense, net	**290**	87	34
Impairment and other charges (gains), net	**(268)**	74	232
Total	**$ (118)**	$ (120)	$ (190)

- ***Gains on sales of restaurant businesses***

In 2020, gains on sales of restaurant businesses decreased primarily due to fewer restaurant sales primarily in the U.K. and the U.S.

- ***Equity in earnings of unconsolidated affiliates***

In 2020, equity in earnings of unconsolidated affiliates declined primarily due to sales declines as a result of COVID-19 in both the International Operated Markets and International Developmental Licensed Markets.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other expense, net reflected $68 million of restaurant closing costs in both the International Operated Markets and in the U.S. The U.S. costs were primarily related to planned closings of McDonald's in Walmart locations.

Results also reflected an increase of reserves for bad debts of $58 million, related to rent and royalty deferrals; $31 million of payments to distribution centers for obsolete inventory to support franchisee liquidity; and litigation settlements.

- ***Impairment and other charges (gains), net***

In 2020, impairment and other charges (gains), net reflected $274 million of pre-tax strategic gains related to the sale of McDonald's Japan stock, which reduced the Company's ownership by about 6% for the year. Results also reflected the write-off of impaired software that was no longer being used of $26 million, partly offset by $13 million of income primarily comprised of a reversal of a reserve associated with the Company's sale of its business in the India Delhi market in January 2020.

The results in 2019 reflected $99 million of impairment associated with the purchase of our joint venture partner's interest in the India Delhi market, partly offset by $20 million of gains on the sales of property at the former Corporate headquarters.

The results in 2018 reflected $140 million of impairment charges and $85 million of strategic restructuring charges in the U.S.

OPERATING INCOME

Operating income

Dollars in millions	Amount 2020	2019	2018	Increase/(decrease) 2020	2019	Increase/(decrease) excluding currency translation 2020	2019
U.S.	**$3,789**	$4,069	$4,016	**(7 %)**	1 %	**(7 %)**	1 %
International Operated Markets	**3,315**	4,789	4,643	**(31)**	3	**(32)**	8
International Developmental Licensed Markets & Corporate	**220**	212	164	**4**	29	**12**	59
Total	**$7,324**	$9,070	$8,823	**(19 %)**	3 %	**(20 %)**	6 %
Operating margin	**38.1 %**	42.5 %	41.5 %				
Non-GAAP operating margin	**36.7 %**	42.8 %	42.6 %				

- ***Operating Income:*** Operating income decreased 19% (20% in constant currencies). Results for 2020 included $268 million of net strategic gains primarily related to the sale of McDonald's Japan stock, and results for 2019 included $74 million of net strategic charges. Excluding these current year and prior year items, operating income decreased 23% (23% in constant currencies) for 2020.
  - ***U.S.:*** The operating income decrease reflected positive sales performance, which was more than offset by about $100 million of support for marketing to accelerate recovery and drive growth; EOTF depreciation; a comparison to a prior year gain on the sale of real estate; lower gains on sales of restaurant businesses; and higher restaurant closing costs, primarily related to planned closings of McDonald's in Walmart locations.
  - ***International Operated Markets:*** The operating income decrease reflected sales declines as a result of COVID-19; over $100 million of support for marketing to accelerate recovery and drive growth; incremental COVID-19 Company-operated expenses primarily for employee related costs; lower gains on sales of restaurant businesses primarily in the U.K.; higher restaurant closing costs; lower equity in earnings from unconsolidated affiliates; and $23 million of payments to distribution centers for obsolete inventory.
  - ***International Developmental Licensed Markets & Corporate:*** Excluding the current year and prior year strategic gains and charges described above, the results primarily reflected higher G&A due to the Company's five year commitment totaling $100 million to RMHC as well as one-time investments in renewed brand communications.

*OPERATING INCOME BY SEGMENT**

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U.S.

International Operated Markets

International Developmental Licensed Markets & Corporate*

*The IDL segment excludes Corporate activities, which is a Non-GAAP metric.

- ***Operating margin:*** Operating margin is defined as operating income as a percent of total revenues. The contributions to operating margin differ by segment due to each segment's ownership structure, primarily due to the relative percentage of franchised versus Company-operated restaurants. Additionally, the number of temporary restaurant closures, which varies by segment, as a result of COVID-19, also impacts the contribution of each segment to the consolidated operating margin.

  The decrease in operating margin percent for 2020 was driven by a decline in sales, higher other operating expenses and higher G&A. While the sales-driven franchised margin decline had a dilutive effect on operating margin percent, franchised margin dollars represented over 85% of overall margin dollars and were a key component of operating income.

*OPERATING MARGIN PERCENT ROLL-FORWARD**

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Operating margin Increase Decrease

*The operating margin roll-forward excludes the strategic gains and charges previously described.

INTEREST EXPENSE

Interest expense increased 9% (8% in constant currencies) and 14% (16% in constant currencies) in 2020 and 2019, respectively. Results in 2020 reflected higher average debt balances, partly offset by a decrease in the amount of Euro denominated deposits incurring interest expense as a result of the Company's cash management strategies.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2020***	*2019*	*2018*
Interest income	**$ (18)**	$ (37)	$ (4)
Foreign currency and hedging activity	**(3)**	(48)	5
Other expense	**(14)**	15	25
Total	**$ (35)**	$ (70)	$ 26

Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2020, 2019 and 2018 the reported effective income tax rates were 23.0%, 24.9% and 24.2%, respectively.

Results for 2020 included $50 million of income tax benefits due to new U.S. tax regulations and $48 million of income tax benefits related to the impact of a tax rate change in the U.K.

The effective income tax rate for 2019 reflected $84 million of income tax benefit due to regulations issued in the fourth quarter 2019 related to the Tax Act. Excluding the income tax benefit, the effective income tax rate was 25.9% for the year 2019.

The effective income tax rate for 2018 reflected the final 2018 adjustments to the provisional amounts recorded in 2017 under the Tax Act of $75 million net tax cost. Excluding the impact of the Tax Act and impairment charges, the effective income tax rate was 22.9% for the year 2018.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $6.5 billion in 2020 and $5.3 billion in 2019. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included on page 43 of this Form 10-K.

CASH FLOWS

The Company has a long history of generating significant cash from operations and has substantial credit capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases. As our operations have been impacted due to COVID-19, we have taken actions to preserve financial flexibility, primarily during the peak of the pandemic.

Cash provided by operations totaled $6.3 billion in 2020, a decrease of $1.9 billion or 23%. Free cash flow was $4.6 billion in 2020, a decrease of $1.1 billion or 19%. The Company's free cash flow conversion rate was 98% in 2020 and 95% in 2019. Cash provided by operations decreased in 2020 compared to 2019 primarily due to a reduction in operating earnings due to COVID-19. In 2019, cash provided by operations totaled $8.1 billion, an increase of $1.1 billion or 17% compared with 2018, primarily due to a decrease in accounts receivable and lower income tax payments.

During 2020, the Company deferred collection of rent and royalties earned from franchisees. In total, the Company deferred collection of approximately $1 billion, and has collected over 80% of these total deferrals as of December 31, 2020. The remaining deferrals are expected to be collected in the first half of 2021.

Cash used for investing activities totaled $1.5 billion in 2020, a decrease of $1.5 billion compared with 2019. The decrease was primarily due to lower capital expenditures, fewer strategic acquisitions, and proceeds received from the sale of McDonald's Japan stock in 2020. Cash used for investing activities totaled $3.1 billion in 2019, an increase of $616 million compared with 2018. The increase was primarily due to the Company's strategic acquisitions of a real estate entity, Dynamic Yield and Apprente, partly offset by lower capital expenditures.

Cash used for financing activities totaled $2.2 billion in 2020, a decrease of $2.7 billion compared with 2019. The decrease was primarily due to $4.1 billion of lower treasury stock purchases in 2020 as the Company suspended its share repurchase program in early March 2020. In addition, the Company had $2.2 billion in net debt issuances in 2020, as compared to $3.2 billion in net debt issuances in 2019. The decrease in net debt issuances was primarily due to the timing of short-term commercial paper issuances and repayments. Cash used for financing activities totaled $5.0 billion in 2019, a decrease of $955 million compared with 2018, primarily due to net debt activity.

The Company's cash and equivalents balance was $3.4 billion and $899 million at year end 2020 and 2019, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2020, the Company opened 977 restaurants and closed 643 restaurants. In 2019, the Company opened 1,231 restaurants and closed 391 restaurants. The decrease in openings during the year compared to 2019 was due to COVID-19. The closures in 2020 include approximately 200 closures in the U.S.; over half of which are lower sales volume McDonald's in Walmart locations.

Systemwide restaurants at year end

	2020	*2019*	*2018*
U.S.	**13,682**	13,846	13,914
International Operated Markets	**10,560**	10,465	10,263
International Developmental Licensed Markets & Corporate	**14,956**	14,384	13,678
Total	**39,198**	38,695	37,855

RESTAURANTS BY OWNERSHIP TYPE

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Franchised restaurants Company-operated restaurants

Approximately 93% of the restaurants at year-end 2020 were franchised, including 95% in the U.S., 84% in International Operated Markets and 98% in the International Developmental Licensed Markets.

Capital expenditures decreased $753 million or 31% in 2020 primarily due to lower reinvestment in existing restaurants as a result of COVID-19. Capital expenditures decreased $348 million or 13% in 2019 primarily due to lower reinvestment in existing restaurants, partly offset by an increase in new restaurant openings that required the Company's capital.

CAPITAL EXPENDITURES BY TYPE (In millions)

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** Primarily corporate equipment and other office-related expenditures.*

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald's restaurants in the U.S. averaged approximately $4.4 million in 2020.

As of December 31, 2020 and December 31, 2019, the Company owned approximately 55% of the land and 80% of the buildings for restaurants in its consolidated markets.

SHARE REPURCHASES AND DIVIDENDS

In 2020, the Company returned approximately $4.6 billion to shareholders, primarily through dividends paid.

Shares repurchased and dividends

In millions, except per share data	***2020***	*2019*	*2018*
Number of shares repurchased	**4.3**	25.0	32.2
Shares outstanding at year end	**745**	746	767
Dividends declared per share	**$ 5.04**	$ 4.73	$ 4.19
Treasury stock purchases *(in Shareholders' equity)*	**$ 874**	$ 4,980	$ 5,247
Dividends paid	**3,753**	3,582	3,256
Total returned to shareholders	**$ 4,627**	$ 8,562	$ 8,503

In December 2019, the Company's Board of Directors authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2020, approximately 4.3 million shares were repurchased for $874.1 million under the program. In early March 2020, the Company voluntarily suspended share repurchases from the open market.

The Company has paid dividends on its common stock for 45 consecutive years and has increased the dividend amount every year. The 2020 full year dividend of $5.04 per share reflects the quarterly dividend paid for each of the first three quarters of $1.25 per share, with an increase to $1.29 per share paid in the fourth quarter. This 3% increase in the quarterly dividend equates to a $5.16 per share annual dividend and reflects the Company's confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company's Board of Directors.

FINANCIAL POSITION AND CAPITAL RESOURCES

TOTAL ASSETS AND RETURN

Total assets increased $5.1 billion or 11% in 2020, primarily due to an increase in Cash and equivalents driven by lower capital expenditures and fewer treasury stock purchases compared to the prior year, as well as proceeds received from the sale of McDonald's Japan stock. Net property and equipment increased $0.8 billion in 2020, primarily due to fixed asset additions and the impact of foreign exchange rates, partly offset by depreciation. Net property and equipment and the Lease right-of-use asset, net represented approximately 50% and approximately 25%, respectively, of total assets at year-end. Approximately 86% of total assets were in the U.S. and International Operated Markets at year-end 2020.

The Company's after-tax ROIC from continuing operations is a metric that management believes measures our capital-allocation effectiveness over time and was 14.9%, 19.2% and 20.0% as of December 31, 2020, 2019 and 2018, respectively. The decrease from 2019 to 2020 was primarily due to the decrease in operating performance as a result of COVID-19 and higher average debt balances compared to the prior year. Refer to the reconciliation in Exhibit 12.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2020 totaled $37.4 billion, compared with $34.2 billion at December 31, 2019. The net increase in 2020 was primarily due to net long-term issuances of $3.1 billion, which were used to bolster our cash position in anticipation of the adverse macroeconomic and business conditions associated with COVID-19.

Debt highlights(1)

	2020	2019	2018
Fixed-rate debt as a percent of total debt(2,3)	**95 %**	92 %	91 %
Weighted-average annual interest rate of total debt(3)	**3.2**	3.2	3.2
Foreign currency-denominated debt as a percent of total debt(2)	**36**	38	38
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)(2)	**126**	131	125
Cash provided by operations as a percent of total debt(2)	**17**	24	22

(1) All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year. See reconciliation in Exhibit 12.

(2) Based on debt obligations before the effects of fair value hedging adjustments and deferred debt costs. These effects are excluded as they have no impact on the obligation at maturity. See Debt Financing note to the consolidated financial statements.

(3) Includes the effect of interest rate swaps used to hedge debt.

In connection with the increased funding activity during the first quarter of 2020, both Standard & Poor's (S&P) and Moody's affirmed our ratings, although S&P put McDonald's on negative outlook. S&P and Moody's currently rate the Company's commercial paper A-2 and P-2, respectively; and its long-term debt BBB+ and Baa1, respectively. To access the debt capital markets, the Company relies on credit-rating agencies to assign short-term and long-term credit ratings.

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. In December 2019, the Company's Board of Directors authorized $15 billion of borrowing capacity with no specified expiration date, of which $9.5 billion remains outstanding as of December 31, 2020. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In April 2020, the Company's Board of Directors provided additional authorization to issue commercial paper and draw on lines of credit agreements up to $8 billion in addition to the $15 billion authorized as referenced above. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $4.5 billion available under committed line of credit agreements (see Debt Financing note to the consolidated financial statements). As of December 31, 2020, the Company's subsidiaries also had $274 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating swaps and using derivatives. The Company does not hold or issue derivatives for trading purposes. All swaps are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt was $13.7 billion and $12.9 billion for the years ended December 31, 2020 and 2019, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2020, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

In millions of U.S. Dollars	***2020***	*2019*
British Pounds Sterling	**$1,374**	$ 811
Australian Dollars	**913**	560
Canadian Dollars	**878**	699
Russian Ruble	**533**	577
Polish Zloty	**393**	396

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2020 levels nor a 10% adverse change in foreign currency rates from 2020 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

The Company has significant operations outside the U.S. where we earn approximately 65% of our operating income. A significant portion of these historical earnings have been reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of our international operations.

During the first quarter of 2020, the Company secured $6.5 billion of new financing, including $5.5 billion of debt issuances at various maturities and a new $1.0 billion line of credit that was drawn upon immediately. In the third quarter of 2020, the Company repaid the total $1.0 billion on its line of credit. The $1.0 billion line of credit agreement remains in place and the amount remains available to be borrowed. The Company also has $3.5 billion available under a committed line of credit, which has not been drawn upon, as well as continuing authority to issue commercial paper in the U.S. and global markets. In 2021, the Company intends to reduce current debt levels to return to pre-COVID-19 leverage ratios.

Consistent with prior years, we expect existing domestic cash and equivalents, domestic cash flows from operations, the ability to issue domestic debt, and repatriation of a portion of foreign earnings to continue to be sufficient to fund our domestic operating, investing, and financing activities. We also continue to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund our foreign operating, investing and financing activities.

In the future, should we require more capital to fund activities in the U.S. than is generated by our domestic operations and is available through the issuance of domestic debt, we could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Minimum rent payments under franchise arrangements are based on the Company's underlying investment in owned sites and parallel the Company's underlying lease obligations and escalations on properties that are leased. The Company believes that control over the real estate enables it to achieve restaurant performance levels that are amongst the highest in the industry. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2020.

	Contractual cash outflows		Contractual cash inflows
In millions	*Leases* (1)	*Debt obligations* (2)	*Minimum rent under franchise arrangements*
2021	$ 1,216	$ 2,244	$ 3,073
2022	1,150	2,332	2,954
2023	1,068	2,644	2,835
2024	989	3,301	2,743
2025	899	3,159	2,642
Thereafter	7,358	23,881	20,175
Total	$ 12,680	$ 37,561	$ 34,422

(1) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2020. In addition, future minimum payments exclude option periods that have not yet been exercised.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of $269 million, as they are supported by a long-term line of credit agreement expiring in December 2024. Debt obligations do not include the impact of non-cash fair value hedging adjustments, deferred debt costs and accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2020, total liabilities for the supplemental plans were $431 million.

At December 31, 2020, total liabilities for gross unrecognized tax benefits were $1.5 billion.

On a recurring basis, the Company contracts with vendors and suppliers in the normal course of business. These contracts may
include items related to construction projects, inventory, energy, marketing, technology and other services. Generally, these items are shorter term in nature and have no minimum payment requirements. They are funded from operating cash flows and reflected in other areas of the Form 10-K (e.g., franchised margins, Company-operated margins and selling, general and administrative expenses that are reflected in the Consolidated Statement of Income and capital expenditures that are reflected on the Consolidated Statement of Cash Flows).

The Company has guaranteed certain loans totaling approximately $95 million at December 31, 2020. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of the System. At December 31, 2020, there was no carrying value for obligations under these guarantees in the Consolidated Balance Sheet.

OTHER MATTERS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to confirm that they provide accurate and transparent information relative to the current economic and business environment.

The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. Refer to the Property and Equipment section in the Summary of Significant Accounting Policies footnote on page 44 and the Property and Equipment footnote on page 51 for additional information.

- ***Leasing Arrangements***

The Lease right-of-use asset and Lease liability include an assumption on renewal options that have not yet been exercised by the Company. The Company also uses an incremental borrowing rate in calculating the Lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. Refer to the Leasing section in the Summary of Significant Accounting Policies footnote on page 44 and the Leasing Arrangements footnote on page 52 for additional information.

- ***Long-lived assets impairment review***

Long-lived assets (including goodwill) are reviewed for impairment annually. If qualitative indicators of impairment are present, such as changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends, the Company will use these and other factors in estimating future cash flows when testing for the recoverability of its long-lived assets. Estimates of future cash flows are highly subjective judgements based on the Company's experience and knowledge of its operations. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges. Refer to the Long-lived Assets and Goodwill sections in the Summary of Significant Accounting Policies footnote on page 45 for additional information.

- ***Litigation accruals***

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. Refer to the Contingencies footnote on page 53 for additional information.

- ***Income taxes***

The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter.

Refer to the Income Taxes sections in the Summary of Significant Accounting Policies footnote on page 46 and the Income Taxes footnote on page 53 for additional information.

EFFECTS OF CHANGING PRICES—INFLATION

The Company has demonstrated an ability to manage inflationary cost increases effectively. This ability is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

Other Key Information

SELECTED FINANCIAL DATA

5-Year Summary

In millions, except per share and unit amounts	**2020**	2019	2018	2017	2016
	Years ended December 31,				
Consolidated Statement of Income Data					
Revenues					
Sales by Company-operated restaurants	**$ 8,139**	$ 9,421	$ 10,013	$ 12,719	$ 15,295
Revenues from franchised restaurants	**10,726**	11,656	11,012	10,101	9,327
Other revenues(1)	**343**	288	233	140	151
Total revenues	**19,208**	21,365	21,258	22,960	24,773
Operating income	**7,324**	9,070	8,823	9,553	7,745
Net income	**4,731**	6,025	5,924	5,192	4,687
Consolidated Statement of Cash Flows Data					
Cash provided by operations	**$ 6,265**	$ 8,122	$ 6,967	$ 5,551	$ 6,060
Cash used for (provided by) investing activities	**1,546**	3,071	2,455	(562)	982
Capital expenditures	**1,641**	2,394	2,742	1,854	1,821
Cash used for financing activities	**2,249**	4,995	5,950	5,311	11,262
Treasury stock purchases(2)	**874**	4,980	5,247	4,651	11,142
Common stock dividends	**3,753**	3,582	3,256	3,089	3,058
Financial Position					
Total assets(3)	**$ 52,627**	$ 47,511	$ 32,811	$ 33,804	$ 31,024
Total debt	**37,440**	34,177	31,075	29,536	25,956
Total shareholders' equity (deficit)	**(7,825)**	(8,210)	(6,258)	(3,268)	(2,204)
Shares outstanding	**745**	746	767	794	819
Per Common Share Data					
Earnings-diluted	**$ 6.31**	$ 7.88	$ 7.54	$ 6.37	$ 5.44
Dividends declared	**5.04**	4.73	4.19	3.83	3.61
Market price at year end	**214.58**	197.61	177.57	172.12	121.72
Restaurant Information and Other Data					
Restaurants at year end					
Company-operated restaurants	**2,677**	2,636	2,770	3,133	5,669
Franchised restaurants	**36,521**	36,059	35,085	34,108	31,230
Total Systemwide restaurants	**39,198**	38,695	37,855	37,241	36,899
Franchised sales(4)	**$ 85,178**	$ 90,757	$ 86,134	$ 78,191	$ 69,707

(1) Refer to the Basis of Presentation section included in the Summary of Significant Accounting Policies footnote of this Form 10-K for additional information related to a change in presentation that was effective January 1, 2020, which was applied retrospectively to all periods presented.

(2) Represents treasury stock purchases as reflected in Shareholders' equity. Treasury stock purchases decreased from 2019 to 2020 as the Company suspended its share repurchase program in March 2020.

(3) Total assets increased from 2018 to 2019 primarily due to the Company's Lease right-of-use asset recorded as a result of the adoption of Accounting Standard Codification ("ASC") Topic 842, "Leases" ("ASC 842").

(4) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2020.

STOCK PERFORMANCE GRAPH

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of our revenues and income is generated outside the U.S. In addition, because of our size, McDonald's inclusion in those indices tends to skew the results. Therefore, we believe that such a comparison is not meaningful.

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2020. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2015. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

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Company/ Index	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/201**
McDonald's Corporation	$100	$106	$154	$163
S&P 500 Index	$100	$112	$136	$130
Dow Jones Industrials	$100	$116	$149	$144

Source: S&P Capital IQ

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION AND DIVIDEND POLICY

The Company’s common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S.

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2021 was estimated to be 2,900,000.

Given the Company’s returns on its capital investments and significant cash provided by operations, management believes it is prudent to reinvest in the business to drive profitable growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 45 consecutive years through 2020 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2020*:

Period	*Total Number of Shares Purchased*[(1)]	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*[(1)]	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*[(1)]
October 1-31, 2020	7,104	223.77	7,104	$14,126,457,801
November 1-30, 2020	2,342	216.52	2,342	14,125,950,721
December 1-31, 2020	356	212.08	356	14,125,875,221
Total	9,802	221.61	9,802	

* *Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.*

(1) On December 31, 2019, the Company's Board of Directors approved a share repurchase program, effective January 1, 2020, that authorized the purchase of up to $15 billion of the Company's outstanding common stock. In early March 2020, the Company voluntarily suspended share repurchases from the open market. Therefore, the table above reflects only shares withheld for taxes under the Company's equity compensation program.

RISK FACTORS

GLOBAL PANDEMIC

The COVID-19 pandemic has adversely affected and is expected to continue to adversely affect our financial results, condition and outlook.

Health epidemics or pandemics can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our financial results, condition and outlook. Importantly, the global pandemic resulting from COVID-19 has disrupted global health, economic and market conditions, consumer behavior and McDonald’s global restaurant operations beginning in early 2020. Local and national governmental mandates or recommendations and public perceptions of the risks associated with the COVID-19 pandemic have caused, and we expect will continue to cause, consumer behavior to change and worsening or volatile economic conditions, each of which could continue to adversely affect our business. In addition, our global operations have been disrupted to varying degrees and may continue to be disrupted given the unpredictability of the virus, its resurgences and government responses thereto as well as potentially permanent changes to the industry we operate in. While we cannot predict the duration or scope of the COVID-19 pandemic, the resurgence of infections in one or more markets, or the impact of vaccines across the globe, the COVID-19 pandemic has negatively impacted our business and is expected to continue to impact our financial results, condition and outlook in a way that may be material.

The COVID-19 pandemic may also heighten other risks disclosed in these Risk Factors, such as, but not limited to, those related to consumer behavior, consumer perceptions of our brand, supply chain interruptions, commodity costs and labor availability and cost.

STRATEGY AND BRAND

If we do not successfully evolve and execute against our business strategies, including the new Accelerating the Arches strategy, we may not be able to drive business growth.

To drive Systemwide sales, operating income and free cash flow growth, our business strategies must be effective in maintaining and strengthening customer appeal and capturing additional market share. Whether these strategies are successful depends mainly on our System’s ability to:

- Capitalize on our global scale, iconic brand and local market presence to build upon our historic strengths and competitive advantages, such as our marketing, core menu items and digital, delivery and drive thru;
- Continue to innovate and differentiate the McDonald's experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Accelerate digital innovation for a fast and easy customer experience;
- Continue to run great restaurants by driving efficiencies and expanding capacities while continuing to prioritize health and safety;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;
- Accelerate our existing strategies, including through growth opportunities and potential acquisitions, investments and partnerships; and
- Evolve and adjust our business strategies in response to, among other things, changing consumer behavior, operational restrictions and impacts to our results of operations and liquidity, including as a result of the COVID-19 pandemic.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand, including our corporate purpose, mission and values. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, the manner in which we source commodities and our general business practices. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health, environmental and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the “informal eating out” (“IEO”) segment or perceptions of our brand, generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our culture, our operations, our suppliers, or our franchisees. If we are unsuccessful in addressing adverse commentary or perceptions, whether or not accurate, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require Systemwide coordination and alignment. We are working to manage any risks and costs to us, our franchisees and our supply chain of any effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include any increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include any increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks.

If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices, whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

If we do not anticipate and address evolving consumer preferences and effectively execute our pricing, promotional and marketing plans, our business could suffer.

Our continued success depends on our System's ability to build upon our historic strengths and competitive advantages. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics and trends in food sourcing, food preparation, food offerings and consumer preferences and behaviors in the IEO segment. If we are not able to predict, or quickly and effectively respond to, these changes, or our competitors predict or respond more effectively, our financial results could be adversely impacted.

Our ability to build upon our strengths and advantages also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, marketing plans, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful, or may not be as successful as the efforts of our competitors, and could negatively impact sales, guest counts and market share.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in reaching our customers in the way we intend. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels, including digital marketing, allows us to reach our customers effectively and efficiently, and in ways that are meaningful to them. If the advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Our investments to enhance the customer experience, including through technology, may not generate the expected returns.

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in technology and modernization, digital engagement and delivery, in order to transform the customer experience. As part of these investments, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, mobile ordering and payment systems, and enhancing our drive thru technologies, which may not generate expected returns. We also continue to offer and refine our delivery initiatives, including through growing awareness and trial. Utilizing a third-party delivery service may not have the same level of profitability as a non-delivery transaction, and may introduce additional food quality and customer satisfaction risks. If these customer experience initiatives are not well executed, or if we do not fully realize the intended benefits of these significant investments, our business results may suffer.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops as well as online retailers. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by a contracting IEO segment or by new or continuing actions, product offerings or consolidation of our competitors and third party partners, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, successfully develop and introduce new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations, manage our investments in technology and modernization, and respond effectively to our competitors' actions or offerings or to unforeseen disruptive actions. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald's brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. It may be costly and time consuming to protect our intellectual property, and the steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

OPERATIONS

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory, geopolitical and economic environments within and among the more than 100 countries where McDonald’s restaurants operate, and our ability to achieve our business objectives depends on the System's success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System’s ability to leverage operating successes across markets and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our, our franchisees’ or our suppliers’ operations, and asset seizures. Trade policies, tariffs and other regulations affecting trade between the U.S. and other countries could adversely affect our business and operations. These and other government actions may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental actions.

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges may be exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.’s exit from the European Union, it is possible that there will be increased regulatory complexities and uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue, and may result in increased supply chain costs for items that are imported from other countries. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including as a result of shortages and transportation issues or unexpected increases in demand, and price increases can adversely affect us as well as our suppliers and franchisees, whose performance may have a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers, franchisees or us. If we experience interruptions in our System’s supply chain, or if contingency planning is not effective, our costs could increase and it could limit the availability of products critical to our System’s operations.

Our franchise business model presents a number of risks.

The Company's success as a heavily franchised business relies to a large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. In particular, our franchisees have also been significantly impacted by the COVID-19 pandemic, and the Company granted the deferral of cash collection for certain rent and royalties earned from franchisees in substantially all markets. If franchisee sales trends worsen, or do not improve at a sufficiently rapid rate, our financial results will continue to be negatively affected, which may be material.

Our success also relies on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, value/promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of our franchisees or the Company or by banks’ lending practices. If our franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, our future growth and results of operations could be adversely affected.

Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex. The benefits of our more heavily franchised structure depend on various factors including whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, whether we are able to successfully integrate them into our structure and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to labor, including availability and cost, could impact our business and results of operations.

Our success depends in part on our System's ability to proactively recruit, motivate and retain qualified individuals to work in McDonald's restaurants and to maintain appropriately-staffed restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants, as well as costs to promote awareness of the opportunities of working at McDonald's restaurants, could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers, including those giving rise to claims of harassment or discrimination (or perceptions thereof) or workplace safety could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Effective succession planning is important to our continued success.

Effective succession planning is important to our long-term success. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions could disrupt our business and adversely affect our results.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future, including in the supply chain, restaurants or delivery. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

If we do not effectively manage our real estate portfolio, our operating results may be negatively impacted.

We have significant real estate operations, primarily in connection with our restaurant business. We generally own or secure a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites. We seek to identify and develop restaurant locations that offer convenience to customers and long-term sales and profit potential. As we generally secure long-term real estate interests for our restaurants, we have limited flexibility to quickly alter our real estate portfolio. The competitive business landscape continues to evolve in light of changing business trends, consumer preferences, trade area demographics, consumer use of digital and delivery, local competitive positions and other economic factors. If our restaurants are not located in desirable locations, or if we do not evolve in response to these factors, it could adversely affect Systemwide sales and profitability.

Our real estate values and the costs associated with our real estate operations are also impacted by a variety of other factors, including governmental regulations; insurance; zoning, tax and eminent domain laws; interest rate levels and the cost of financing. A significant change in real estate values, or an increase in costs as a result of any of these factors, could adversely affect our operating results.

Information technology system failures or interruptions, or breaches of network security, may impact our operations or cause reputational harm.

We are increasingly reliant upon technology systems, such as point-of-sale, technologies supporting McDonald's digital and delivery solutions, and technologies that facilitate communication and collaboration with affiliated entities, customers, employees, franchisees, suppliers, service providers or other independent third parties to conduct our business, whether developed and maintained by us or provided by third parties. Any failure or interruption of these systems could significantly impact our franchisees' operations, or our customers' experience and perceptions. Additionally, we provide certain technology systems to businesses that are unaffiliated with the McDonald's System and a failure, interruption or breach of these systems may cause harm to those unaffiliated parties, which may result in liability to the Company or reputational harm.

Despite the implementation of security measures, those technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Certain technology systems may also become vulnerable, unreliable or inefficient in cases where technology vendors limit or terminate product support and maintenance. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, or if business continuity or disaster recovery plans were not effective, and we were unable to recover in a timely manner, we could experience an interruption in our or our franchisees' operations.

Furthermore, security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees), or those of third party providers. These may include such things as unauthorized access, phishing attacks, account takeovers, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by hackers. Our technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees, our franchisees, our business customers and other third parties, as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

LEGAL AND REGULATORY

Increasing regulatory and legal complexity may adversely affect our business and financial results.

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, restaurant operations, product packaging, marketing, the nutritional and allergen content and 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 that can affect our business plans and operations, and have increased our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

We are also subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations and proceedings, shareholder proceedings, employment and personal injury claims, landlord/ tenant disputes, supplier related disputes, and claims by current or former franchisees. Regardless of whether claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations.

Litigation and regulatory action concerning our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact our business operations and the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions.

Our results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from claims may hurt our business. If we are unable to effectively manage the risks associated with our complex regulatory and legal environment, it could have a material adverse effect on our business and financial condition.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

If we fail to comply with privacy and data collection laws, we could be subject to legal proceedings and penalties, which could negatively affect our financial results or brand perceptions.

We are subject to legal and compliance risks and associated liability related to privacy and data collection, protection and management, as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees, franchisees or other third parties. For example, the General Data Protection Regulation ("GDPR") requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. We are also subject to U.S. federal and state and foreign laws and regulations in this area such as the California Consumer Privacy Act ("CCPA"). These regulations have been subject to frequent change, and there may be markets or jurisdictions that propose or enact new or emerging data privacy requirements in the future. Failure to comply with GDPR, CCPA or other privacy and data collection laws could result in legal proceedings and substantial penalties, and materially adversely impact our financial results or brand perceptions.

MACROECONOMIC AND MARKET CONDITIONS

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics, pandemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in our markets could pressure our operating performance and our business continuity disruption planning, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates and unfavorable currency fluctuations could adversely affect reported earnings.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and the price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic, trade or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary

course rebalancing of stock indices in which McDonald’s may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;

- The impact of our stock repurchase program or dividend rate; and
- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies, including through acquisitions, in light of changing business, legal and tax considerations and evolve our corporate structure.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, climate change or terrorist activities (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

LEGAL PROCEEDINGS

The Company has pending a number of lawsuits that have been filed in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's entire business. The following is a brief description of the more significant types of claims and lawsuits. In addition, the Company is subject to various national and local laws and regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

- ***Franchising***

A substantial number of McDonald's restaurants are franchised to independent owner/operators and developmental licensees under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its current or former franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, menu pricing, contentions regarding grants or terminations of franchises, alleged discrimination, delinquent payments of rents and fees, and franchisee claims for additional franchises or renewals of franchises. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald's franchise or who challenge the legal distinction between the Company and its franchisees for employment law purposes.

- ***Suppliers***

The Company and its affiliates and subsidiaries generally do not supply food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers, including service providers, that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its suppliers (or former suppliers) which include, for example, compliance with product specifications and the Company's business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes arise regarding hiring, termination, promotion and pay practices, including wage and hour disputes, alleged discrimination and compliance with labor and employment laws.

- ***Customers***

Restaurants owned by subsidiaries of the Company regularly serve a broad segment of the public as do independent owner/operators and developmental licensees of McDonald's restaurants. In so doing, disputes arise as to products, service, incidents, pricing, advertising, nutritional and other disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

- ***Intellectual Property***

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third party intellectual property.

- ***Government Regulations***

Local and national governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, competition, zoning, employment and taxation. The Company is occasionally involved in litigation or other proceedings regarding these matters. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from these matters or the issuance of additional requirements in the future.

PROPERTIES

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the System. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns or secures a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites, which facilitates long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network.

In addition, the Company primarily leases real estate in connection with its corporate headquarters, field and other offices.

Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 8 through 25 and in Financial Statements and Supplementary Data on pages 38 through 59 of this Form 10-K.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following are the Executive Officers of our Company (as of the date of this filing):

Ian Borden, 52, is President, International, a position he has held since January 2020. Prior to that, Mr. Borden served as President - International Developmental Licensed Markets, from January 2019 through December 2019. Prior to that, Mr. Borden served as President - Foundational Markets, from July 2015 through December 2018. Mr. Borden has served the Company for 26 years.

Heidi Capozzi, 51, is Corporate Executive Vice President - Chief People Officer, a position she has held since April 2020. Prior to joining the Company, Ms. Capozzi served as Senior Vice President of Human Resources for The Boeing Company from 2016 to April 2020.

Francesca A. DeBiase, 55, is Corporate Executive Vice President - Global Chief Supply Chain Officer, a position she has held since October 2020. Prior to that, Ms. DeBiase served as Corporate Executive Vice President - Worldwide Supply Chain and Sustainability, from April 2018 through October 2020 and Corporate Senior Vice President - Worldwide Supply Chain and Sustainability, from March 2015 through March 2018. Ms. DeBiase has served the Company for 29 years.

Joseph Erlinger, 47, is President, McDonald's USA, a position he has held since November 2019. Prior to that, Mr. Erlinger served as President - International Operated Markets, from January 2019 through October 2019 and President - High Growth Markets, from September 2016 through December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets (serving in dual roles from September 2016 through January 2017). Mr. Erlinger has served the Company for nearly 19 years.

Katherine Beirne Fallon, 45, is Corporate Executive Vice President - Chief Global Impact Officer, a position she has held since October 2020. Prior to joining the Company, Ms. Fallon served as Executive Vice President, Global Corporate Affairs for Hilton.

Daniel Henry, 50, is Corporate Executive Vice President - Chief Information Officer, a position he has held since May 2018. From October 2017 through April 2018, Mr. Henry served as Corporate Vice President - Chief Information Officer. Prior to that, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture at American Airlines from April 2012 to October 2017. Mr. Henry has served the Company for 3 years.

Catherine Hoovel, 49, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Ms. Hoovel has served the Company for nearly 25 years.

Christopher Kempczinski, 52, is President and Chief Executive Officer, a position he has held since November 2019. Prior to that, Mr. Kempczinski served as President, McDonald's USA from December 2016 through October 2019 and Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Mr. Kempczinski has served the Company for 5 years.

Kevin Ozan, 57, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 23 years.

AVAILABILITY OF COMPANY INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the SEC. Such reports may be obtained by visiting the SEC's website at www.sec.gov.

Financial and other information can also be accessed on the investor section of the Company's website at www.investor.mcdonalds.com. The Company uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters for each of the Committees of the Board of Directors, including the Audit and Finance Committee, Compensation Committee, Governance Committee, Public Policy and Strategy Committee and Sustainability and Corporate Responsibility Committee; the Code of Conduct for the Board of Directors; and the Company's Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623.

Information on the Company's website is not incorporated into this Form 10-K or the Company's other securities filings unless expressly noted.

Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	*Years ended December 31,* **2020**	*2019*	*2018*
REVENUES			
Sales by Company-operated restaurants	**$ 8,139.2**	$ 9,420.8	$ 10,012.7
Revenues from franchised restaurants	**10,726.1**	11,655.7	11,012.5
Other revenues	**342.5**	287.9	232.7
Total revenues	**19,207.8**	21,364.4	21,257.9
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**2,564.2**	2,980.3	3,153.8
Payroll & employee benefits	**2,416.4**	2,704.4	2,937.9
Occupancy & other operating expenses	**2,000.6**	2,075.9	2,174.2
Franchised restaurants-occupancy expenses	**2,207.5**	2,200.6	1,973.3
Other restaurant expenses	**267.0**	223.8	186.1
Selling, general & administrative expenses			
Depreciation and amortization	**300.6**	262.5	214.8
Other	**2,245.0**	1,966.9	1,985.4
Other operating (income) expense, net	**(117.5)**	(119.8)	(190.2)
Total operating costs and expenses	**11,883.8**	12,294.6	12,435.3
Operating income	**7,324.0**	9,069.8	8,822.6
Interest expense-net of capitalized interest of $6.0, $7.4 and $5.6	**1,218.1**	1,121.9	981.2
Nonoperating (income) expense, net	**(34.8)**	(70.2)	25.3
Income before provision for income taxes	**6,140.7**	8,018.1	7,816.1
Provision for income taxes	**1,410.2**	1,992.7	1,891.8
Net income	**$ 4,730.5**	$ 6,025.4	$ 5,924.3
Earnings per common share–basic	**$ 6.35**	$ 7.95	$ 7.61
Earnings per common share–diluted	**$ 6.31**	$ 7.88	$ 7.54
Dividends declared per common share	**$ 5.04**	$ 4.73	$ 4.19
Weighted-average shares outstanding–basic	**744.6**	758.1	778.2
Weighted-average shares outstanding–diluted	**750.1**	764.9	785.6

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions	*Years ended December 31,* ***2020***	*2019*	*2018*
Net income	**$4,730.5**	$6,025.4	$5,924.3
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**46.0**	127.5	(453.6)
Reclassification of (gain) loss to net income	**17.1**	46.8	—
Foreign currency translation adjustments-net of tax benefit (expense) of $204.8, $(55.4), and $(90.7)	**63.1**	174.3	(453.6)
Cash flow hedges:			
Gain (loss) recognized in AOCI	**(129.1)**	17.3	46.5
Reclassification of (gain) loss to net income	**5.8**	(37.7)	2.4
Cash flow hedges-net of tax benefit (expense) of $36.6, $6.1, and $(14.5)	**(123.3)**	(20.4)	48.9
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**(43.5)**	(24.5)	(27.0)
Reclassification of (gain) loss to net income	**(0.4)**	(2.6)	0.6
Defined benefit pension plans-net of tax benefit (expense) of $9.3, $5.2, and $4.3	**(43.9)**	(27.1)	(26.4)
Total other comprehensive income (loss), net of tax	**(104.1)**	126.8	(431.1)
Comprehensive income	**$4,626.4**	$6,152.2	$5,493.2

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	*December 31,* ***2020***	*2019*
ASSETS		
Current assets		
Cash and equivalents	**$3,449.1**	$ 898.5
Accounts and notes receivable	**2,110.3**	2,224.2
Inventories, at cost, not in excess of market	**51.1**	50.2
Prepaid expenses and other current assets	**632.7**	385.0
Total current assets	**6,243.2**	3,557.9
Other assets		
Investments in and advances to affiliates	**1,297.2**	1,270.3
Goodwill	**2,773.1**	2,677.4
Miscellaneous	**3,527.4**	2,584.0
Total other assets	**7,597.7**	6,531.7
Lease right-of-use asset, net	**13,827.7**	13,261.2
Property and equipment		
Property and equipment, at cost	**41,476.5**	39,050.9
Accumulated depreciation and amortization	**(16,518.3)**	(14,890.9)
Net property and equipment	**24,958.2**	24,160.0
Total assets	**$52,626.8**	$47,510.8
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 741.3**	$ 988.2
Lease liability	**701.5**	621.0
Income taxes	**741.1**	331.7
Other taxes	**227.0**	247.5
Accrued interest	**388.4**	337.8
Accrued payroll and other liabilities	**1,138.3**	1,035.7
Current maturities of long-term debt	**2,243.6**	59.1
Total current liabilities	**6,181.2**	3,621.0
Long-term debt	**35,196.8**	34,118.1
Long-term lease liability	**13,321.3**	12,757.8
Long-term income taxes	**1,970.7**	2,265.9
Deferred revenues - initial franchise fees	**702.0**	660.6
Other long-term liabilities	**1,054.1**	979.6
Deferred income taxes	**2,025.6**	1,318.1
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**7,903.6**	7,653.9
Retained earnings	**53,908.1**	52,930.5
Accumulated other comprehensive income (loss)	**(2,586.8)**	(2,482.7)
Common stock in treasury, at cost; 915.2 and 914.3 million shares	**(67,066.4)**	(66,328.6)
Total shareholders' equity (deficit)	**(7,824.9)**	(8,210.3)
Total liabilities and shareholders' equity (deficit)	**$52,626.8**	$47,510.8

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions *Years ended December 31,*	***2020***	*2019*	*2018*
Operating activities			
Net income	**$4,730.5**	$ 6,025.4	$ 5,924.3
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,751.4**	1,617.9	1,482.0
Deferred income taxes	**6.4**	149.7	102.6
Share-based compensation	**92.4**	109.6	125.1
Net gain on sale of restaurant businesses	**(28.2)**	(128.2)	(308.8)
Other	**(75.2)**	49.2	114.2
Changes in working capital items:			
Accounts receivable	**(6.8)**	27.0	(479.4)
Inventories, prepaid expenses and other current assets	**(68.6)**	128.8	(1.9)
Accounts payable	**(137.5)**	(26.8)	129.4
Income taxes	**(43.6)**	173.4	(33.4)
Other accrued liabilities	**44.4**	(3.9)	(87.4)
Cash provided by operations	**6,265.2**	8,122.1	6,966.7
Investing activities			
Capital expenditures	**(1,640.8)**	(2,393.7)	(2,741.7)
Purchases of restaurant and other businesses	**(66.1)**	(540.9)	(101.7)
Sales of restaurant businesses	**76.3**	340.8	530.8
Sales of property	**27.4**	151.2	160.4
Other	**57.4**	(628.5)	(302.9)
Cash used for investing activities	**(1,545.8)**	(3,071.1)	(2,455.1)
Financing activities			
Net short-term borrowings	**(893.1)**	799.2	95.9
Long-term financing issuances	**5,543.0**	4,499.0	3,794.5
Long-term financing repayments	**(2,411.7)**	(2,061.9)	(1,759.6)
Treasury stock purchases	**(907.8)**	(4,976.2)	(5,207.7)
Common stock dividends	**(3,752.9)**	(3,581.9)	(3,255.9)
Proceeds from stock option exercises	**295.5**	350.5	403.2
Other	**(122.0)**	(23.5)	(20.0)
Cash used for financing activities	**(2,249.0)**	(4,994.8)	(5,949.6)
Effect of exchange rates on cash and equivalents	**80.2**	(23.7)	(159.8)
Cash and equivalents increase (decrease)	**2,550.6**	32.5	(1,597.8)
Cash and equivalents at beginning of year	**898.5**	866.0	2,463.8
Cash and equivalents at end of year	**$3,449.1**	$ 898.5	$ 866.0
Supplemental cash flow disclosures			
Interest paid	**$1,136.0**	$ 1,066.5	$ 959.6
Income taxes paid	**1,441.9**	1,589.7	1,734.4

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders’ Equity

In millions, except per share data	Common stock issued Shares	Common stock issued Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss) Pensions	Accumulated other comprehensive income (loss) Cash flow hedges	Accumulated other comprehensive income (loss) Foreign currency translation	Common stock in treasury Shares	Common stock in treasury Amount	Total shareholders' equity (deficit)
Balance at December 31, 2017	1,660.6	$16.6	$7,072.4	$48,325.8	$(190.2)	$ (16.5)	$(1,971.7)	(866.5)	$(56,504.4)	$ (3,268.0)
Net income				5,924.3						5,924.3
Other comprehensive income (loss), net of tax					(26.4)	48.9	(453.6)			(431.1)
Comprehensive income										5,493.2
Adoption of ASC 606 (1)				(450.2)						(450.2)
Adoption of ASU 2016-16 (2)				(57.0)						(57.0)
Common stock cash dividends ($4.19 per share)				(3,255.9)						(3,255.9)
Treasury stock purchases								(32.2)	(5,247.5)	(5,247.5)
Share-based compensation			125.1							125.1
Stock option exercises and other			178.5					5.2	223.4	401.9
Balance at December 31, 2018	1,660.6	16.6	7,376.0	50,487.0	(216.6)	32.4	(2,425.3)	(893.5)	(61,528.5)	(6,258.4)
Net income				6,025.4						6,025.4
Other comprehensive income (loss), net of tax					(27.1)	(20.4)	174.3			126.8
Comprehensive income										6,152.2
Common stock cash dividends ($4.73 per share)				(3,581.9)						(3,581.9)
Treasury stock purchases								(25.0)	(4,980.5)	(4,980.5)
Share-based compensation			109.6							109.6
Stock option exercises and other			168.3					4.2	180.4	348.7
Balance at December 31, 2019	1,660.6	16.6	7,653.9	52,930.5	(243.7)	12.0	(2,251.0)	(914.3)	(66,328.6)	(8,210.3)
Net income				**4,730.5**						**4,730.5**
Other comprehensive income (loss), net of tax					**(43.9)**	**(123.3)**	**63.1**			**(104.1)**
Comprehensive income										**4,626.4**
Common stock cash dividends ($5.04 per share)				**(3,752.9)**						**(3,752.9)**
Treasury stock purchases								**(4.3)**	**(874.1)**	**(874.1)**
Share-based compensation			**92.4**							**92.4**
Stock option exercises										

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers."

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory."

See Notes to consolidated financial statements.

Summary of Significant Accounting Policies

NATURE OF BUSINESS

The Company franchises and operates McDonald's restaurants in the global restaurant industry. All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchised arrangements, and developmental licensees or affiliates under license agreements.

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2020***	*2019*	*2018*
Conventional franchised	**21,712**	21,837	21,685
Developmental licensed	**7,663**	7,648	7,225
Foreign affiliated	**7,146**	6,574	6,175
Total Franchised	**36,521**	36,059	35,085
Company-operated	**2,677**	2,636	2,770
Total Systemwide restaurants	**39,198**	38,695	37,855

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements for periods prior to purchase and sale.

BASIS OF PRESENTATION

Prior to January 1, 2020, the Company presented both expenditures and receipts related to technology fees charged to franchisees and revenues related to certain licensing arrangements within Other operating (income) expense, net, because these activities were not part of the Company's ongoing major or central operations. Effective January 1, 2020, the Company is presenting the revenues and expenses related to these activities within Other revenues and Other restaurant expenses, respectively, in the Consolidated Statement of Income. The change in presentation was applied retrospectively to all periods presented and had no effect on Operating income, Net income, or Earnings per share.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less (primarily McDonald's China and Japan) are accounted for by the equity method.

On an ongoing basis, the Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the variable interest entity consolidation guidance. The Company has concluded that consolidation of any such entity is not appropriate for the periods presented.

ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Generally, the functional currency of operations outside the U.S. is the respective local currency.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Financial Instruments - Credit Losses

In June 2016, the Financial Accounting Standards Board ("FASB") issued guidance codified in ASC Topic 326, "Financial Instruments – Credit Losses: Measurements of Credit Losses on Financial Instruments". The standard replaces the incurred loss impairment methodology in prior GAAP with a methodology that instead reflects a current estimate of all expected credit losses on financial assets, including receivables. The guidance requires that an entity measure and recognize expected credit losses at the time the asset is recorded, while considering a broader range of information to estimate credit losses including country specific macroeconomic conditions that correlate with historical loss experience, delinquency trends and aging behavior of receivables, among others. The Company adopted this guidance effective January 1, 2020, prospectively, and the adoption of this standard did not have a material impact on the consolidated financial statements. The Company had an Allowance for bad debts of $55.3 million as of December 31, 2020 recorded as a reduction to Accounts and notes receivable on the Consolidated Balance Sheet.

Recent Accounting Pronouncements Not Yet Adopted

Income Taxes

In December 2019, the FASB issued ASU 2019-12, “Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes” (“ASU 2019-12”), which simplifies the accounting for income taxes. ASU 2019-12 is effective for fiscal years beginning after December 15, 2020, including applicable interim periods. The Company anticipates the adoption of ASU 2019-12 will not have a material impact on its consolidated financial statements.

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting". The pronouncement provides temporary optional expedients and exceptions to the current guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate and other interbank offered rates to alternative reference rates. The guidance was effective upon issuance and may be applied prospectively to contract modifications made and hedging relationships entered into or evaluated on or before December 31, 2022. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

REVENUE RECOGNITION

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. The Company’s Other revenues are comprised of fees paid by franchisees to recover a portion of costs incurred by the Company for various technology platforms, revenues from brand licensing arrangements to market and sell consumer packaged goods using the McDonald’s brand, and third party revenues for the Dynamic Yield business.

Sales by Company-operated restaurants are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. Royalty revenues are based on a percent of sales and recognized at the time the underlying sales occur. Rental income includes both minimum rent payments, which are recognized straight-line over the franchise term (with the exception of rent concessions as a result of COVID-19 – refer to the Leasing section that follows), and variable rent payments based on a percent of sales, which are recognized at the time the underlying sales occur. Initial fees are recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years.

The Company provides goods or services related to various technology platforms to certain franchisees that are distinct from the franchise agreement because they do not require integration with other goods or services we provide. The Company has determined that it is the principal in these arrangements. Accordingly, the related revenue is presented on a gross basis on the Consolidated Statement of Income. These revenues are recognized as the goods or services are transferred to the franchisee, and related expenses are recognized as incurred. Brand licensing arrangement revenues are based on a percent of sales and are recognized at the time the underlying sales occur. Dynamic Yield third party revenues are generated from providing software as a service solutions to customers and are recognized over the applicable subscription period as the service is performed.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–the lesser of useful lives of assets or lease terms, which generally include certain option periods; and equipment–3 to 12 years.

The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

The Company may share in the cost of certain restaurant improvements with its franchisees, primarily in the U.S. Since McDonald's manages the project and provides up front funding in these instances, during the project the Company estimates which costs are the responsibility of McDonald's and which are the responsibility of the franchisee, and allocates the corresponding costs between Property and equipment and Accounts receivable. Upon the completion of the project, the allocation of costs is finalized and may result in immaterial adjustments to the balances and associated depreciation expense.

Refer to the Property and Equipment footnote on page 51 for additional information.

LEASING

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Lease right-of-use asset and Lease liability reflect the present value of the Company’s estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using the rate implicit in each lease, if determinable, or a collateralized incremental borrowing rate considering the term of the lease and particular currency environment. Leases with an initial term of 12 months or less, primarily related to leases of office equipment, are not included in the Lease right-or-use asset or Lease liability and continue to be recognized in the Consolidated Statement of Income on a straight-line basis over the lease term.

The Company has elected not to separate non-lease components from lease components in our lessee portfolio. To the extent that occupancy costs, such as site maintenance, are included in the asset and liability, the impact is immaterial and is generally limited to Company-owned restaurant locations. For franchised locations, which represent the majority of the restaurant portfolio, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-restaurant related leases such as office buildings, vehicles and office equipment. These leases are not a material subset of the Company’s lease portfolio.

The FASB issued guidance for how companies may account for COVID-19 related rent concessions in the form of FASB staff and Board members’ remarks at the April 8, 2020 public meeting and the FASB Staff Q&A issued on April 10, 2020.

The Company elected the practical expedient to account for COVID-19 related rent concessions as if they were part of the enforceable rights and obligations of the parties under the existing lease contract. This was elected for the Company's entire lessee and lessor portfolio for any rent deferrals or rent abatements. For the lessee portfolio, the Company elected not to remeasure the Lease right- of-use asset and Lease liability if a rent deferral or a rent abatement is granted. Refer to the Leasing Arrangements footnotes on page 52 of this Form 10-K for additional information on the Lease right-of-use asset and Lease liability.

The Company deferred collection of approximately $490 million of rental income on revenue that was recognized in 2020, and has collected over 80% of these deferrals as of December 31, 2020. Rental income includes both minimum rent payments and variable rent payments based on a percent of sales.

Refer to the Franchise Arrangements footnote on page 51 of this Form 10-K for additional information on deferred collections of rental income as well as royalties.

CAPITALIZED SOFTWARE

Capitalized software is stated at cost and amortized using the straight-line method over the estimated useful life of the software, which primarily ranges from 2 to 7 years. Customer facing software is typically amortized over a shorter useful life, while back office and Corporate systems may have a longer useful life. Capitalized software less accumulated amortization is recorded within Miscellaneous other assets on the Consolidated Balance Sheet and was (in millions): 2020-$691.2; 2019-$665.4; 2018-$609.7.

The Company reviews capitalized software for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable or if an indicator of impairment exists, which occurs more regularly throughout the year, such as when new software may be ready for its intended use. Results for the year ended 2020 reflected write-offs of impaired software that were no longer being used of $26.3 million.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald's restaurant assets for potential impairment, assets are initially grouped together in the U.S. at a field office level, and internationally, at a market level. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, an individual restaurant's cash flows are not generally independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management and the Board of Directors, as required, have approved and committed to a plan to dispose of the assets, the assets are available for disposal and the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value, among other factors. Generally, such losses are related to restaurants that have closed and ceased operations as well as other assets that meet the criteria to be considered "held for sale".

GOODWILL

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurants and other businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in subsidiaries or affiliates, and it is generally assigned to the reporting unit (defined as each individual market) expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the reporting unit.

The following table presents the 2020 activity in goodwill by segment:

In millions	U.S.	International Operated Markets	International Developmental Licensed Markets & Corporate	Consolidated
Balance at December 31, 2019	$1,615.8	$1,061.6	$ —	$2,677.4
Business acquisitions	9.8	—	—	9.8
Net restaurant purchases (sales)	(0.1)	9.8	—	9.7
Impairment losses	—	—	—	—
Currency translation	—	76.2	—	76.2
Balance at December 31, 2020	**$1,625.5**	**$1,147.6**	**$ —**	**$2,773.1**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever indicators of impairment exists. If an indicator of impairment exists, the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recorded for the difference. In the current period, the Company performed a qualitative assessment and did not identify any indicators of impairment. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Goodwill on the Consolidated Balance Sheet reflects accumulated impairment losses of $14.5 million and $113.9 million as of December 31, 2020 and 2019, respectively.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives based upon a percent of sales, and were (in millions): 2020–$325.5; 2019–$365.8; 2018–$388.8. The decrease in 2020 is primarily due to lower sales in the International Operated Markets as a result of COVID-19. Costs related to the Olympics sponsorship are included in the expenses for 2018.

In addition, significant advertising costs are incurred by conventional franchisees through contributions to advertising cooperatives in individual markets that are also based upon a percent of sales. In the markets that make up the vast majority of the Systemwide advertising spend, including the U.S., McDonald's is not the primary beneficiary of these entities, and therefore has concluded that consolidation would not be appropriate, as the Company does not have the power through voting or similar rights to direct the activities of the cooperatives that most significantly impact their economic performance.

Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses are included in Selling, general & administrative expenses and were (in millions): 2020–$329.2; 2019–$81.5; 2018–$88.0. The increase in 2020 is primarily due to about $175 million of incremental marketing contributions by the Company to the System's advertising cooperative arrangements across the U.S. and International Operated Markets to accelerate recovery and drive growth, as well as one-time investments in renewed brand communications as part of the "Serving Here" campaign launch that was announced with the new growth strategy, *Accelerating the Arches*.

INCOME TAXES

Income Tax Uncertainties

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Deferred tax assets and liabilities are recognized for the tax consequences of temporary differences between the financial reporting basis and the tax basis of existing assets and liabilities. The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies, including the sale of appreciated assets, in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

Refer to the Income Taxes footnote on page 53 for additional information.

Accounting for Global Intangible Low-Taxed Income ("GILTI")

The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.

- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Certain of the Company’s derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

▪ Certain Financial Assets and Liabilities Measured at Fair Value

The following tables present financial assets and liabilities measured at fair value on a recurring basis by the valuation hierarchy as defined in the fair value guidance:

December 31, 2020

In millions	*Level 1 [(1)]*	*Level 2*	*Carrying Value*
Derivative assets	$ 185.6	$ 41.4	$ 227.0
Derivative liabilities		$ (97.5)	$ (97.5)

December 31, 2019

In millions	*Level 1 [(1)]*	*Level 2*	*Carrying Value*
Derivative assets	$ 179.1	$ 45.6	$ 224.7
Derivative liabilities		$ (11.3)	$ (11.3)

(1) Level 1 is comprised of derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.

▪ Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2020, the Company did not record any material fair value adjustments to long-lived assets (including goodwill).

▪ Certain Financial Assets and Liabilities not Measured at Fair Value

At December 31, 2020, the fair value of the Company's debt obligations was estimated at $43.7 billion, compared to a carrying amount of $37.4 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. The Company's derivatives that are designated for hedge accounting consist mainly of interest rate swaps, foreign currency forwards, and cross-currency interest rate swaps, and are classified as either fair value, cash flow or net investment hedges. Further details are explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company enters into certain derivatives that are not designated for hedge accounting. The Company has entered into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. The Company has also entered into certain derivatives to mitigate the share price risk related to its sale of stock in McDonald's Japan. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Further details are explained in the "Undesignated Derivatives" section.

All derivatives (including those not designated for hedge accounting) are recognized on the Consolidated Balance Sheet at fair value and classified based on the instruments' maturity dates. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to AOCI and/or current earnings.

The following table presents the fair values of derivative instruments included on the Consolidated Balance Sheet as of December 31, 2020 and 2019:

	Derivative Assets			Derivative Liabilities		
In millions	*Balance Sheet Classification*	***2020***	*2019*	*Balance Sheet Classification*	***2020***	*2019*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets		$ 10.0	Accrued payroll and other liabilities	**$(64.5)**	$ (5.2)
Interest rate	Prepaid expenses and other current assets			Accrued payroll and other liabilities		—
Foreign currency	Miscellaneous other assets	**$ 5.6**	9.5	Other long-term liabilities	**(15.0)**	(1.2)
Interest rate	Miscellaneous other assets	**35.8**	12.1	Other long-term liabilities		—
Total derivatives designated as hedging instruments		**$ 41.4**	$ 31.6		**$(79.5)**	$ (6.4)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$185.6**	$ 1.6	Accrued payroll and other liabilities	**$ (8.6)**	$ (0.1)
Foreign currency	Prepaid expenses and other current assets		12.4	Accrued payroll and other liabilities	**(9.4)**	(4.8)
Equity	Miscellaneous other assets		179.1			
Total derivatives not designated as hedging instruments		**$185.6**	$193.1		**$(18.0)**	$ (4.9)
Total derivatives		**$227.0**	$224.7		**$(97.5)**	$(11.3)

The following table presents the pre-tax amounts from derivative instruments affecting income and AOCI for the year ended December 31, 2020 and 2019, respectively:

In millions	Location of Gain or Loss Recognized in Income on Derivative	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified into Income from AOCI		Gain (Loss) Recognized in Income on Derivative	
		2020	*2019*	***2020***	*2019*	***2020***	*2019*
Foreign currency	Nonoperating income/ expense	**$ (76.6)**	$ 22.5	**$ (2.1)**	$ 50.3		
Interest rate	Interest expense	**(90.8)**		**(5.4)**	(1.3)		
Cash flow hedges		**$ (167.4)**	$ 22.5	**$ (7.5)**	$ 49.0		
Foreign currency denominated debt	Nonoperating income/ expense	**$ (989.7)**	$ 317.3	**$ 33.7**			
Foreign currency derivatives	Nonoperating income/ expense	**(12.3)**	11.8				
Foreign currency derivatives[(1)]	Interest expense					**$ 14.7**	$ 11.7
Net investment hedges		**$(1,002.0)**	$ 329.1	**$ 33.7**		**$ 14.7**	$ 11.7
Foreign currency	Nonoperating income/ expense					**$ (29.0)**	$ 14.2
Equity	Selling, general & administrative expenses					**44.4**	71.8
Equity	Other operating income/ expense, net					**(16.0)**	
Undesignated derivatives						**$ (0.6)**	$ 86.0

[(1)]The amount of gain (loss) recognized in income related to components excluded from effectiveness testing.

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At December 31, 2020, the carrying amount of fixed-rate debt that was effectively converted was an equivalent notional amount of $1.1 billion, which included an increase of $35.8 million of cumulative hedging adjustments. For the year ended December 31, 2020, the Company recognized a $23.7 million gain on the fair value of interest rate swaps, and a corresponding loss on the fair value of the related hedged debt instrument to interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2020, the Company had derivatives outstanding with an equivalent notional amount of $1.2 billion that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at December 31, 2020, the $111.3 million in cumulative cash flow hedging losses, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of Other comprehensive income ("OCI") and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of December 31, 2020, $13.3 billion of the Company's third party foreign currency denominated debt and $843.2 million of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. The Company may also use certain derivatives to mitigate the share price risk related to its sale of stock in McDonald’s Japan. The changes in the fair value of the undesignated derivatives used for the most recent sale transaction were recognized immediately in earnings in Other operating (income) expense, net. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. The changes in the fair value of these derivatives are recognized in Nonoperating (income) expense, net, along with the currency gain or loss from the hedged balance sheet position.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at December 31, 2020 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2020, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on certain hedges of the Company’s supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

SHARE-BASED COMPENSATION

The Company has a share-based compensation plan, which authorizes the granting of various equity-based incentives including stock options and restricted stock units (“RSUs”) to employees and nonemployee directors.

Share-based compensation, which includes the portion vesting of all share-based awards granted based on the grant date fair value, is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company’s stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. In addition, the Company estimates forfeitures when determining the amount of compensation costs to be recognized each period.

The fair value of each RSU granted is equal to the market price of the Company’s stock at date of grant. For performance-based RSUs, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

Refer to the Share-based Compensation footnote on page 58 for additional information.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2020–5.5; 2019–6.8; 2018–7.3. Share-based compensation awards that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2020–1.8; 2019–0.1; 2018–0.5.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents. As of December 31, 2020, Cash and equivalents was $3.4 billion, of which $2.0 billion consisted of certificates of deposit.

Segment and Geographic Information

Effective January 1, 2019, McDonald's operates under an organizational structure with the following global business segments reflecting how management reviews and evaluates operating performance:

- U.S. - the Company's largest market. The segment is 95% franchised as of December 31, 2020.
- International Operated Markets - comprised of markets, or countries in which the Company operates and franchises restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K. The segment is 84% franchised as of December 31, 2020.
- International Developmental Licensed Markets & Corporate - comprised primarily of developmental licensee and affiliate markets in the McDonald's system. Corporate activities are also reported in this segment. The segment is 98% franchised as of December 31, 2020.

In April and October 2019, the Company completed the acquisitions of Dynamic Yield and Apprente, respectively. The related financial performance is reflected within the International Developmental Licensed Markets & Corporate segment from the dates of acquisition.

All intercompany revenues and expenses are eliminated in computing revenues and operating income. Corporate general and administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financial instruments and home office facilities.

In millions	***2020***	*2019*	*2018*
U.S.	**$ 7,828.5**	$ 8,002.8	$ 7,798.7
International Operated Markets	**9,570.7**	11,480.1	11,578.1
International Developmental Licensed Markets & Corporate	**1,808.6**	1,881.5	1,881.1
Total revenues	**$ 19,207.8**	$ 21,364.4	$ 21,257.9
U.S.	**$ 3,789.1**	$ 4,068.7	$ 4,015.6
International Operated Markets	**3,315.1**	4,789.0	4,643.2
International Developmental Licensed Markets & Corporate	**219.8**	212.1	163.8
Total operating income	**$ 7,324.0**	$ 9,069.8	$ 8,822.6
U.S.	**$ 21,010.0**	$ 21,376.9	$ 14,483.8
International Operated Markets	**24,744.0**	22,847.5	17,302.3
International Developmental Licensed Markets & Corporate	**6,872.8**	3,286.4	1,025.1
Total assets *	**$ 52,626.8**	$ 47,510.8	$ 32,811.2
U.S.	**$ 890.4**	$ 1,480.5	$ 1,849.8
International Operated Markets	**731.5**	886.6	762.4
International Developmental Licensed Markets & Corporate	**18.9**	26.6	129.5
Total capital expenditures	**$ 1,640.8**	$ 2,393.7	$ 2,741.7
U.S.	**$ 813.8**	$ 730.2	$ 598.4
International Operated Markets	**678.5**	669.3	703.9
International Developmental Licensed Markets & Corporate	**259.1**	218.4	179.7
Total depreciation and amortization	**$ 1,751.4**	$ 1,617.9	$ 1,482.0

* Total assets increased from 2018 to 2019 primarily due to the Company's Lease right-of-use asset recorded as a result of the adoption of ASC 842.

Total long-lived assets, primarily property and equipment and beginning in 2019, the Company's Lease right-of-use asset, were (in millions)–Consolidated: 2020–$39,696.3; 2019–$38,291.5; U.S. based: 2020–$19,509.7; 2019–$19,487.6.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, 2020	2019
Land	$ 6,349.1	$ 6,026.4
Buildings and improvements on owned land	18,218.9	17,003.7
Buildings and improvements on leased land	13,364.5	12,605.9
Equipment, signs and seating	3,119.0	2,994.5
Other	425.0	420.4
Property and equipment, at cost	41,476.5	39,050.9
Accumulated depreciation and amortization	(16,518.3)	(14,890.9)
Net property and equipment	$ 24,958.2	$ 24,160.0

Depreciation and amortization expense for property and equipment was (in millions): 2020–$1,469.4; 2019–$1,392.2; 2018–$1,302.9.

Franchise Arrangements

Conventional franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and royalties to the Company based upon a percent of sales with minimum rent payments. Minimum rent payments are based on the Company's underlying investment in owned sites and parallel the Company's underlying leases and escalations on properties that are leased. Under the franchise arrangement, franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. At the end of the 20-year franchise arrangement, the Company maintains control of the underlying real estate and building and can either enter into a new 20-year franchise arrangement with the existing franchisee or a different franchisee, or close the restaurant. Franchisees generally pay related occupancy costs including property taxes, insurance and site maintenance.

Developmental licensees and affiliates operating under license agreements pay a royalty to the Company based upon a percent of sales, and generally pay initial fees.

McDonald's has elected to allocate consideration in the franchise contract among lease and non-lease components in the same manner that it has historically: rental income (lease), royalty income (non-lease) and initial fee income (non-lease). This disaggregation and presentation of revenue is based on the nature, amount, timing and certainty of the revenue and cash flows. The allocation has been determined based on a mix of both observable and estimated standalone selling prices (the price at which an entity would sell a promised good or service separately to a customer).

Revenues from franchised restaurants consisted of:

In millions	2020	2019	2018
Rents	$ 6,844.7	$ 7,500.2	$ 7,082.2
Royalties	3,831.5	4,107.1	3,886.3
Initial fees	49.9	48.4	44.0
Revenues from franchised restaurants	$ 10,726.1	$ 11,655.7	$ 11,012.5

As rent and royalties are based upon a percent of sales, government regulations as a result of COVID-19 had a negative impact on revenues in 2020. The Company granted the deferrals of cash collection for certain rent and royalties earned from franchisees in substantially all markets primarily in the first and second quarters of 2020. In total, the Company deferred collection of approximately $1 billion, and has collected over 80% of these total deferrals as of December 31, 2020.

Future gross minimum rent payments due to the Company under existing conventional franchise arrangements are:

In millions	*Owned sites*	*Leased sites*	*Total*
2021	$ 1,586.8	$ 1,486.0	$ 3,072.8
2022	1,526.5	1,428.1	2,954.6
2023	1,472.8	1,362.0	2,834.8
2024	1,433.0	1,310.2	2,743.2
2025	1,394.1	1,247.7	2,641.8
Thereafter	10,908.6	9,266.4	20,175.0
Total minimum payments	$18,321.8	$16,100.4	$34,422.2

At December 31, 2020, net property and equipment under franchise arrangements totaled $20.0 billion (including land of $5.7 billion) after deducting accumulated depreciation and amortization of $12.1 billion.

Leasing Arrangements

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Company determines whether an arrangement is a lease at inception. Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options. Renewal options are typically solely at the Company's discretion. Escalation terms vary by market with examples including fixed-rent escalations, escalations based on an inflation index and fair-value market adjustments. The timing of these escalations generally range from annually to every five years.

The following table provides detail of rent expense:

In millions	***2020***	*2019*	*2018*
Restaurants	**$1,399.5**	$1,530.4	$1,433.9
Other	**79.8**	76.4	87.9
Total rent expense	**$1,479.3**	$1,606.8	$1,521.8

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2020–$53.7; 2019–$74.4; 2018–$82.1. Franchised restaurants: 2020–$136.5; 2019–$200.7; 2018–$200.8. These variable rent payments are based on a percent of sales and as sales have decreased in 2020 as a result of COVID-19, the related rent expense has also decreased as compared to the prior year.

The Lease right-of-use asset and Lease liability reflect the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Lease right-of-use asset and Lease liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation.

The Company's lease portfolio includes both operating and finance leases, however as of December 31, 2020, the vast majority of the portfolio was classified as operating leases.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. The weighted average discount rate used for leases was 3.8% as of December 31, 2020 and 4.0% as of December 31, 2019.

As of December 31, 2020, maturities of lease liabilities for our lease portfolio were as follows:

In millions	*Total **
2021	$ 1,230.7
2022	1,197.7
2023	1,159.8
2024	1,124.0
2025	1,082.1
Thereafter	14,295.7
Total lease payments	20,090.0
Less: imputed interest	(6,067.2)
Present value of lease liability	$ 14,022.8

* Total lease payments include option periods that are reasonably assured of being exercised. See contractual cash outflows for leases within the Contractual Obligations and Commitments section on page 24.

The increase in the present value of the lease liability since December 31, 2019 is approximately $0.6 billion. The lease liability will continue to be impacted by new leases, lease modifications, lease terminations, reevaluation of lease terms, and foreign currency.

As of December 31, 2020 and December 31, 2019, the Weighted Average Lease Term remaining that is included in the maturities of lease liabilities was 20 years.

Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in a particular matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Other Operating (Income) Expense, Net

In millions	***2020***	*2019*	*2018*
Gains on sales of restaurant businesses	**$ (23.3)**	$ (127.5)	$ (304.1)
Equity in earnings of unconsolidated affiliates	**(117.4)**	(153.8)	(151.5)
Asset dispositions and other (income) expense, net	**290.7**	87.2	33.7
Impairment and other charges (gains), net	**(267.5)**	74.3	231.7
Total	**$ (117.5)**	$ (119.8)	$ (190.2)

- ***Gains on sales of restaurant businesses***

The Company's purchases and sales of businesses with its franchisees are aimed at maintaining an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of our business.

- ***Equity in earnings of unconsolidated affiliates***

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates but does not control. The Company records equity in (earnings) losses from these entities representing McDonald's share of results for markets in both the International Operated Markets and International Developmental Licensed Markets segments. For foreign affiliated markets—primarily China and Japan—results are reported after interest expense and income taxes.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings, reserves for bad debts, asset write-offs due to restaurant reinvestment (including investment in Experience of the Future), strategic sale of properties, and other miscellaneous income and expenses.

- ***Impairment and other charges (gains), net***

Impairment and other charges (gains), net includes losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value, as well as charges associated with strategic initiatives, such as refranchising and restructuring activities. The realized gains/losses from the divestiture of ownership percentages of subsidiaries are reflected in this category, including the 2020 gain on the sale of McDonald's Japan stock as the Company divested about 6% of its ownership in McDonald's Japan.

Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	2020	2019	2018
U.S.	$1,390.4	$2,159.1	$2,218.0
Outside the U.S.	4,750.3	5,859.0	5,598.1
Income before provision for income taxes *	$6,140.7	$8,018.1	$7,816.1

* The decrease in Income before provision for income taxes from 2019 to 2020 was primarily due to COVID-19.

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” The goal of this update was to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted this standard on January 1, 2018 using a modified retrospective method, resulting in a cumulative catch up adjustment of $57 million, the majority of which was recorded within Miscellaneous other assets on the Consolidated Balance Sheet. The adoption of this standard did not have a material impact on the Consolidated Statements of Income and Cash Flows.

The Tax Cuts and Jobs Act of 2017 ("Tax Act") was enacted in the U.S. in December 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in Staff Accounting Bulletin ("SAB") 118. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, *Income Taxes*, primarily for the one-time transition tax.

The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability of approximately $1.2 billion at December 31, 2017. Upon further analysis of the Tax Act and notices and regulations issued and proposed by the U.S. Department of the Treasury and the IRS, the Company increased its December 31, 2017 provisional amount by approximately $75 million during 2018. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

The provision for income taxes, classified by the timing and location of payment, was as follows:

In millions	***2020***	*2019*	*2018*
U.S. federal	**$ 554.1**	$ 521.8	$ 292.9
U.S. state	**119.1**	194.7	183.9
Outside the U.S.	**730.6**	1,126.5	1,312.4
Current tax provision	**1,403.8**	1,843.0	1,789.2
U.S. federal	**870.3**	38.5	145.7
U.S. state	**73.3**	20.0	18.7
Outside the U.S.	**(937.2)**	91.2	(61.8)
Deferred tax provision	**6.4**	149.7	102.6
Provision for income taxes	**$ 1,410.2**	$ 1,992.7	$ 1,891.8

Net deferred tax (assets) liabilities consisted of:

In millions	*December 31,* ***2020***	*2019*
Lease right-of-use asset	**$3,427.3**	$3,296.8
Property and equipment	**1,600.4**	1,316.4
Intangible assets	**1,046.2**	334.8
Other	**322.4**	511.1
Total deferred tax liabilities	**6,396.3**	5,459.1
Lease liability	**(3,462.0)**	(3,331.1)
Intangible assets	**(2,095.9)**	(1,051.0)
Property and equipment	**(593.8)**	(585.6)
Deferred foreign tax credits	**(289.3)**	(311.2)
Employee benefit plans	**(190.8)**	(192.3)
Deferred revenue	**(154.8)**	(145.5)
Operating loss carryforwards	**(86.8)**	(81.5)
Other	**(449.0)**	(323.6)
Total deferred tax assets before valuation allowance	**(7,322.4)**	(6,021.8)
Valuation allowance	**816.0**	741.9
Net deferred tax (assets) liabilities	**$(110.1)**	$ 179.2
Balance sheet presentation:		
Deferred income taxes	**$2,025.6**	$1,318.1
Other assets-miscellaneous	**(2,135.7)**	(1,138.9)
Net deferred tax (assets) liabilities	**$(110.1)**	$ 179.2

At December 31, 2020, the Company had net operating loss carryforwards of $392.5 million, of which $228.2 million has an indefinite carryforward. The remainder will expire at various dates from 2021 to 2039.

The Company’s effective income tax rates are higher than the U.S. statutory tax rate of 21% primarily due to the impact of state income taxes and foreign income that is subject to local statutory country tax rates that are above the 21% U.S. statutory tax rate.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2020	*2019*	*2018*
Statutory U.S. federal income tax rate	**21.0 %**	21.0 %	21.0 %
State income taxes, net of related federal income tax benefit	**1.8**	1.8	1.8
Foreign income taxed at different rates	**0.4**	1.6	1.5
Tax impact of intercompany transactions	**2.1**	—	—
Global intangible low-tax income ("GILTI")	**1.2**	1.3	0.4
Foreign-derived intangible income ("FDII")	**(3.4)**	(1.3)	(1.4)
Transition tax	—	—	1.0
U.S./Foreign tax law changes	**(1.8)**	—	—
Foreign tax credit redetermination regulations	—	(1.0)	—
Other, net	**1.7**	1.5	(0.1)
Effective income tax rates	**23.0 %**	24.9 %	24.2 %

The Tax Act enacted the GILTI provision, which taxes U.S. allocated expenses and certain income from foreign operations. Also, the Tax Act enacted the FDII provision, which allows deductions against certain types of U.S. taxable income resulting in a lower effective U.S. tax rate on such income.

As of December 31, 2020 and 2019, the Company's gross unrecognized tax benefits totaled $1,479.2 million and $1,439.1 million, respectively. After considering the deferred tax accounting impact, it is expected that about $940 million of the total as of December 31, 2020 would favorably affect the effective tax rate if resolved in the Company's favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

In millions	***2020***	*2019*
Balance at January 1	**$ 1,439.1**	$ 1,342.8
Decreases for positions taken in prior years	**(71.4)**	(18.3)
Increases for positions taken in prior years	**38.5**	107.1
Increases for positions related to the current year	**89.6**	88.3
Settlements with taxing authorities	**(3.9)**	(68.6)
Lapsing of statutes of limitations	**(12.7)**	(12.2)
Balance at December 31[(1)]	**$ 1,479.2**	$ 1,439.1

(1) Of this amount, $1,137.8 million and $1,285.3 million are included in Long-term income taxes for 2020 and 2019, respectively, and $325.0 million and $138.8 million are included in Prepaid expenses and other current assets for 2020 and 2019, respectively, on the Consolidated Balance Sheet. The remainder is included in Deferred income taxes on the Consolidated Balance Sheet.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and, during 2019 and 2020, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2020, the Company does not yet have a signed agreement with the IRS related to the settlement of these issues.

In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process. The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. While the Company cannot estimate the impact to the effective tax rate, it is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $1,040 million within the next 12 months. This would be due to the possible settlement of the IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In addition, it is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate.

The Company operates within multiple tax jurisdictions and is subject to audit in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

The Company had $177.4 million and $174.4 million accrued for interest and penalties related to tax matters at December 31, 2020 and 2019, respectively. The Company recognized interest and penalties related to tax matters of $32.4 million in 2020, $39.9 million in 2019, and $13.9 million in 2018, which are included in the provision for income taxes.

As of December 31, 2020, the Company has accumulated undistributed earnings generated by our foreign subsidiaries, which were predominantly taxed in the U.S. as a result of the transition tax provisions enacted under the Tax Act. Management does not assert that these previously-taxed unremitted earnings are indefinitely reinvested in operations outside the U.S. Accordingly, the Company has provided deferred taxes for the tax effects incremental to the transition tax. We have not provided for deferred taxes on outside basis differences in our investments in our foreign subsidiaries that are unrelated to these accumulated undistributed earnings, as these outside basis differences are indefinitely reinvested. A determination of the unrecognized deferred taxes related to these other components of our outside basis differences is not practicable.

Employee Benefit Plans

The Company's 401(k) Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows eligible participants to make pre-tax contributions that are matched each pay period (with an annual true-up) through cash contributions and, prior to July 31, 2018, from shares released under the Employee Stock Ownership Plan. Effective August 1, 2018, the contributions are matched only through cash contributions.

All current account balances, future contributions and related earnings can be invested in nine investment alternatives (including a target date fund series), as well as McDonald’s stock in accordance with each participant’s investment elections. Future participant contributions are limited to 20% investment in McDonald’s stock. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain unfunded nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided matching allocations that cannot be made under the 401(k) Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401(k) Plan, net of expenses. Total liabilities were $431.2 million and $435.0 million at December 31, 2020 and 2019, respectively, and were primarily included in Other long-term liabilities on the Consolidated Balance Sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2020, derivatives with a fair value of $185.6 million indexed to the Company's stock and a total return swap with a notional amount of $180.4 million indexed to certain market indices were included at their fair value in Prepaid expenses and other current assets on the Consolidated Balance Sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company’s stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401(k) Plan and nonqualified benefits and related hedging activities, were (in millions): 2020–$37.0; 2019–$30.4; 2018–$18.0. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2020–$36.6; 2019–$35.3; 2018–$33.7.

The total combined liabilities for international retirement plans were $45.5 million and $42.3 million at December 31, 2020 and 2019, respectively. Other post-retirement benefits and post-employment benefits were immaterial to the Consolidated Income Statement.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2020, the Company had two line of credit agreements available, with a combined commitment amount of $4.5 billion. Both line of credit agreements remain unused, with the $1.0 billion agreement expiring in March 2021, and the $3.5 billion agreement expiring in December 2024. The Company intends to renew both line of credit agreements prior to their expiration. The $1.0 billion line of credit includes a fixed fee of 0.375% on the total commitment, and the $3.5 billion line of credit incurs fees of 0.09% per annum on the total commitment. Fees and interest rates on the $3.5 billion line of credit are primarily based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 1.9% at December 31, 2020 (based on $265.7 million of foreign currency bank line borrowings) and 1.9% at December 31, 2019 (based on $242.4 million of foreign currency bank line borrowings and $899.3 million of commercial paper outstanding).

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The Company has no current plans to retire a significant amount of its debt prior to maturity, but continues to look for ways to optimize its debt portfolio.

The following table summarizes the Company's debt obligations (interest rates and debt amounts reflected in the table include the effects of interest rate swaps used to hedge debt).

		Interest rates[(1)] December 31		*Amounts outstanding December 31*	
In millions of U.S. Dollars	*Maturity dates*	***2020***	*2019*	***2020***	*2019*
Fixed		**3.9 %**	4.0 %	**$22,734.5**	$19,340.2
Floating		**0.9**	2.2	**1,150.0**	2,049.3
Total U.S. Dollar	2021-2050			**23,884.5**	21,389.5
Fixed		**1.5**	1.5	**9,453.9**	8,671.8
Floating		**2.1**	2.3	**366.5**	337.0
Total Euro	2021-2031			**9,820.4**	9,008.8
Fixed		**3.4**	3.4	**845.1**	771.0
Floating		**1.2**	2.0	**230.8**	210.6
Total Australian Dollar	2024-2029			**1,075.9**	981.6
Total British Pounds Sterling - Fixed	2032-2054	**4.2**	4.6	**1,156.4**	1,386.3
Total Canadian Dollar - Fixed	2021-2025	**3.1**	3.1	**784.9**	768.6
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**121.1**	115.1
Fixed		**0.2**	0.2	**451.9**	413.8
Floating		**1.9**	2.2	**265.7**	241.8
Total other currencies[(2)]	2021-2024			**717.6**	655.6
Debt obligations before fair value adjustments and deferred debt costs[(3)]				**37,560.8**	34,305.5
Fair value adjustments[(4)]				**35.8**	12.1
Deferred debt costs				**(156.2)**	(140.4)
Total debt obligations				**$37,440.4**	$34,177.2

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Consists of Swiss Francs and Korean Won.

(3) Aggregate maturities for 2020 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2021–$2,243.6; 2022–$2,332.2; 2023–$2,643.9; 2024–$3,300.7; 2025–$3,159.6; Thereafter–$23,880.8. These amounts include a reclassification of short-term obligations totaling $268.9 million to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2024.

(4) The carrying value of underlying items in fair value hedges, in this case debt obligations, are adjusted for fair value changes to the extent they are attributable to the risk designated as being hedged. The related hedging instruments are also recorded at fair value on the Consolidated Balance Sheet.

Share-based Compensation

The Company maintains a share-based compensation plan, which authorizes the granting of various equity-based incentives including stock options and RSUs to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plan was 39.3 million at December 31, 2020, including 24.6 million available for future grants.

Share-based compensation expense and the effect on diluted earnings per common share were as follows:

In millions, except per share data	***2020***	*2019*	*2018*
Share-based compensation expense	**$ 92.4**	$ 109.6	$ 125.1
After tax	**$ 78.3**	$ 94.2	$ 108.1
Earnings per common share-diluted	**$ 0.10**	$ 0.12	$ 0.14

As of December 31, 2020, there was $121.5 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.0 years.

STOCK OPTIONS

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date.

The following table presents the weighted-average assumptions used in the option pricing model for the 2020, 2019 and 2018 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2020	*2019*	*2018*
Expected dividend yield	**2.3 %**	2.7 %	2.6 %
Expected stock price volatility	**19.1 %**	18.9 %	18.7 %
Risk-free interest rate	**1.4 %**	2.5 %	2.7 %
Expected life of options *(in years)*	**5.7**	5.8	5.8
Fair value per option granted	**$ 29.40**	$ 25.60	$ 23.80

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2020, 2019 and 2018, the total intrinsic value of stock options exercised was $290.4 million, $356.1 million and $364.4 million, respectively. Cash received from stock options exercised during 2020 was $295.5 million and the tax benefit realized from stock options exercised totaled $59.3 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2020, 2019 and 2018, and changes during the years then ended, is presented in the following table:

	2020				2019		2018	
Options	*Shares in millions*	*Weighted-average exercise price*	*Weighted-average remaining contractual life in years*	*Aggregate intrinsic value in millions*	*Shares in millions*	*Weighted-average exercise price*	*Shares in millions*	*Weighted-average exercise price*
Outstanding at beginning of year	**14.6**	**$124.21**			16.6	$113.06	18.9	$101.55
Granted	**1.8**	**214.18**			2.0	175.17	2.7	157.95
Exercised	**(2.8)**	**104.58**			(3.6)	97.70	(4.5)	89.31
Forfeited/expired	**(0.2)**	**184.69**			(0.4)	154.65	(0.5)	137.08
Outstanding at end of year	**13.4**	**$139.44**	**5.8**	**$1,005.5**	14.6	$124.21	16.6	$113.06
Exercisable at end of year	**8.8**	**$118.46**	**4.6**	**$ 843.1**	9.2		10.0	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2020, 2019 and 2018 is presented in the following table:

		2020		*2019*		*2018*
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.4**	**$150.95**	1.5	$132.56	1.6	$107.34
Granted	**0.6**	**201.92**	0.6	171.48	0.6	158.28
Vested	**(0.6)**	**127.99**	(0.6)	116.42	(0.6)	91.20
Forfeited	**(0.1)**	**172.45**	(0.1)	153.58	(0.1)	132.14
Nonvested at end of year	**1.3**	**$176.81**	1.4	$150.95	1.5	$132.56

The total fair value of RSUs vested during 2020, 2019 and 2018 was $119.4 million, $111.0 million and $117.9 million, respectively. The tax benefit realized from RSUs vested during 2020 was $23.6 million.

SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with the SEC. There were no subsequent events that required recognition or disclosure.

Management's Assessment of Internal Control Over Financial Reporting

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

I. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

II. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

III. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2020. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013 Framework).

Based on management's assessment using those criteria, as of December 31, 2020, management believes that the Company's internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2020, 2019 and 2018 and the Company's internal control over financial reporting as of December 31, 2020. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD'S CORPORATION

February 23, 2021

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald’s Corporation (the Company) as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Unrecognized Tax Benefits

Description of the Matter

As described in the income taxes footnote to the consolid
unrecognized tax benefits, which includes transfer pric
December 31, 2020. The Company, like other multi-nat
federal, state and foreign tax authorities, and tax assess
returns have been filed. Accordingly, tax liabilities are reco
tax position does not meet the more likely than not thresh
meet the more likely than not threshold, a tax liabilit
management's assessment of how the tax position will ultim

Auditing the measurement of unrecognized tax benef
intercompany transactions was challenging because the
interpretations of complex tax laws and legal rulings and
transactions is based on studies that may produce a range
charged in an arm's-length transaction).

How We Addressed the Matter in Our Audit

We obtained an understanding, evaluated the design, a
controls over the Company's process to assess the techni
benefits related to transfer pricing used in intercompan
management's review of the unrecognized tax benefit calc
comparable transactions used to determine the ranges of
management's transfer pricing studies, and the assessmen

With the assistance of our income tax professionals, we p
among others, evaluating the technical merits of the
measurement of unrecognized tax benefits related to trans
inputs utilized and the pricing conclusions reached in t
management, and compared the methods used to alternati
also reviewed the Company's communications with the
obtained by the Company from third-party advisors. In add
settlement activity, income tax laws, and other market info
the positions and the measurement of unrecognized tax ben

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1964.

Chicago, Illinois
February 23, 2021

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald’s Corporation’s internal control over financial reporting as of December 31, 2020, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald’s Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald’s Corporation as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2020, and the related notes and our report dated February 23, 2021 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Chicago, Illinois
February 23, 2021

Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company’s management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company’s disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of December 31, 2020. Based on that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of such date to provide reasonable assurances that information required to be disclosed by the Company in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2020 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT’S REPORT

Management’s Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in the consolidated financial statements.

Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table summarizes information about the Company’s equity compensation plans as of December 31, 2020. All outstanding awards relate to the Company’s common stock. Shares issued under all of the following plans may be from the Company’s treasury, newly issued or both.

Equity compensation plan information

Plan category	*Number of securities to be issued upon exercise of outstanding options, warrants and rights* *(a)*	*Weighted-average exercise price of outstanding options, warrants and rights* *(b)*	*Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))* *(c)*
Equity compensation plans approved by security holders	14,672,813 *(1)*	$142.81	24,630,227
Equity compensation plans not approved by security holders	—	—	—
Total	14,672,813	$142.81	24,630,227

(1) Includes 802,380 stock options granted under the McDonald’s Corporation 2001 Omnibus Stock Ownership Plan and 12,545,811 stock options and 1,324,622 restricted stock units granted under the McDonald's Corporation Amended and Restated 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2020.

Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements filed as part of this report and are included on pages 38 through 59 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

b. Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

McDonald’s Corporation Exhibit Index

Exhibit Number	Description
(3)	(a) Restated Certificate of Incorporation, effective as of May 23, 2019, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), filed August 6, 2019.
	(b) By-Laws, as amended and restated with effect as of December 6, 2019, incorporated herein by reference from Exhibit 3 of Form 8-K (File No. 001-05231), filed December 10, 2019.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(c) Description of Securities, incorporated herein by reference from Exhibit 4(c) of Form 10-K (File No. 001-05231), filed February 26, 2020.
(10)	Material Contracts
	(a) Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
	(b) McDonald’s Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**
	(i) First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, incorporated herein by reference from Exhibit 10(b)(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2018.**
	(c) McDonald's Amended and Restated Deferred Compensation Plan, effective as of May 26, 2020, incorporated herein by reference from Exhibit 10(c) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**
	(d) McDonald’s Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**
	(i) First Amendment to the McDonald’s Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**
	(ii) Second Amendment to the McDonald’s Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**
	(e) McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**
	(i) First Amendment to the McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**
	(ii) Second Amendment to the McDonald’s Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**
	(f) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**
	(g) McDonald's Corporation Amended and Restated 2012 Omnibus Stock Ownership Plan, effective May 21, 2020, incorporated herein by reference from Exhibit 10(g) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(h) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**

(i) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(j) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(k) Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**

(l) Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(m) Form of 2018 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(n) Separation Agreement and General Release between Douglas Goare and the Company, dated January 7, 2019, incorporated herein by reference from Exhibit 10(r) of Form 10-K (File No. 001-05231), for the year ended December 31, 2018.**

(o) McDonald's Corporation Target Incentive Plan, effective as of January 1, 2013, as Amended and Restated February 13, 2019, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(p) McDonald's Corporation Officer Severance Plan, as Amended and Restated, effective January 1, 2019, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(q) Form of 2019 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(r) Form of 2019 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(s) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(s) Separation Agreement and General Release between Stephen Easterbrook and the Company, dated October 31, 2019, incorporated herein by reference from Exhibit 10.1 of Form 8-K (File No. 001-05231), filed November 4, 2019.

(t) Separation Agreement and General Release between Silvia Lagnado and the Company, dated August 14, 2019, incorporated herein by reference from Exhibit 10(t) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(u) Separation Agreement and General Release between Silvia Lagnado and the Company, dated October 31, 2019, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2020.**

(v) Separation Agreement and General Release between Jerome N. Krulewitch and the Company, dated October 13, 2020, filed herewith.**

(12) Computation of Ratios.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Registered Public Accounting Firm.

(24) Power of Attorney.

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer.

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer.

(32.1) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(101.INS) XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

(101.SCH) Inline XBRL Taxonomy Extension Schema Document.

(104)	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

** Denotes compensatory plan.

Form 10-K Cross-Reference Index

(a) - Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2020.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

By /s/ Kevin M. Ozan

Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer

February 23, 2021

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 23rd day of February, 2021:

By /s/ Lloyd H. Dean
Lloyd H. Dean
Director

By /s/ Robert A. Eckert
Robert A. Eckert
Director

By /s/ Catherine M. Engelbert
Catherine M. Engelbert
Director

By /s/ Margaret H. Georgiadis
Margaret H. Georgiadis
Director

By /s/ Enrique Hernandez, Jr.
Enrique Hernandez, Jr.
Chairman of the Board and Director

By /s/ Catherine Hoovel
Catherine Hoovel
Corporate Vice President – Chief Accounting Officer
(Principal Accounting Officer)

By /s/ Christopher J. Kempczinski
Christopher J. Kempczinski
President, Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ Richard H. Lenny
Richard H. Lenny
Director

By /s/ John J. Mulligan
John J. Mulligan
Director

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Sheila A. Penrose
Sheila A. Penrose
Director

By /s/ John W. Rogers, Jr.
John W. Rogers, Jr.
Director

By /s/ Paul S. Walsh
Paul S. Walsh
Director

By /s/ Miles D. White
Miles D. White
Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

archyellowlogoa07.jpg

McDONALD’S CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	**36-2361282**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
110 North Carpenter Street, Chicago, Illinois	**60607**
(Address of principal executive offices)	(Zip code)

Registrant’s telephone number, including area code: (630) 623-3000
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	MCD	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2019 was $157,661,991,693.
The number of shares outstanding of the registrant's common stock as of January 31, 2020 was 745,446,655.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2020 definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

McDONALD’S CORPORATION
TABLE OF CONTENTS

ORGANIZATION OF OUR ANNUAL REPORT ON FORM 10-K

The order and presentation of content in our Annual Report on Form 10-K ("Form 10-K") differs from the traditional U.S. Securities and Exchange Commission ("SEC") Form 10-K format. We believe that our format improves readability and better presents how we organize and manage our business. See "Form 10-K Cross-Reference Index" for a cross-reference index to the traditional SEC Form 10-K format.

FORWARD-LOOKING STATEMENTS

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. 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 words, such as "could," "should," "continue," "estimate," "forecast," "intend," "look," “may,” “will,” “expect,” “believe,” “anticipate” and “plan” or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry, including those under "Financial Performance and Strategic Direction", "Outlook", or "Risk Factors" are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update such forward-looking statements. Therefore, you should not rely unduly on any forward-looking statements. Our business results are subject to a variety of risks, including those considerations or risks that are reflected in the "Risk Factors" section, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations may change or not be realized and our performance may be adversely affected.

ABOUT McDONALD'S

McDonald’s Corporation, the registrant, together with its subsidiaries, is referred to herein as the "Company." The Company, its franchisees and suppliers, are referred to herein as the "System."

BUSINESS SUMMARY

a. General

Effective January 1, 2019, McDonald's operates under an organizational structure designed to support the Company's efforts toward efficiently driving growth through the Velocity Growth Plan (the "Plan"). The Company’s reporting segments are aligned with its strategic priorities and reflect how management reviews and evaluates operating performance. Significant reportable segments include the United States ("U.S.") and International Operated Markets. In addition, throughout this report we present the International Developmental Licensed Markets & Corporate segment, which includes markets in over 80 countries, as well as Corporate activities.

b. Description of business

- ***General***

The Company franchises and operates McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages in 119 countries. Of the 38,695 restaurants at year-end 2019, 36,059 were franchised, which is 93% of McDonald's restaurants.

McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. The business relationship between McDonald’s and its independent franchisees is supported by adhering to standards and policies and is of fundamental importance to overall performance and to protecting the McDonald’s brand.

The Company is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally relevant customer experiences and driving profitability. Franchising enables an individual to be their own employer and maintain control over all employment related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald’s global brand, operating system and financial resources.

Directly operating McDonald’s restaurants contributes significantly to our ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in our Company-owned and operated restaurants, and in collaboration with franchisees, we are able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald’s restaurants.

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

Conventional Franchise

Under a conventional franchise arrangement, the Company generally owns or secures a long-term lease on the land and building for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are also responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company may co-invest with franchisees to fund improvements to their restaurants or their operating systems. These investments, developed in collaboration with franchisees, are designed to cater to consumer preferences, improve local business performance, and increase the value of our brand through the development of modernized, more attractive and higher revenue generating restaurants.

The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to facilitate consistency and high quality at all McDonald's restaurants. Conventional franchisees contribute to the Company's revenue, primarily through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. This structure enables McDonald's to generate significant and predictable levels of cash flow.

Developmental License or Affiliate

Under a developmental license or affiliate arrangement, licensees are responsible for operating and managing the business, providing capital (including the real estate interest) and developing and opening new restaurants. The Company generally does not invest any capital under a developmental license or affiliate arrangement, and it receives a royalty based on a percent of sales, and generally receives initial fees upon the opening of a new restaurant or grant of a new license.

While developmental license and affiliate arrangements are largely the same, affiliate arrangements are used in a limited number of foreign markets (primarily China and Japan) where the Company also has an equity investment and records its share of net results in Equity in earnings of unconsolidated affiliates.

- ***Supply chain, food safety, and quality assurance***

The Company and its franchisees purchase food, packaging, equipment, and other goods from numerous independent suppliers. The Company has established and enforces high food safety and quality standards. The Company has quality centers around the world designed to promote consistency of its high standards. The quality assurance process not only involves ongoing product reviews, but also on-site supplier visits. A Food Safety Advisory Council, composed of the Company's internal food safety experts, as well as suppliers and outside academia, provides strategic global leadership for all aspects of food safety. We have ongoing programs to educate employees about food safety practices, and our suppliers and restaurant operators participate in food safety trainings where we share best practices on food safety and quality. In addition, the Company works closely with suppliers to encourage innovation and drive continuous improvement. Leveraging scale, supply chain infrastructure and risk management strategies, the Company also collaborates with suppliers toward a goal of achieving competitive, predictable food and paper costs over the long term.

Independently owned and operated distribution centers, approved by the Company, distribute products and supplies to McDonald's restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of food for customers.

- ***Products***

McDonald's restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes.

McDonald's menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, McDonald's Fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, pies, soft drinks, coffee, McCafé beverages and other beverages.

McDonald's restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches and hotcakes.

In addition to these menu items, the restaurants sell a variety of other products during limited-time promotions.

Taste, quality, choice and nutrition are important to our customers, and we are continuously evolving our menu to meet our customers' needs, including testing new products on an ongoing basis.

- ***Marketing***

McDonald's global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald's brand and differentiate the Company from competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience and the customer experience.

- ***Intellectual property***

The Company owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the "McDonald's" trademark and the Golden Arches Logo to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying durations.

- ***Seasonal operations***

The Company does not consider its operations to be seasonal to any material degree.

- ***Working capital practices***

Information about the Company's working capital practices is incorporated herein by reference from Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2019, 2018 and 2017 on pages 6 through 21 and the Consolidated Statement of Cash Flows for the years ended December 31, 2019, 2018 and 2017 on page 37 of this Form 10-K.

- ***Customers***

The Company's business is not dependent upon either a single customer or small group of customers.

- ***Government contracts***

No material portion of the business is subject to renegotiation of profits or termination of contracts or subcontracts at government election.

- ***Competition***

McDonald's restaurants compete with international, national, regional and local retailers of food products. The Company competes on the basis of price, convenience, service, experience, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company's competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company's primary competition, which is referred to as the informal eating out ("IEO") segment, includes the following restaurant categories defined by Euromonitor International: limited-service restaurants (which combines quick-service eating establishments and 100% home delivery/takeaway providers), street stalls or kiosks, cafés, specialist coffee shops, self-service cafeterias and juice/smoothie bars. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than providers with limited table service.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.2 trillion in annual sales in 2018, the most recent year for which data is available. McDonald's Systemwide 2018 restaurant business accounted for 0.4% of those outlets and 8.2% of the sales.

Management also on occasion benchmarks McDonald's against the entire restaurant industry, including the IEO segment defined above and all full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 20 million outlets and generated $2.7 trillion in annual sales in 2018. McDonald's Systemwide restaurant business accounted for 0.2% of those outlets and 3.6% of the sales.

- ***Environmental matters***

The Company continuously monitors developments related to environmental matters, and endeavors to improve its social responsibility and environmental practices to achieve long-term sustainability, which benefits McDonald's and the communities it serves.

Actual or perceived effects of changes in weather patterns, climate, water resources, or packaging waste could have a direct or indirect impact on the operations of the System in ways which we cannot fully predict at this time.

The Company launched a framework in 2018, which includes the environment-related pillars of climate action, packaging and recycling, beef sustainability, and other sustainable sourcing efforts. These include goals and initiatives to reduce System greenhouse gas emissions, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste, which the Company recognizes are also increasingly important to customers.

The Company monitors environment-related governmental initiatives and consumer preferences, and plans to respond in a timely and appropriate manner. Increased focus by certain governmental authorities or consumers on environmental matters may lead to new governmental initiatives or opportunities. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs or operational complexity for the Company.

- ***Number of employees***

The Company's number of employees worldwide, including its corporate and other office employees as well as Company-owned and operated restaurant employees, was approximately 205,000 as of year-end 2019.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

MANAGEMENT'S VIEW OF THE BUSINESS

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance and financial measures which are considered to be non-GAAP, including comparable sales and comparable guest count growth, Systemwide sales growth, return on incremental invested capital ("ROIIC"), free cash flow and free cash flow conversion rate, as described below. Management believes these measures are important in understanding the financial performance of the Company.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as income tax provision adjustments related to the Tax Cuts and Jobs Act of 2017 ("Tax Act"), and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.

- Comparable sales represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation, and, since 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

- Comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed.

- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company’s financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates.

- ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the markets, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.

- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company’s ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value.

2019 FINANCIAL PERFORMANCE

In 2019, global comparable sales increased 5.9% and global comparable guest counts increased 1.0%, reflecting the continued execution against the Velocity Growth Plan.

- Comparable sales in the U.S. increased 5.0% and comparable guest counts decreased 1.9%. The increase in comparable sales reflected strong sales of our iconic core products driven by promotional activity and the continued positive impact from our Experience of the Future ("EOTF") deployment, as well as menu price increases.

- Comparable sales in the International Operated segment increased 6.1% and comparable guest counts increased 3.5%, reflecting positive results across all markets, primarily driven by the U.K. and France.

- Comparable sales in the International Developmental Licensed segment increased 7.2% and comparable guest counts increased 2.2%, reflecting positive sales performance across all geographic regions.

In addition to improved comparable sales and guest count performance, the Company achieved the following financial results in 2019:

- Consolidated revenues were relatively flat with the prior year (increased 3% in constant currencies) at $21.1 billion.

- Systemwide sales increased 4% (7% in constant currencies) to $100.2 billion.

- Consolidated operating income increased 3% (6% in constant currencies). Excluding the impact of current year and prior year impairment and strategic charges, operating income increased 1% (4% in constant currencies). Refer to the Operating Income section on page 15 for additional details.

- Operating margin, defined as operating income as a percent of total revenues, increased from 42.0% in 2018 to 43.0% in 2019. Excluding the items referenced in the previous bullet point, operating margin increased from 43.1% in 2018 to 43.4% in 2019.

- Diluted earnings per share of $7.88 increased 5% (7% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 10 for additional details.

- Cash provided by operations was $8.1 billion.

- Capital expenditures of $2.4 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.

- Free cash flow was $5.7 billion, a 36% increase over the prior year.

- Across the System, about 1,200 restaurants (including those in our developmental licensee and affiliated markets) were opened.

- One-year ROIIC was 22.8% and three-year ROIIC was 40.6% for the period ended December 31, 2019. Excluding significant investing cash flows resulting from the Company's strategic refranchising initiatives, three-year ROIIC was 24.6% (see reconciliation in Exhibit 12).

- The Company increased its quarterly cash dividend per share by 8% to $1.25 for the fourth quarter, equivalent to an annual dividend of $5.00 per share.

- The Company returned $8.6 billion to shareholders through share repurchases and dividends for the year, marking successful achievement of the Company's targeted return of $25 billion for the three-year period ending 2019.

STRATEGIC DIRECTION

The strength of the alignment among the Company, its franchisees and suppliers is key to McDonald's long-term success. By leveraging the System, McDonald’s is able to identify, implement and scale ideas that meet customers' changing needs and preferences. McDonald's continually builds on its competitive advantages of System alignment and geographic diversification to deliver consistent, yet locally-relevant restaurant experiences to customers as an integral part of their communities.

CUSTOMER-CENTRIC GROWTH STRATEGY

The Velocity Growth Plan, the Company’s customer-centric strategy, is rooted in extensive customer research and insights, along with a deep understanding of the key drivers of the business. The Plan is designed to drive sustainable comparable sales and guest count growth, reliable long-term measures of the Company's strength that are vital to growing shareholder value. In 2019, execution of the Plan drove further broad-based growth around the globe. In 2020, the Company will continue to focus on elevating the customer experience through improved restaurant execution and creating excitement around our food and value offerings, while continuing to leverage technology to enable greater convenience and customer personalization.

The Company continues to target the opportunity at the core of its business - its food, value and customer experience. The strategy is built on the following three pillars, all focusing on building a better McDonald’s:

- <u>Retaining existing customers</u> - focusing on areas where it already has a strong foothold in the IEO category, including family occasions and food-led breakfast.

- <u>Regaining customers who visit less often</u> - recommitting to areas of historic strength, namely food taste and quality, convenience and speed, experience and value.

- <u>Converting casual to committed customers</u> - building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack and treat offerings.

The Company continues to scale and optimize the Plan through the following growth accelerators:

- <u>Experience of the Future</u>. The Company is building upon its investments in EOTF, focusing on restaurant modernization in order to transform the restaurant service experience and enhance our brand in the eyes of our customers. The modernization efforts are designed to provide a better customer experience, leading to increased frequency of customer visits and higher average check. As of the end of 2019, EOTF is deployed in over half of the restaurants in our global system, with most of the major markets substantially complete. In 2019, the U.S. converted about 2,000 restaurants to EOTF, resulting in about 70% of the U.S. restaurants now having EOTF. In 2020, the Company will further deploy EOTF around the globe, including converting about 1,800 of the remaining restaurants in the U.S. to EOTF.

- Digital. The Company is improving its existing service model with customers through technology. Digital technology is transforming the retail industry, and the Company is using it to transform McDonald's for our customers at an accelerated pace. By evolving the technology platform, the Company is expanding choices for how customers order, pay and are served their food. The added functionality of the Company's global mobile app, self-order kiosks, and other technologies enable greater convenience for the customer on their terms. In 2019, the Company built on its digital foundation, acquiring Dynamic Yield, a leader in personalization and decision logic technology. The Company has implemented this technology via outdoor digital menu boards in over 11,000 U.S. drive-thrus, offering customers a more customized experience and producing sales growth through higher average check. This technology is also deployed in nearly all drive-thrus in Australia, and we are looking to deploy across further international markets beginning in 2020. The Company continued to expand its technological capabilities via the acquisition of Apprente, an early-stage leader in conversational interface technology. This technology is expected to provide more efficient and accurate ordering in the drive-thru. In 2020, the Company will continue to utilize more personalized digital initiatives to engage customers, grow awareness and adoption of digital offerings, and support our menu offerings.

- Delivery. The Company continues to build momentum with its delivery platform as a way of expanding the convenience for its customers. In 2019, McDonald’s continued to add third-party delivery partners in order to maximize the System’s delivery scale and potential. Across the global system, nearly 25,000 restaurants now offer delivery. Customers are responding positively, as demonstrated by high satisfaction ratings, strong reorder rates, and average checks that are generally two times higher than average non-delivery transactions. Further, in some of our top markets, delivery now represents as much as 10% of sales in those restaurants offering delivery. Consequently, McDonald’s global delivery business has grown to over $4 billion in Systemwide sales in 2019, up from $1 billion in 2016. We continue to see great runway ahead of us to drive awareness and trial of delivery, and are focusing on efforts to encourage frequency and retention in 2020 and beyond.

The Plan is a global strategy that is tailored at a market level to allow for the best customer experience and most convenience for our valued customers. While the Plan provides a consistent framework on how to retain, regain, and convert customers, the execution varies across the globe. The U.S., for example, remains centered on returning to guest count growth by focusing on running better restaurant operations, introducing new menu items and offering compelling value. In addition, we will continue transforming the customer experience through aggressive execution of the growth accelerators of EOTF, digital and delivery. In 2020, the markets around the world will continue to make progress on the three pillars of the Plan and its growth accelerators, focusing on food, value and customer convenience.

Our Plan also includes the Company further embedding actions in response to certain social and environmental issues into the core of our business. As one of the world’s largest restaurant companies, our approach highlights our commitment to global actions that are consistent with our strategic priorities and provides an opportunity to collaborate with our franchisees and suppliers to drive meaningful progress. We recognize that our success in advancing these initiatives will be demonstrated as customers continue to feel good about visiting McDonald’s restaurants and eating our food.

While we are working to address many challenges facing society today, we are elevating global action where we believe we can make the greatest difference in driving industry-wide change. Our priorities reflect the social and environmental impacts of our food and our business. Highlights include science-based targets for greenhouse gas emissions reductions and climate action, advancing sustainable practices in beef production with suppliers and producers, driving innovative solutions for our packaging and recycling efforts, and ongoing commitments to support families and provide opportunities for youth in our communities. In 2019, for example, we made progress toward our 2030 climate action target with the addition of significant investments in renewable energy projects in the U.S.; we achieved our goal of 100% sustainably sourced McCafé coffee for U.S. restaurants; and we continued to make a difference for families through innovation in our food offerings, reading programs and support for Ronald McDonald House Charities.

The Company is confident, that under the Plan, we will continue to improve the taste of our delicious food, enhance convenience and service through running great restaurants, offer compelling value, and heighten the trust consumers place in our brand, which we believe will enable us to deliver long-term sustainable growth.

OUTLOOK

2020 Outlook

The following information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion, and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1.5 percentage points to 2020 Systemwide sales growth (in constant currencies).

- The Company expects full year 2020 selling, general and administrative expenses to increase about 5% to 7% in constant currencies as the Company invests in technology and research & development, and incurs costs related to the Worldwide Owner/Operator Convention, which will occur in the second quarter 2020.

- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2020 to increase about 4% to 6% due primarily to higher average debt balances.

- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 80% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 35 cents.

- The Company expects the effective income tax rate for the full year 2020 to be in the 23% to 25% range. Some volatility may result in a quarterly tax rate outside of the annual range.

- The Company expects capital expenditures for 2020 to be approximately $2.4 billion. About $1.3 billion will be dedicated to our U.S. business, over half of which is allocated to approximately 1,800 EOTF projects. Globally, we expect to open roughly 1,400 restaurants. We will spend approximately $800 million in the U.S. and International Operated segments to open 400 restaurants and our developmental licensees and affiliates will contribute capital towards the remaining 1,000 restaurant openings in the International Developmental Licensed segment. The Company expects about 1,000 net restaurant additions in 2020.

Long-Term Outlook

- Over the long-term, the Company expects to achieve the following average annual (constant currency) financial targets:

    - Systemwide sales growth of 3% to 5%;
    - Operating margin in the mid-40% range;
    - Earnings per share growth in the high-single digits; and
    - Return on incremental invested capital in the mid-20% range.

CONSOLIDATED OPERATING RESULTS

Operating results

Dollars and shares in millions, except per share data	**2019** *Amount*	**2019** *Increase/ (decrease)*	2018 *Amount*	2018 *Increase/ (decrease)*	2017 *Amount*
Revenues					
Sales by Company-operated restaurants	**$9,421**	**(6%)**	$ 10,013	(21%)	$ 12,719
Revenues from franchised restaurants	**11,656**	**6**	11,012	9	10,101
Total revenues	**21,077**	**0**	21,025	(8)	22,820
Operating costs and expenses					
Company-operated restaurant expenses	**7,761**	**(6)**	8,266	(21)	10,410
Franchised restaurants-occupancy expenses	**2,201**	**12**	1,973	10	1,789
Selling, general & administrative expenses	**2,229**	**1**	2,200	(1)	2,231
Other operating (income) expense, net	**(184)**	**22**	(237)	80	(1,163)
Total operating costs and expenses	**12,007**	**(2)**	12,202	(8)	13,267
Operating income	**9,070**	**3**	8,823	(8)	9,553
Interest expense	**1,122**	**14**	981	7	922
Nonoperating (income) expense, net	**(70)**	**n/m**	26	(56)	58
Income before provision for income taxes	**8,018**	**3**	7,816	(9)	8,573
Provision for income taxes	**1,993**	**5**	1,892	(44)	3,381
Net income	**$6,025**	**2%**	$ 5,924	14%	$ 5,192
Earnings per common share—diluted	**$ 7.88**	**5%**	$ 7.54	18%	$ 6.37
Weighted-average common shares outstanding—diluted	**764.9**	**(3%)**	785.6	(4%)	815.5

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows.

In 2019, results reflected the weakening of the Euro and most other major currencies. In 2018, results reflected the stronger Euro and British Pound. In 2017, results reflected the stronger Euro, offset by the weaker British Pound.

Impact of foreign currency translation on reported results

In millions, except per share data	*Reported amount* **2019**	*Reported amount* 2018	*Reported amount* 2017	*Currency translation benefit/(cost)* **2019**	*Currency translation benefit/(cost)* 2018	*Currency translation benefit/(cost)* 2017
Revenues	**$ 21,077**	$ 21,025	$ 22,820	**$ (606)**	$ 123	$ 186
Company-operated margins	**1,660**	1,747	2,309	**(51)**	4	17
Franchised margins	**9,455**	9,039	8,312	**(256)**	57	25
Selling, general & administrative expenses	**2,229**	2,200	2,231	**29**	(13)	(10)
Operating income	**9,070**	8,823	9,553	**(280)**	56	28
Net income	**6,025**	5,924	5,192	**(165)**	33	2
Earnings per common share—diluted	**7.88**	7.54	6.37	**(0.21)**	0.04	—

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2019, net income increased 2% (4% in constant currencies) to $6.0 billion and diluted earnings per common share increased 5% (7% in constant currencies) to $7.88. Foreign currency translation had a negative impact of $0.21 on diluted earnings per share.

In 2018, net income increased 14% (13% in constant currencies) to $5.9 billion and diluted earnings per common share increased 18% (18% in constant currencies) to $7.54. Foreign currency translation had a positive impact of $0.04 on diluted earnings per share.

Results in 2019 reflected stronger operating performance primarily due to an increase in sales-driven franchised margin dollars, partly offset by lower gains on sales of restaurant businesses (mostly in the U.S.) and higher G&A spend. Results in 2018 reflected a lower effective tax rate, and stronger operating performance due to an increase in sales-driven franchised margin dollars, partly offset by lower Company-operated margin dollars due to the impact of refranchising.

Outlined below is additional information for the full year 2019, 2018, and 2017:

Diluted Earnings Per Common Share Reconciliation

	Amount			Increase/ (decrease)		Increase/(decrease) excluding currency translation	
	2019	2018	2017	**2019**	2018	**2019**	2018
GAAP earnings per share-diluted	**$ 7.88**	$ 7.54	$ 6.37	**5 %**	18 %	**7 %**	18 %
Income tax (benefit) cost, net	**(0.11)**	0.10	0.82				
Strategic charges	**0.07**	0.26	(0.53)				
Non-GAAP earnings per share-diluted	**$ 7.84**	$ 7.90	$ 6.66	**(1)%**	19 %	**2 %**	18 %

Included in the 2019 results were:

- $84 million, or $0.11 per share, of income tax benefit due to new regulations issued in the fourth quarter 2019 related to the Tax Act; and
- $74 million of pre-tax strategic charges, or $0.07 per share, primarily related to impairment associated with the purchase of our joint venture partner's interest in the India Delhi market, partly offset by gains on the sales of property at the former Corporate headquarters.

Included in the 2018 results were:

- $75 million, or $0.10 per share, of net tax cost associated with the final 2018 adjustments to the provisional amounts recorded in December 2017 under the Tax Act;
- $140 million of pre-tax, non-cash impairment charges, or $0.17 per share; and
- $94 million of pre-tax strategic restructuring charges, or $0.09 per share.

Included in the 2017 results were:

- $700 million of net tax cost associated with the Tax Act, or $0.82 per share; and
- a pre-tax gain of $850 million on the sale of the Company’s businesses in China and Hong Kong, offset in part by $150 million of restructuring and impairment charges in connection with the Company’s global G&A and refranchising initiatives, for a net benefit of $0.53 per share.

Excluding the above 2019 and 2018 items, 2019 net income decreased 3% (1% in constant currencies), and diluted earnings per share decreased 1% (increased 2% in constant currencies). Excluding items impacting 2018 and 2017, 2018 net income increased 14% (14% in constant currencies), and diluted earnings per share increased 19% (18% in constant currencies).

The Company repurchased 25.0 million shares of its stock for $5.0 billion in 2019 and 32.2 million shares of its stock for $5.2 billion in 2018, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. Initial fees are recognized evenly over the franchise term.

Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2019. The Company's current mix of Company-owned and franchised restaurants enables the Company to generate stable and predictable revenue and cash flow streams. Refranchising to a greater percentage of franchised restaurants may negatively impact consolidated revenues as Company-operated sales are replaced by franchised revenues, where the Company receives rent and/or royalty revenue based on a percent of sales.

In 2019, revenues were relatively flat with the prior year (increased 3% in constant currencies). The constant currency increase was primarily due to strong comparable sales, partly offset by the impact of refranchising. In 2018, revenues decreased 8% (8% in constant currencies), reflecting the Company's strategic refranchising initiatives, partly offset by positive comparable sales.

Revenues

Dollars in millions	***2019*** Amount	*2018*	*2017*	***2019*** Increase/ (decrease)	*2018*		***2019*** Increase/ (decrease) excluding currency translation	*2018*	
Company-operated sales:									
U.S.	**$ 2,490**	$ 2,665	$ 3,260	**(7 %)**	(18 %)		**(7 %)**	(18 %)	
International Operated Markets	**6,334**	6,668	6,845	**(5)**	(3)		**(1)**	(3)	
International Developmental Licensed Markets & Corporate	**597**	680	2,614	**(12)**	(74)	*	**(7)**	(75)	*
Total	**$ 9,421**	$ 10,013	$ 12,719	**(6 %)**	(21 %)		**(3 %)**	(22 %)	
Franchised revenues:									
U.S.	**$ 5,353**	$ 5,001	$ 4,746	**7 %**	5 %		**7 %**	5 %	
International Operated Markets	**5,064**	4,839	4,271	**5**	13		**10**	11	
International Developmental Licensed Markets & Corporate	**1,239**	1,172	1,084	**6**	8		**10**	11	
Total	**$ 11,656**	$ 11,012	$ 10,101	**6 %**	9 %		**9 %**	8 %	
Total revenues:									
U.S.	**$ 7,843**	$ 7,666	$ 8,006	**2 %**	(4 %)		**2 %**	(4 %)	
International Operated Markets	**11,398**	11,507	11,116	**(1)**	4		**4**	2	
International Developmental Licensed Markets & Corporate	**1,836**	1,852	3,698	**(1)**	(50)	*	**4**	(50)	*
Total	**$ 21,077**	$ 21,025	$ 22,820	**0 %**	(8 %)		**3 %**	(8 %)	

* Reflects the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

- ***U.S.:*** Revenues in 2019 and 2018 reflected positive comparable sales. The impact of refranchising partly offset these benefits in 2019 and more than offset these benefits in 2018.

- ***International Operated Markets:*** In 2019 and 2018, the constant currency increase in revenues reflected positive comparable sales across all markets, partly offset by the impact of refranchising.

The following tables present comparable sales, comparable guest counts and Systemwide sales increases/(decreases):

Comparable sales and guest count increases/(decreases)

	2019 Sales	***2019*** Guest Counts	*2018* Sales	*2018* Guest Counts	*2017* Sales	*2017* Guest Counts
U.S.	**5.0 %**	**(1.9 %)**	2.5 %	(2.2 %)	3.6 %	1.0 %
International Operated Markets	**6.1**	**3.5**	6.1	2.8	5.6	2.7
International Developmental Licensed Markets & Corporate**	**7.2**	**2.2**	5.6	1.0	8.0	2.5
Total**	**5.9 %**	**1.0 %**	4.5 %	0.2 %	5.3 %	1.9 %

** The Company excludes sales from markets identified as hyper-inflationary (currently, only Venezuela) from the comparable sales calculation as the Company believes this more accurately reflects the underlying business trends.

*Systemwide sales increases/(decreases)****

	2019	*2018*	***2019*** Increase/(decrease) excluding currency translation	*2018*
U.S.	**5 %**	2 %	**5 %**	2 %
International Operated Markets	**3**	10	**8**	8
International Developmental Licensed Markets & Corporate	**5**	6	**10**	9

Total	**4 %**	6 %	**7 %**	6 %

*** Unlike comparable sales, the Company has not excluded hyper-inflationary market results (currently, only Venezuela) from Systemwide sales as these sales are the basis on which the Company calculates and records revenues. The difference between comparable sales growth rates and Systemwide sales growth rates are due to both restaurant expansion and the hyper-inflationary impact.

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):

Franchised sales

			Amount	*Increase/ (decrease)*			*Increase/ (decrease) excluding currency translation*		
Dollars in millions	***2019***	*2018*	*2017*	***2019***	*2018*		***2019***	*2018*	
U.S.	**$ 37,923**	$ 35,860	$ 34,379	**6 %**	4 %		**6 %**	4 %	
International Operated Markets	**28,853**	27,557	24,386	**5**	13		**10**	11	
International Developmental Licensed Markets & Corporate	**23,981**	22,717	19,426	**6**	17	*	**10**	20	*
Total	**$ 90,757**	$ 86,134	$ 78,191	**5 %**	10 %		**8 %**	10 %	
Ownership type									
Conventional franchised	**$ 66,415**	$ 63,251	$ 59,151	**5 %**	7 %		**7 %**	6 %	
Developmental licensed	**14,392**	13,519	12,546	**6**	8		**13**	13	
Foreign affiliated	**9,950**	9,364	6,494	**6**	44	*	**7**	42	*
Total	**$ 90,757**	$ 86,134	$ 78,191	**5 %**	10 %		**8 %**	10 %	

* Reflects the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

FRANCHISED MARGINS

Franchised margin dollars represent revenues from franchised restaurants less the Company's costs associated with those restaurants, primarily occupancy costs (rent and depreciation). Franchised margin dollars represented about 85% of the combined restaurant margins in 2019 and 2018, and about 80% in 2017.

In 2019, franchised margin dollars increased $416 million or 5% (7% in constant currencies). In 2018, franchised margin dollars increased $727 million or 9% (8% in constant currencies). For both 2019 and 2018, the increases were due to positive comparable sales performance across all segments, as well as expansion and the impact of refranchising.

Franchised margins

	Amount	*% of Revenue*	*Amount*	*% of Revenue*	*Amount*	*% of Revenue*	*Increase/ (decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2019***		*2018*		*2017*		***2019***	*2018*	***2019***	*2018*
U.S.	**$ 4,227**	**79.0 %**	$ 4,070	81.4 %	$ 3,913	82.4 %	**4 %**	4 %	**4 %**	4 %
International Operated Markets	**4,018**	**79.3**	3,829	79.1	3,365	78.8	**5**	14	**10**	11
International Developmental Licensed Markets & Corporate	**1,210**	**97.7**	1,140	97.3	1,034	95.4	**6**	10	**11**	13
Total	**$ 9,455**	**81.1 %**	$ 9,039	82.1 %	$ 8,312	82.3 %	**5 %**	9 %	**7 %**	8 %

The adoption of Accounting Standard Codification ("ASC") Topic 842, "Leases" ("ASC 842") had no impact on franchised margin dollars, but had a negative impact on the Company's franchised margin percent for 2019 of approximately 1.3% in the U.S. and 0.7% on a consolidated basis. ASC 842 clarified the presentation of sub-lease income and lease expense, requiring the straight-line impact of fixed rent escalations to be presented on a gross basis in lease income and lease expense.

- ***U.S.:*** In 2019 and 2018, the decreases in the franchised margin percents were primarily due to higher depreciation costs related to investments in EOTF, partly offset by the benefit from positive comparable sales. 2019 also reflected the impact of the new lease standard.

- ***International Operated Markets:*** In 2019 and 2018, the increases in the franchised margin percent primarily reflected the benefit from strong comparable sales.

COMPANY-OPERATED MARGINS

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. In 2019, Company-operated margin dollars decreased $87 million or 5% (2% in constant currencies). In 2018, Company-operated margin dollars decreased $562 million or 24% (25% in constant currencies) primarily reflecting the Company's sale of its businesses in China and Hong Kong in 2017.

Company-operated margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	**2019**		2018		2017		**2019**	2018	**2019**	2018
U.S.	**$ 388**	**15.6 %**	$ 397	14.9 %	$ 523	16.0 %	**(2 %)**	(24 %)	**(2 %)**	(24 %)
International Operated Markets	**1,266**	**20.0**	1,327	19.9	1,336	19.5	**(5)**	(1)	**(1)**	(1)
International Developmental Licensed Markets & Corporate	**n/m**	**n/m**	n/m	n/m	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$ 1,660**	**17.6 %**	$ 1,747	17.4 %	$ 2,309	18.2 %	**(5 %)**	(24 %)	**(2 %)**	(25 %)

n/m Not meaningful

- ***U.S.:*** In 2019, the increase in the Company-operated margin percent primarily reflected the benefit from positive comparable sales, partly offset by higher commodity costs, wages and depreciation expense associated with EOTF deployment. In 2018, the Company-operated margin percent decreased, reflecting the impact of accelerated deployment of EOTF (including the related decrease in labor productivity and higher depreciation expense), and higher wages and commodity costs, which more than offset the benefit from positive comparable sales and refranchising.

- ***International Operated Markets:*** In 2019 and 2018, the increase in the Company-operated margin percent was primarily due to strong comparable sales partly offset by higher labor and occupancy & other costs.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses increased 1% (3% in constant currencies) in 2019 and decreased 1% (2% in constant currencies) in 2018. The results for 2019 and 2018 reflected investments in technology and research & development. The decrease in 2018 also reflected lower employee-related costs, partly offset by costs related to the 2018 Worldwide Owner/Operator Convention and sponsorship of the 2018 Winter Olympics.

Selling, general & administrative expenses

	Amount			Increase/ (decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	**2019**	2018	2017	**2019**	2018	**2019**	2018
U.S.	**$ 587**	$ 591	$ 624	**(1 %)**	(5 %)	**(1 %)**	(5 %)
International Operated Markets	**629**	641	654	**(2)**	(2)	**3**	(4)
International Developmental Licensed Markets & Corporate(1)	**1,013**	968	953	**5**	2	**5**	2
Total Selling, General & Administrative Expenses	**$ 2,229**	$ 2,200	$ 2,231	**1 %**	(1 %)	**3 %**	(2 %)
Less: Incentive-Based Compensation(2)	**289**	284	336	**2 %**	(16 %)	**3 %**	(16 %)
Total Excluding Incentive-Based Compensation	**$ 1,940**	$ 1,916	$ 1,895	**1 %**	1 %	**3 %**	1 %

(1) Included in International Developmental Licensed Markets & Corporate are home office support costs in areas such as facilities, finance, human resources, information technology and R&D, legal, marketing, restaurant operations, supply chain and training.

(2) Includes all cash incentives and share-based compensation expense.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.2% in 2019, 2.3% in 2018 and 2.5% in 2017. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	***2019***	*2018*	*2017*
Gains on sales of restaurant businesses	**$ (127)**	$ (304)	$ (295)
Equity in earnings of unconsolidated affiliates	**(154)**	(152)	(184)
Asset dispositions and other (income) expense, net	**23**	(13)	19
Impairment and other charges (gains), net	**74**	232	(703)
Total	**$ (184)**	$ (237)	$ (1,163)

- ***Gains on sales of restaurant businesses***

In 2019, gains on sales of restaurant businesses decreased primarily due to fewer restaurant sales in the U.S.

- ***Impairment and other charges (gains), net***

In 2019, impairment and other charges (gains), net primarily reflected $99.4 million of impairment associated with the purchase of our joint venture partner's interest in the India Delhi market. Impairment was recorded to reflect the write-down of net assets to fair value in accordance with accounting rules. This was partly offset by $20.3 million of gains on the sales of property at the former Corporate headquarters which were impaired in 2015 based on estimated fair values.

The results in 2018 reflected $140 million of impairment charges due to the Company’s assessment of the recoverability of long-lived assets as well as the strategic restructuring charge in the U.S. of $85.0 million.

The results in 2017 reflected a gain on the Company's sale of its businesses in China and Hong Kong of $850 million, partly offset by $150 million of restructuring and impairment charges.

OPERATING INCOME

Operating income

			Amount	*Increase/(decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2019***	*2018*	*2017*	***2019***	*2018*	***2019***	*2018*
U.S.	**$ 4,069**	$ 4,016	$ 4,023	**1 %**	0 %	**1 %**	0 %
International Operated Markets	**4,789**	4,643	4,173	**3**	11	**8**	9
International Developmental Licensed Markets & Corporate	**212**	164	1,357	**29**	(88)	**59**	(86)
Total	**$ 9,070**	$ 8,823	$ 9,553	**3 %**	(8 %)	**6 %**	(8 %)

- ***Operating Income:*** Results for 2019 included $74 million of net impairment and strategic charges. Results for 2018 included $140 million of impairment charges and $94 million of strategic restructuring charges. Results for 2017 included a gain on the Company's sale of its businesses in China and Hong Kong of $850 million, partly offset by $150 million of restructuring and impairment charges. Excluding these current year and prior year items, operating income increased 1% (4% in constant currencies) for 2019 and increased 2% (2% in constant currencies) for 2018.

  - ***U.S.:*** Excluding the 2018 strategic restructuring charge of $85 million, operating income decreased 1% for 2019 and increased 2% for 2018. 2019 results reflected lower gains on sales of restaurant businesses, partly offset by higher franchised margin dollars. 2018 results reflected higher franchised margin dollars and lower G&A costs, partly offset by lower Company-operated margin dollars.

  - ***International Operated Markets:*** In 2019 and 2018, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars. 2018 results also reflected higher gains on sales of restaurant businesses in the U.K. and Australia compared to 2017.

- ***Operating margin:*** Operating margin was 43.0% in 2019, 42.0% in 2018 and 41.9% in 2017. Excluding the impact of the current and prior year impairment and strategic charges, as well as the 2017 refranchising gain, operating margin was 43.4%, 43.1% and 38.8% for the years ended 2019, 2018 and 2017, respectively.

INTEREST EXPENSE

Interest expense increased 14% (16% in constant currencies) and 7% (6% in constant currencies) in 2019 and 2018, respectively. Both periods reflected higher average debt balances. Interest expense in 2019 also reflected the impact of interest incurred on certain Euro denominated deposits due to the current interest rate environment, while 2018 results reflected lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2019***	*2018*	*2017*
Interest income	**$ (37)**	$ (4)	$ (7)
Foreign currency and hedging activity	**(48)**	5	26
Other expense	**15**	25	39
Total	**$ (70)**	$ 26	$ 58

Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2019, 2018 and 2017, the reported effective income tax rates were 24.9%, 24.2% and 39.4%, respectively.

The effective income tax rate for 2019 reflected $84 million of income tax benefit due to new regulations issued in the fourth quarter 2019 related to the Tax Act. Excluding the income tax benefit, the effective income tax rate was 25.9% for the year 2019.

The effective income tax rate for 2018 reflected the final 2018 adjustments to the provisional amounts recorded in 2017 under the Tax Act of $75 million net tax cost. Excluding the 2018 impact of the Tax Act and impairment charges, the effective income tax rate was 22.9% for the year 2018.

Excluding these current year and prior year items, the lower effective income tax rate for 2018 primarily reflected a benefit from a change in tax reserves as a result of global audit progression, as well as lower tax costs in 2018 related to ongoing taxes under the Tax Act.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $5.3 billion in 2019 and $2.0 billion in 2018. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included on page 39 of this Form 10-K.

CASH FLOWS

The Company generates significant cash from its operations and has substantial credit availability and capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $8.1 billion in 2019, an increase of $1.1 billion or 17%. Free cash flow was $5.7 billion in 2019, an increase of $1.5 billion or 36%. The Company’s free cash flow conversion rate was 95% in 2019 and 71% in 2018 (see reconciliation in Exhibit 12). Cash provided by operations increased in 2019 compared to 2018 primarily due to a decrease in accounts receivable and lower income tax payments. In 2018, cash provided by operations totaled $7.0 billion, an increase of $1.4 billion or 25% compared with 2017, primarily due to lower tax payments.

Cash used for investing activities totaled $3.1 billion in 2019, an increase of $616 million compared with 2018. The increase was primarily due to the Company’s strategic acquisitions of a real estate entity, Dynamic Yield and Apprente, partly offset by lower capital expenditures. Cash used for investing activities totaled $2.5 billion in 2018, an increase of $3.0 billion compared with 2017. The increase was primarily due to lower proceeds from the sale of restaurant businesses in 2018 including the comparison to the proceeds received in 2017 associated with the sale of the Company's businesses in China and Hong Kong, as well as higher capital expenditures.

Cash used for financing activities totaled $5.0 billion in 2019, a decrease of $955 million compared with 2018, primarily due to net debt activity. Cash used for financing activities totaled $5.9 billion in 2018, an increase of $639 million compared with 2017, primarily due to higher treasury stock purchases.

The Company’s cash and equivalents balance was $899 million and $866 million at year end 2019 and 2018, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2019, the Company opened 1,231 restaurants and closed 391 restaurants. In 2018, the Company opened 1,081 restaurants and closed 467 restaurants.

Systemwide restaurants at year end

	2019	*2018*	*2017*
U.S.	**13,846**	13,914	14,036
International Operated Markets	**10,465**	10,263	10,098

International Developmental Licensed Markets & Corporate	**14,384**	13,678	13,107
Total	**38,695**	37,855	37,241

Approximately 93% of the restaurants at year-end 2019 were franchised, including 95% in the U.S., 84% in International Operated Markets and 98% in the International Developmental Licensed Markets.

Capital expenditures decreased $348 million or 13% in 2019 primarily due to lower reinvestment in existing restaurants, partly offset by an increase in new restaurant openings that required the Company's capital. Capital expenditures increased $888 million or 48% in 2018, primarily due to reinvestment in existing restaurants (including investment in EOTF).

Capital expenditures

In millions	***2019***	*2018*	*2017*
New restaurants	**$ 605**	$ 488	$ 537
Existing restaurants	**1,702**	2,111	1,236
Other[(1)]	**87**	143	81
Total capital expenditures	**$ 2,394**	$ 2,742	$ 1,854
Total assets	**$ 47,511**	$ 32,811	$ 33,804

(1) Primarily corporate equipment and other office-related expenditures

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald’s restaurants in the U.S. averaged approximately $4.0 million in 2019.

The Company owned approximately 55% and 50% of the land for restaurants in its consolidated markets at year-end 2019 and 2018, respectively, and approximately 80% of the buildings for restaurants in its consolidated markets at year-end 2019 and 2018.

SHARE REPURCHASES AND DIVIDENDS

In 2019, the Company returned approximately $8.6 billion to shareholders through a combination of shares repurchased and dividends paid, marking the achievement of the Company's targeted return of $25 billion for the three-year period ended 2019.

Shares repurchased and dividends

In millions, except per share data	***2019***	*2018*	*2017*
Number of shares repurchased	**25.0**	32.2	31.4
Shares outstanding at year end	**746**	767	794
Dividends declared per share	**$ 4.73**	$ 4.19	$ 3.83
Treasury stock purchases *(in Shareholders' equity)*	**$ 4,980**	$ 5,247	$ 4,651
Dividends paid	**3,582**	3,256	3,089
Total returned to shareholders	**$ 8,562**	$ 8,503	$ 7,740

In July 2017, the Company's Board of Directors authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2019, approximately 25.0 million shares were repurchased for $5.0 billion, bringing total purchases under the program to approximately 74.5 million shares or $12.9 billion. In December 2019, the Company's Board of Directors terminated the 2017 program and replaced it with a new share repurchase program, effective January 1, 2020, that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date.

The Company has paid dividends on its common stock for 44 consecutive years and has increased the dividend amount every year. The 2019 full year dividend of $4.73 per share reflects the quarterly dividend paid for each of the first three quarters of $1.16 per share, with an increase to $1.25 per share paid in the fourth quarter. This 8% increase in the quarterly dividend equates to a $5.00 per share annual dividend and reflects the Company’s confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

FINANCIAL POSITION AND CAPITAL RESOURCES

TOTAL ASSETS

Total assets increased $14.7 billion or 45% in 2019, primarily due to the addition of the Lease Right-of-Use Asset, Net, which was recorded upon adoption of ASC 842 effective January 1, 2019. Refer to the Lease Accounting section under Recent Accounting Pronouncements on page 39 for additional information on ASC 842. Net property and equipment increased $1.3 billion in 2019, primarily due to capital expenditures, partly offset by depreciation. Net property and equipment and the Lease Right-of-Use Asset, Net represented over 50% and approximately 30%, respectively, of total assets at year-end. Approximately 93% of total assets were in the U.S. and International Operated Markets at year-end 2019.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2019 totaled $34.2 billion, compared with $31.1 billion at December 31, 2018. The net increase in 2019 was primarily due to net long-term issuances of $2.5 billion.

Debt highlights[1]

	2019	2018	2017
Fixed-rate debt as a percent of total debt[2,3]	**92 %**	91 %	89 %
Weighted-average annual interest rate of total debt[3]	**3.2**	3.2	3.3
Foreign currency-denominated debt as a percent of total debt[2]	**38**	38	42
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)[2]	**131**	125	112
Cash provided by operations as a percent of total debt[2]	**24**	22	19

(1) All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year. See reconciliation in Exhibit 12.

(2) Based on debt obligations before the effects of fair value hedging adjustments and deferred debt costs. These effects are excluded as they have no impact on the obligation at maturity. See Debt Financing note to the consolidated financial statements.

(3) Includes the effect of interest rate swaps used to hedge debt.

Standard & Poor's and Moody's currently rate, with a stable outlook, the Company's commercial paper A-2 and P-2, respectively; and its long-term debt BBB+ and Baa1, respectively. To access the debt capital markets, the Company relies on credit-rating agencies to assign short-term and long-term credit ratings.

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. In October 2016, the Company's Board of Directors authorized the borrowing of up to $15.0 billion of funds, of which $1.9 billion remained outstanding as of December 31, 2019. In December 2019, the Company's Board of Directors terminated the 2016 borrowing authority and authorized a new $15 billion of borrowing capacity with no specified expiration date. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $3.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). In 2020, the Company plans to issue long-term debt to refinance $2.4 billion of maturing corporate debt. As of December 31, 2019, the Company's subsidiaries also had $242 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating swaps and using derivatives. The Company does not hold or issue derivatives for trading purposes. All swaps are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt was $12.9 billion and $11.8 billion for the years ended December 31, 2019 and 2018, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2019, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

In millions of U.S. Dollars	**2019**	2018
British Pounds Sterling	**$ 811**	$ 1,840
Canadian Dollars	**699**	684
Russian Ruble	**577**	631

Australian Dollars	**560**	1,499
Polish Zloty	**396**	340

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2019 levels nor a 10% adverse change in foreign currency rates from 2019 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

The Company has significant operations outside the U.S. where we earn approximately 65% of our operating income. A significant portion of these historical earnings have been reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of our international operations.

The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $425 million as of December 31, 2019.

Consistent with prior years, we expect existing domestic cash and equivalents, domestic cash flows from operations, issuance of domestic debt, and repatriation of a portion of foreign earnings to continue to be sufficient to fund our domestic operating, investing, and financing activities. We also continue to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund our foreign operating, investing and financing activities.

In the future, should we require more capital to fund activities in the U.S. than is generated by our domestic operations and is available through the issuance of domestic debt, we could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Minimum rent under franchise arrangements are based on the Company's underlying investment in owned sites and parallel the Company's underlying lease obligations and escalations on properties that are leased. The Company believes that control over the real estate enables it to achieve restaurant performance levels that are amongst the highest in the industry. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2019.

	Contractual cash outflows		*Contractual cash inflows*
In millions	*Operating leases (1)*	*Debt obligations (2)*	*Minimum rent under franchise arrangements*
2020	$ 1,147	$ 59	$ 3,008
2021	1,096	2,132	2,884
2022	1,014	2,250	2,750
2023	933	6,007	2,631
2024	854	2,819	2,541
Thereafter	7,090	21,038	20,510
Total	$ 12,134	$ 34,305	$ 34,324

(1) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2019. In addition, future minimum payments exclude option periods that have not yet been exercised.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of $3.5 billion, as they are supported by a long-term line of credit agreement expiring in December 2023. Debt obligations do not include the impact of non-cash fair value hedging adjustments, deferred debt costs and accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2019, total liabilities for the supplemental plans were $435 million.

At December 31, 2019, total liabilities for gross unrecognized tax benefits were $1.4 billion.

There are certain purchase commitments that are not recognized in the consolidated financial statements and are primarily related to construction, inventory, energy, marketing and other service related arrangements that occur in the normal course of business. Such commitments are generally shorter term in nature, will be funded from operating cash flows, and are not significant to the Company’s overall financial position.

The Company also has guaranteed certain other loans totaling approximately $75 million at December 31, 2019. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of the System. At December 31, 2019, there was no carrying value for obligations under these guarantees in the Consolidated Balance Sheet.

OTHER MATTERS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to confirm that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

- ***Leasing Arrangements***

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Right of Use Asset and Lease Liability reflect the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate.

Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment.

- ***Share-based compensation***

The Company has a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units ("RSUs") to employees and nonemployee directors. The expense for these equity-based incentives is based on their fair value at date of grant and generally amortized over their vesting period. The Company estimates forfeitures when determining the amount of compensation costs to be recognized in each period.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company's stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

- ***Long-lived assets impairment review***

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company's long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges. Based on the annual goodwill impairment test, conducted in the fourth quarter, the Company does not have any reporting units (defined as each individual market) with risk of material goodwill impairment.

- ***Litigation accruals***

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in a particular matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

- ***Income taxes***

The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred tax assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies, including the sale of appreciated assets, in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The most significant new developments in 2019 and 2018 are described below.

In 2019 and 2018, the Company increased the balance of unrecognized tax benefits by $96 million and $162 million, respectively. In both 2019 and 2018, there was audit progression in the U.S. federal and state audits, as well as multiple foreign tax jurisdictions. The Company has considered this new information in evaluating the unrecognized tax benefits and in certain situations, the Company changed its judgment on the measurement of the related unrecognized tax benefits. These changes have been reflected in the Unrecognized Tax Benefits table that is included in the Income Taxes footnote on page 50.

In 2015, the Internal Revenue Service (“IRS”) issued a Revenue Agent Report (“RAR”) that included certain disagreed transfer pricing adjustments related to the Company’s U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and during 2019, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2019, the Company does not yet have a signed closing agreement with the IRS related to the settlement of these issues. The Company expects resolution on these issues in 2020.

In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process, such that resolution is expected in 2020.

While the Company cannot predict the ultimate resolution of the aforementioned tax matters, we believe that the liabilities recorded are appropriate and adequate as determined in accordance with Topic 740 - Income Taxes of the ASC.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in Staff Accounting Bulletin ("SAB") 118. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability for each of its foreign subsidiaries, resulting in a transition tax liability of approximately $1.2 billion at December 31, 2017.

Upon further analysis of the Tax Act and notices and regulations issued and proposed by the IRS and the U.S. Department of the Treasury, the Company finalized its calculations of the transition tax liability during 2018 and increased its December 31, 2017 provisional amount by approximately $75 million. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

EFFECTS OF CHANGING PRICES—INFLATION

The Company has demonstrated an ability to manage inflationary cost increases effectively. This ability is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

Other Key Information

SELECTED FINANCIAL DATA

5-Year Summary

In millions, except per share and unit amounts	***2019***	*2018*	*2017*	*2016*	*2015*
	Years ended December 31,				
Consolidated Statement of Income Data					
Revenues					
Sales by Company-operated restaurants	**$ 9,421**	$ 10,013	$ 12,719	$ 15,295	$ 16,488
Revenues from franchised restaurants	**11,656**	11,012	10,101	9,327	8,925
Total revenues	**21,077**	21,025	22,820	24,622	25,413
Operating income	**9,070**	8,823	9,553	7,745	7,146
Net income	**6,025**	5,924	5,192	4,687	4,529
Consolidated Statement of Cash Flows Data					
Cash provided by operations	**$ 8,122**	$ 6,967	$ 5,551	$ 6,060	$ 6,539
Cash used for (provided by) investing activities	**3,071**	2,455	(562)	982	1,420
Capital expenditures	**2,394**	2,742	1,854	1,821	1,814
Cash used for (provided by) financing activities	**4,995**	5,950	5,311	11,262	(735)
Treasury stock purchases[(1)]	**4,980**	5,247	4,651	11,142	6,182
Common stock dividends	**3,582**	3,256	3,089	3,058	3,230
Financial Position					
Total assets[(2)]	**$ 47,511**	$ 32,811	$ 33,804	$ 31,024	$ 37,939
Total debt	**34,177**	31,075	29,536	25,956	24,122
Total shareholders' equity (deficit)	**(8,210)**	(6,258)	(3,268)	(2,204)	7,088
Shares outstanding	**746**	767	794	819	907
Per Common Share Data					
Earnings-diluted	**$ 7.88**	$ 7.54	$ 6.37	$ 5.44	$ 4.80
Dividends declared	**4.73**	4.19	3.83	3.61	3.44
Market price at year end	**197.61**	177.57	172.12	121.72	118.44
Restaurant Information and Other Data					
Restaurants at year end					
Company-operated restaurants	**2,636**	2,770	3,133	5,669	6,444
Franchised restaurants	**36,059**	35,085	34,108	31,230	30,081
Total Systemwide restaurants	**38,695**	37,855	37,241	36,899	36,525
Franchised sales[(3)]	**$ 90,757**	$ 86,134	$ 78,191	$ 69,707	$ 66,226

(1) Represents treasury stock purchases as reflected in Shareholders' equity.

(2) Total assets increased from 2018 to 2019 primarily due to the Company's right-of-use asset recorded as a result of the adoption of ASC 842.

(3) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2019.

STOCK PERFORMANCE GRAPH

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of our revenues and income is generated outside the U.S. In addition, because of our size, McDonald's inclusion in those indices tends to skew the results. Therefore, we believe that such a comparison is not meaningful.

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2019. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2014. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

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Company/Index	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
McDonald's Corporation	$100	$130	$139	$201	$213	$242
S&P 500 Index	$100	$101	$114	$138	$132	$174
Dow Jones Industrials	$100	$100	$117	$150	$144	$181

Source: S&P Capital IQ

MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

MARKET INFORMATION AND DIVIDEND POLICY

The Company’s common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S.

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2020 was estimated to be 2,500,000.

Given the Company’s returns on incremental invested capital and significant cash provided by operations, management believes it is prudent to reinvest in the business to drive profitable growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 44 consecutive years through 2019 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2019*:

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)*	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)*
October 1-31, 2019	2,393,580	208.93	2,393,580	$2,943,051,009
November 1-30, 2019	2,886,335	193.60	2,886,335	2,384,270,449
December 1-31, 2019	1,787,824	195.90	1,787,824	2,034,034,984
Total	7,067,739	199.37	7,067,739	

* *Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.*

(1) On July 27, 2017, the Company's Board of Directors approved a share repurchase program, effective July 28, 2017 ("2017 Program"), that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date. On December 6, 2019, the Company's Board of Directors terminated the 2017 Program, effective December 31, 2019, and replaced it with a new share repurchase program, effective January 1, 2020 ("2020 Program"), that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date. As of December 31, 2019, no further share repurchases may be made under the 2017 Program; future share repurchases will be made pursuant to the 2020 program.

RISK FACTORS

If we do not successfully evolve and execute against our business strategies, including under the Velocity Growth Plan, we may not be able to increase operating income.

To drive operating income growth, our business strategies must be effective in maintaining and strengthening customer appeal, delivering sustainable guest count growth and driving a higher average check. Whether these strategies are successful depends mainly on our System's ability to:

- Continue to innovate and differentiate the McDonald's experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;

- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;

- Utilize our organizational structure to build on our progress and execute against our business strategies;

- Integrate and augment our technology and digital initiatives, including mobile ordering and delivery;

- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;

- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations, create efficiencies through innovative use of technology and complete Experience of the Future ("EOTF"), particularly in the U.S.; and

- Accelerate our existing strategies, including through growth opportunities, acquisitions, investments and partnerships.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Our investments to enhance the customer experience, including through technology, may not generate the expected returns.

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in technology and modernization, including in EOTF (which focuses on restaurant modernization), digital engagement and delivery, in order to transform the customer experience. As part of these investments, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to refine our delivery initiatives, including through growing awareness and trial, and to enhance our drive-thru technologies, which may not generate expected returns. 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.

If we do not anticipate and address evolving consumer preferences and effectively execute our pricing, promotional and marketing plans, our business could suffer.

Our continued success depends on our System's ability to retain, regain and convert customers. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics and trends in food sourcing, food preparation, food offerings and consumer preferences in the "informal eating out" ("IEO") segment. If we are not able to predict, or quickly and effectively respond to, these changes, or our competitors predict or respond more effectively, our financial results could be adversely impacted.

Our ability to retain, regain and convert customers also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful in retaining, regaining and converting customers, or may not be as successful as the efforts of our competitors, and could negatively impact sales, guest counts and market share.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in retaining, regaining and converting customers. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels, including digital marketing, allows us to reach our customers effectively and efficiently. If the advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, the manner in which we source commodities and our general business practices. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health, environmental and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand, generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our operations, our suppliers, or our franchisees. If we are unsuccessful in addressing adverse commentary or perceptions, whether or not accurate, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require Systemwide coordination and alignment. We are working to manage any risks and costs to us, our franchisees and our supply chain of any effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include any increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include any increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks.

If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices, whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by a contracting IEO segment or by new or continuing actions or product offerings of our competitors, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, successfully develop and introduce new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations, manage our investments in technology and modernization, and respond effectively to our competitors' actions or offerings or to unforeseen disruptive actions. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in our markets could pressure our operating performance, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates and unfavorable currency fluctuations could adversely affect reported earnings.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including shortages and transportation issues, and price increases can adversely affect us as well as our suppliers and franchisees, whose performance may have a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers, franchisees or us. If we experience interruptions in our System's supply chain, our costs could increase and it could limit the availability of products critical to our System's operations.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future, including in the supply chain, restaurants or delivery. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

The Company's success as a heavily franchised business relies to a large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us.

Our success also relies on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, value/promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of our franchisees or the Company or by banks' lending practices. If our franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, our future growth and results of operations could be adversely affected.

Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex. The benefits of our more heavily franchised structure depend on various factors including whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, whether we are able to successfully integrate them into our structure and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. The Board named Christopher Kempczinski as President and Chief Executive Officer and named Joseph Erlinger as President, McDonald's USA, effective as of November 1, 2019. In addition, on December 6, 2019, the Board named Ian Borden as President, International, effective that same day. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions, including the recent leadership transitions, could disrupt our business and adversely affect our results.

Challenges with respect to labor, including availability and cost, could impact our business and results of operations.

Our success depends in part on our System's ability to proactively recruit, motivate and retain qualified individuals to work in McDonald's restaurants and to maintain appropriately-staffed restaurants in an intensely competitive environment. In many of our markets, unemployment is low and demand is high for labor. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants, as well as costs to promote awareness of the opportunities of working at McDonald's restaurants, could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers, including those giving rise to claims of sexual harassment or discrimination (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Information technology system failures or interruptions, or breaches of network security, may impact our operations or cause reputational harm.

We are increasingly reliant upon technology systems, such as point-of-sale, technologies supporting McDonald's digital and delivery solutions, and technologies that facilitate communication and collaboration with affiliated entities, customers, employees, franchisees, suppliers, service providers or other independent third parties to conduct our business, whether developed and maintained by us or provided by third parties. Any failure or interruption of these systems could significantly impact our franchisees' operations, or our customers' experience and perceptions. Additionally, we provide certain technology systems to businesses that are unaffiliated with the McDonald's System and a failure, interruption or breach of these systems may cause harm to those unaffiliated parties, which may result in liability to the Company or reputational harm.

Despite the implementation of security measures, those technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Certain technology systems may also become vulnerable, unreliable or inefficient in cases where technology vendors limit or terminate product support and maintenance. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely manner, we could experience an interruption in our or our franchisees' operations.

Furthermore, security incidents or breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees), or those of third party providers. These may include such things as unauthorized access, phishing attacks, account takeovers, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by hackers. Our technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees, our franchisees, our business customers and other third parties, as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

If we fail to comply with privacy and data collection laws, we could be subject to penalties, which could negatively affect our financial results or brand perceptions.

We are subject to legal and compliance risks and associated liability related to privacy and data collection, protection and management, as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees, franchisees or other third parties. For example, the General Data Protection Regulation ("GDPR") requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. We are also subject to U.S. federal and state and foreign laws and regulations in this area. These regulations have been subject to frequent change, and there may be markets or jurisdictions that propose or enact new or emerging data privacy requirements in the future. Failure to meet GDPR or other data privacy requirements could result in substantial penalties and materially adversely impact our financial results or brand perceptions.

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory, geopolitical and economic environments within and among the more than 100 countries where McDonald's restaurants operate, and our ability to achieve our business objectives depends on the System's success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System's ability to leverage operating successes across markets and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our, our franchisees' or our suppliers' operations, and asset seizures. Trade policies, tariffs and other regulations affecting trade between the U.S. and other countries could adversely affect our business and operations. These and other government actions may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental actions.

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges may be exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.'s decision to leave the European Union, whether through a negotiated exit over a period of time or without any agreement in place to govern post-exit relations, it is possible that there will be increased regulatory complexities, particularly in the event that the U.K. leaves the European Union without any agreement in place, as well as potential additional referenda in the U.K. and/or other European countries, that could cause uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue, and may result in increased supply chain costs for items that are imported from other countries. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

If we do not effectively manage our real estate portfolio, our operating results may be negatively impacted.

We have significant real estate operations, primarily in connection with our restaurant business. We generally own or secure a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites. We seek to identify and develop restaurant locations that offer convenience to customers and long-term sales and profit potential. As we generally secure long-term real estate interests for our restaurants, we have limited flexibility to quickly alter our real estate portfolio. The competitive business landscape continues to evolve in light of changing business trends, consumer preferences, trade area demographics, consumer use of digital and delivery, local competitive positions and other economic factors. If our restaurants are not located in desirable locations, or if we do not evolve in response to these factors, it could adversely affect Systemwide sales and profitability.

Our real estate values and the costs associated with our real estate operations are also impacted by a variety of other factors, including governmental regulations; insurance; zoning, tax and eminent domain laws; interest rate levels and the cost of financing. A significant change in real estate values, or an increase in costs as a result of any of these factors, could adversely affect our operating results.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

Increasing regulatory and legal complexity may adversely affect our business and financial results.

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, product packaging, marketing, the nutritional and allergen content and 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 that can affect our business plans and operations, and have increased our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

We are also subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations and proceedings, shareholder proceedings, employment and personal injury claims, landlord/tenant disputes, supplier related disputes, and claims by current or former franchisees. Regardless of whether claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations.

Litigation and regulatory action concerning our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact our business operations and the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions.

Our results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from claims may hurt our business. If we are unable to effectively manage the risks associated with our complex regulatory and legal environment, it could have a material adverse effect on our business and financial condition.

We may not be able to adequately protect our intellectual property or adequately ensure that we are not infringing the intellectual property of others, which could harm the value of the McDonald’s brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. It may be costly and time consuming to protect our intellectual property, and the steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and the price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic, trade or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald’s may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;
- The impact of our stock repurchase program or dividend rate; and
- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies, including through acquisitions, in light of changing business, legal and tax considerations and evolve our corporate structure.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, any shifting climate patterns, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. For example, the recent outbreak of the coronavirus in China has disrupted local operations, and neither the duration nor scope of the disruption can be predicted. Therefore, while we expect this matter to negatively impact our results, the related financial impact cannot be reasonably estimated at this time. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

LEGAL PROCEEDINGS

The Company has pending a number of lawsuits that have been filed in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's entire business. The following is a brief description of the more significant types of claims and lawsuits. In addition, the Company is subject to various national and local laws and regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

- ***Franchising***

A substantial number of McDonald's restaurants are franchised to independent owner/operators and developmental licensees under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its current or former franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, menu pricing, contentions regarding grants or terminations of franchises, delinquent payments of rents and fees, and franchisee claims for additional franchises or renewals of franchises. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald's franchise or who challenge the legal distinction between the Company and its franchisees for employment law purposes.

- ***Suppliers***

The Company and its affiliates and subsidiaries generally do not supply food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers, including service providers, that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its suppliers (or former suppliers) which include, for example, compliance with product specifications and the Company's business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes arise regarding hiring, termination, promotion and pay practices, including wage and hour disputes, alleged discrimination and compliance with labor and employment laws.

- ***Customers***

Restaurants owned by subsidiaries of the Company regularly serve a broad segment of the public as do independent owner/operators and developmental licensees of McDonald's restaurants. In so doing, disputes arise as to products, service, incidents, pricing, advertising, nutritional and other disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

- ***Intellectual Property***

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third party intellectual property.

- ***Government Regulations***

Local and national governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, competition, zoning, employment and taxation. The Company is occasionally involved in litigation or other proceedings regarding these matters. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from these matters or the issuance of additional requirements in the future.

PROPERTIES

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the System. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns or secures a long-term lease on the land and building for conventional franchised and Company-operated restaurant sites, which facilitates long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network.

In addition, the Company primarily leases real estate in connection with its corporate headquarters, field and other offices.

Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 6 through 21 and in Financial Statements and Supplementary Data on pages 33 through 58 of this Form 10-K.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

The following are the Executive Officers of our Company (as of the date of this filing):

Ian Borden, 51, is President, International, a position he has held since January 2020. Prior to that, Mr. Borden served as President - International Developmental Licensed Markets, from January 2019 through December 2019. Prior to that, Mr. Borden served as President - Foundational Markets, from July 2015 through December 2018. From January 2014 through June 2015, Mr. Borden served as Vice President and Chief Financial Officer - McDonald's Asia/Pacific, Middle East and Africa. Prior to that time, Mr. Borden served as Regional Vice President of Europe's East Division from April 2011 to December 2013 and as Managing Director - McDonald's Ukraine from December 2007 to December 2013. He has served the Company for 25 years.

Francesca A. DeBiase, 54, is Corporate Executive Vice President - Worldwide Supply Chain and Sustainability, a position she has held since April 2018. Prior to that, Ms. DeBiase served as Corporate Senior Vice President - Worldwide Supply Chain and Sustainability, from March 2015 through March 2018. From August 2007 through February 2015, Ms. DeBiase served as Corporate Vice President - Worldwide Strategic Sourcing. Prior to that, Ms. DeBiase served as Europe Vice President - Supply Chain, from January 2006 through July 2007. Ms. DeBiase has served the Company for 28 years.

Joseph Erlinger, 46, is President, McDonald's USA, a position he has held since November 2019. Prior to that, Mr. Erlinger served as President - International Operated Markets, from January 2019 through October 2019 and President - High Growth Markets, from September 2016 through December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets (serving in dual roles from September 2016 through January 2017), as Managing Director of McDonald's Korea from April 2013 to January 2016 (serving in dual roles from March 2015 through January 2016), and US Vice President - GM for the Indianapolis region from December 2010 to March 2013. Mr. Erlinger has served the Company for 18 years.

Daniel Henry, 49, is Corporate Executive Vice President - Chief Information Officer, a position he has held since May 2018. From October 2017 through April 2018, Mr. Henry served as Corporate Vice President - Chief Information Officer. Prior to that, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture at American Airlines from April 2012 to October 2017. Mr. Henry has served the Company for 2 years.

Catherine Hoovel, 49, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Prior to that time, Ms. Hoovel served as a Senior Director of Finance from February 2012 to April 2014 and was a Divisional Director from August 2010 to February 2012. Ms. Hoovel has served the Company for 24 years.

Christopher Kempczinski, 51, is President and Chief Executive Officer, a position he has held since November 2019. Prior to that, Mr. Kempczinski served as President, McDonald's USA from December 2016 through October 2019 and Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, a manufacturer and marketer of food and beverage products, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Prior to that, Mr. Kempczinski served as President of Kraft Canada from July 2012 through December 2014 and as Senior Vice President - U.S. Grocery from December 2008 to July 2012. Mr. Kempczinski has served the Company for 4 years.

Jerome Krulewitch, 55, is Corporate Executive Vice President, General Counsel and Secretary, a position he has held since March 2017. From May 2011 until March 2017, Mr. Krulewitch served as Corporate Senior Vice President - Chief Counsel, Global Operations. Prior to that, Mr. Krulewitch was Corporate Senior Vice President - General Counsel, The Americas from September 2010 to April 2011. Mr. Krulewitch has served the Company for 18 years.

Kevin Ozan, 56, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 22 years.

AVAILABILITY OF COMPANY INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the SEC. Such reports may be obtained by visiting the SEC's website at www.sec.gov.

Financial and other information can also be accessed on the investor section of the Company's website at www.investor.mcdonalds.com. The Company uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters for each of the Committees of the Board of Directors, including the Audit and Finance Committee, Compensation Committee, Governance Committee, Public Policy and Strategy Committee and Sustainability and Corporate Responsibility Committee; the Code of Conduct for the Board of Directors; and the Company's Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623.

Information on the Company's website is not incorporated into this Form 10-K or the Company's other securities filings unless expressly noted.

Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	*Years ended December 31,* ***2019***	*2018*	*2017*
REVENUES			
Sales by Company-operated restaurants	**$ 9,420.8**	$ 10,012.7	$ 12,718.9
Revenues from franchised restaurants	**11,655.7**	11,012.5	10,101.5
Total revenues	**21,076.5**	21,025.2	22,820.4
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**2,980.3**	3,153.8	4,033.5
Payroll & employee benefits	**2,704.4**	2,937.9	3,528.5
Occupancy & other operating expenses	**2,075.9**	2,174.2	2,847.6
Franchised restaurants-occupancy expenses	**2,200.6**	1,973.3	1,790.0
Selling, general & administrative expenses	**2,229.4**	2,200.2	2,231.3
Other operating (income) expense, net	**(183.9)**	(236.8)	(1,163.2)
Total operating costs and expenses	**12,006.7**	12,202.6	13,267.7
Operating income	**9,069.8**	8,822.6	9,552.7
Interest expense-net of capitalized interest of $7.4, $5.6 and $5.3	**1,121.9**	981.2	921.3
Nonoperating (income) expense, net	**(70.2)**	25.3	57.9
Income before provision for income taxes	**8,018.1**	7,816.1	8,573.5
Provision for income taxes	**1,992.7**	1,891.8	3,381.2
Net income	**$ 6,025.4**	$ 5,924.3	$ 5,192.3
Earnings per common share–basic	**$ 7.95**	$ 7.61	$ 6.43
Earnings per common share–diluted	**$ 7.88**	$ 7.54	$ 6.37
Dividends declared per common share	**$ 4.73**	$ 4.19	$ 3.83
Weighted-average shares outstanding–basic	**758.1**	778.2	807.4
Weighted-average shares outstanding–diluted	**764.9**	785.6	815.5

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions Years ended December 31,	***2019***	*2018*	*2017*
Net income	**$ 6,025.4**	$ 5,924.3	$ 5,192.3
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**127.5**	(453.6)	827.7
Reclassification of (gain) loss to net income	**46.8**	—	109.3
Foreign currency translation adjustments-net of tax benefit (expense) of $(55.4), $(90.7), and $453.1	**174.3**	(453.6)	937.0
Cash flow hedges:			
Gain (loss) recognized in AOCI	**17.3**	46.5	(48.4)
Reclassification of (gain) loss to net income	**(37.7)**	2.4	9.0
Cash flow hedges-net of tax benefit (expense) of $6.1, $(14.5), and $22.4	**(20.4)**	48.9	(39.4)
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**(24.5)**	(27.0)	16.3
Reclassification of (gain) loss to net income	**(2.6)**	0.6	0.6
Defined benefit pension plans-net of tax benefit (expense) of $5.2, $4.3, and $(3.9)	**(27.1)**	(26.4)	16.9
Total other comprehensive income (loss), net of tax	**126.8**	(431.1)	914.5
Comprehensive income	**$ 6,152.2**	$ 5,493.2	$ 6,106.8

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	*December 31,* ***2019***	*2018*
ASSETS		
Current assets		
Cash and equivalents	**$ 898.5**	$ 866.0
Accounts and notes receivable	**2,224.2**	2,441.5
Inventories, at cost, not in excess of market	**50.2**	51.1
Prepaid expenses and other current assets	**385.0**	694.6
Total current assets	**3,557.9**	4,053.2
Other assets		
Investments in and advances to affiliates	**1,270.3**	1,202.8
Goodwill	**2,677.4**	2,331.5
Miscellaneous	**2,584.0**	2,381.0
Total other assets	**6,531.7**	5,915.3
Lease right-of-use asset, net	**13,261.2**	—
Property and equipment		
Property and equipment, at cost	**39,050.9**	37,193.6
Accumulated depreciation and amortization	**(14,890.9)**	(14,350.9)
Net property and equipment	**24,160.0**	22,842.7
Total assets	**$47,510.8**	$ 32,811.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 988.2**	$ 1,207.9
Lease liability	**621.0**	—
Income taxes	**331.7**	228.3
Other taxes	**247.5**	253.7
Accrued interest	**337.8**	297.0
Accrued payroll and other liabilities	**1,035.7**	986.6
Current maturities of long-term debt	**59.1**	—
Total current liabilities	**3,621.0**	2,973.5
Long-term debt	**34,118.1**	31,075.3
Long-term lease liability	**12,757.8**	—
Long-term income taxes	**2,265.9**	2,081.2
Deferred revenues - initial franchise fees	**660.6**	627.8
Other long-term liabilities	**979.6**	1,096.3
Deferred income taxes	**1,318.1**	1,215.5
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**7,653.9**	7,376.0
Retained earnings	**52,930.5**	50,487.0
Accumulated other comprehensive income (loss)	**(2,482.7)**	(2,609.5)
Common stock in treasury, at cost; 914.3 and 893.5 million shares	**(66,328.6)**	(61,528.5)
Total shareholders' equity (deficit)	**(8,210.3)**	(6,258.4)
Total liabilities and shareholders' equity (deficit)	**$47,510.8**	$ 32,811.2

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Years ended December 31,	***2019***	*2018*	*2017*
Operating activities			
Net income	**$6,025.4**	$ 5,924.3	$ 5,192.3
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,617.9**	1,482.0	1,363.4
Deferred income taxes	**149.7**	102.6	(36.4)
Share-based compensation	**109.6**	125.1	117.5
Net gain on sale of restaurant businesses	**(128.2)**	(308.8)	(1,155.8)
Other	**49.2**	114.2	1,050.7
Changes in working capital items:			
Accounts receivable	**27.0**	(479.4)	(340.7)
Inventories, prepaid expenses and other current assets	**128.8**	(1.9)	(37.3)
Accounts payable	**(26.8)**	129.4	(59.7)
Income taxes	**173.4**	(33.4)	(396.4)
Other accrued liabilities	**(3.9)**	(87.4)	(146.4)
Cash provided by operations	**8,122.1**	6,966.7	5,551.2
Investing activities			
Capital expenditures	**(2,393.7)**	(2,741.7)	(1,853.7)
Purchases of restaurant and other businesses	**(540.9)**	(101.7)	(77.0)
Sales of restaurant businesses	**340.8**	530.8	974.8
Proceeds from sale of businesses in China and Hong Kong	—	—	1,597.0
Sales of property	**151.2**	160.4	166.8
Other	**(628.5)**	(302.9)	(245.9)
Cash provided by (used for) investing activities	**(3,071.1)**	(2,455.1)	562.0
Financing activities			
Net short-term borrowings	**799.2**	95.9	(1,050.3)
Long-term financing issuances	**4,499.0**	3,794.5	4,727.5
Long-term financing repayments	**(2,061.9)**	(1,759.6)	(1,649.4)
Treasury stock purchases	**(4,976.2)**	(5,207.7)	(4,685.7)
Common stock dividends	**(3,581.9)**	(3,255.9)	(3,089.2)
Proceeds from stock option exercises	**350.5**	403.2	456.8
Other	**(23.5)**	(20.0)	(20.5)
Cash (used for) financing activities	**(4,994.8)**	(5,949.6)	(5,310.8)
Effect of exchange rates on cash and equivalents	**(23.7)**	(159.8)	264.0
Cash and equivalents increase (decrease)	**32.5**	(1,597.8)	1,066.4
Change in cash balances of businesses held for sale	**—**	—	174.0
Cash and equivalents at beginning of year	**866.0**	2,463.8	1,223.4
Cash and equivalents at end of year	**$ 898.5**	$ 866.0	$ 2,463.8
Supplemental cash flow disclosures			
Interest paid	**$1,066.5**	$ 959.6	$ 885.2
Income taxes paid	**1,589.7**	1,734.4	2,786.3

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

In millions, except per share data	Common stock issued		Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)			Common stock in treasury		Total shareholders' equity
	Shares	Amount			Pensions	Cash flow hedges	Foreign currency translation	Shares	Amount	
Balance at December 31, 2016	1,660.6	$16.6	$ 6,757.9	$ 46,222.7	$ (207.1)	$ 22.9	$ (2,908.7)	(841.3)	$ (52,108.6)	$ (2,204.3)
Net income				5,192.3						5,192.3
Other comprehensive income (loss), net of tax					16.9	(39.4)	937.0			914.5
Comprehensive income										6,106.8
Common stock cash dividends ($3.83 per share)				(3,089.2)						(3,089.2)
Treasury stock purchases								(31.4)	(4,650.5)	(4,650.5)
Share-based compensation			117.5							117.5
Stock option exercises and other			197.0					6.2	254.7	451.7
Balance at December 31, 2017	1,660.6	16.6	7,072.4	48,325.8	(190.2)	(16.5)	(1,971.7)	(866.5)	(56,504.4)	(3,268.0)
Net income				5,924.3						5,924.3
Other comprehensive income (loss), net of tax					(26.4)	48.9	(453.6)			(431.1)
Comprehensive income										5,493.2
Adoption of ASC 606 [(1)]				(450.2)						(450.2)
Adoption of ASU 2016-16 [(2)]				(57.0)						(57.0)
Common stock cash dividends ($4.19 per share)				(3,255.9)						(3,255.9)
Treasury stock purchases								(32.2)	(5,247.5)	(5,247.5)
Share-based compensation			125.1							125.1
Stock option exercises and other			178.5					5.2	223.4	401.9
Balance at December 31, 2018	1,660.6	16.6	7,376.0	50,487.0	(216.6)	32.4	(2,425.3)	(893.5)	(61,528.5)	(6,258.4)
Net income				**6,025.4**						**6,025.4**
Other comprehensive income (loss), net of tax					**(27.1)**	**(20.4)**	**174.3**			**126.8**
Comprehensive income										**6,152.2**
Common stock cash dividends				**(3,581.9)**						**(3,581.9)**

($4.73 per share)										
Treasury stock purchases								(25.0)	(4,980.5)	(4,980.5)
Share-based compensation			109.6							109.6
Stock option exercises and other			168.3					4.2	180.4	348.7
Balance at December 31, 2019	1,660.6	$16.6	$ 7,653.9	$ 52,930.5	$ (243.7)	$ 12.0	$ (2,251.0)	(914.3)	$ (66,328.6)	$ (8,210.3)

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers."

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory."

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

NATURE OF BUSINESS

The Company franchises and operates McDonald's restaurants in the global restaurant industry. All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchised arrangements, and developmental licensees or affiliates under license agreements.

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2019***	*2018*	*2017*
Conventional franchised	**21,837**	21,685	21,366
Developmental licensed	**7,648**	7,225	6,945
Foreign affiliated	**6,574**	6,175	5,797
Total Franchised	**36,059**	35,085	34,108
Company-operated	**2,636**	2,770	3,133
Total Systemwide restaurants	**38,695**	37,855	37,241

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements for periods prior to purchase and sale.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less (primarily McDonald's China and Japan) are accounted for by the equity method.

On an ongoing basis, the Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the variable interest entity consolidation guidance. The Company has concluded that consolidation of any such entity is not appropriate for the periods presented.

ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

FOREIGN CURRENCY TRANSLATION

Generally, the functional currency of operations outside the U.S. is the respective local currency.

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Lease Accounting

The Company adopted ASC Topic 842, "Leases" ("ASC 842") as of January 1, 2019, using the modified retrospective method. As discussed further in the "Franchise Arrangements" and "Leasing Arrangements" footnotes, the Company is engaged in a significant amount of leasing activity, both from a lessor and a lessee perspective.

The Company has elected the package of practical expedients, which allows the Company to retain the classification of existing leases; therefore, there was minimal initial impact in the Consolidated Statement of Income, and no cumulative adjustment to retained earnings was recognized upon adoption. As the Company enters into new ground leases or as existing ground leases are modified, many of these may be reclassified from operating classification to financing classification, which will change the timing and classification of a portion of lease expense between Operating income and Interest expense. It is not possible to quantify the impact at this time, due to the unknown timing of new leases and lease modifications, however the Company does not expect the impact to be material to any given year. The Company has also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. These types of leases primarily relate to leases of office equipment, and are not significant in comparison to the Company’s overall lease portfolio. Payments related to those leases will continue to be recognized in the Consolidated Statement of Income on a straight-line basis over the lease term.

The Company has certain leases subject to index adjustments. Historically, the Company has calculated and disclosed future minimum payments for these leases using the index as of the end of the reporting period. As part of the transition, the Company used the index in effect at transition for adoption of ASC 842 in its disclosure of future minimum lease payments and its calculation of the lease liability. For leases entered into after January 1, 2019, the index at lease inception date will be used to calculate the lease liability until lease modification.

The Company recorded a Right of Use Asset and Lease Liability on the Condensed Consolidated Balance Sheet of $12.5 billion upon adoption. The Lease Liability reflects the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. The impact of the new lease guidance is non-cash in nature, therefore, it does not affect the Company’s cash flows.

Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", that modifies the measurement and recognition of expected credit losses on financial assets. The Company will adopt this guidance effective January 1, 2020, prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

REVENUE RECOGNITION

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees.

Sales by Company-operated restaurants are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. Royalty revenues are based on a percent of sales and recognized at the time the underlying sales occur. Rental income includes both minimum rent payments, which are recognized straight-line over the franchise term, and variable rent payments based on a percent of sales, which are recognized at the time the underlying sales occur. The Company's accounting policy through December 31, 2017, was to recognize initial franchise fees when received, upon a new restaurant opening and at the start of a new franchise term. Beginning in January 2018, initial fees are recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–the lesser of useful lives of assets or lease terms, which generally include certain option periods; and equipment–3 to 12 years.

CAPITALIZED SOFTWARE

Capitalized software is stated at cost and amortized using the straight-line method over the estimated useful life of the software, which primarily ranges from 2 to 7 years. Customer facing software is typically amortized over a shorter useful life, while back office and Corporate systems may have a longer useful life. Capitalized software less accumulated amortization is recorded within Miscellaneous Other Assets on the Consolidated Balance Sheet and was (in millions): 2019-$665.4; 2018-$609.7; 2017-$535.6.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald’s restaurant assets for potential impairment, assets are initially grouped together in the U.S. at a field office level, and internationally, at a market level. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, an individual restaurant’s cash flows are not generally independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management and the Board of Directors, as required, have approved and committed to a plan to dispose of the assets, the assets are available for disposal and the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value, among other factors. Generally, such losses are related to restaurants that have closed and ceased operations as well as other assets that meet the criteria to be considered “available for sale."

GOODWILL

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurants and other businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in subsidiaries or affiliates, and it is generally assigned to the reporting unit (defined as each individual market) expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the reporting unit.

The following table presents the 2019 activity in goodwill by segment:

In millions	*U.S.*	*International Operated Markets*	*International Developmental Licensed Markets & Corporate*	*Consolidated*
Balance at December 31, 2018	$ 1,276.5	$1,055.0	$ —	$2,331.5
Business acquisitions	348.8	—	—	348.8
Net restaurant purchases (sales)	(9.5)	5.7	99.4	95.6
Impairment losses	—	—	(99.4)	(99.4)
Currency translation	—	0.9	—	0.9
Balance at December 31, 2019	**$ 1,615.8**	**$1,061.6**	**$ —**	**$2,677.4**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever an indicator of impairment exists. If an indicator of impairment exists (e.g., estimated earnings multiple value of a reporting unit is less than its carrying value), the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Goodwill on the Consolidated Balance Sheet reflects accumulated impairment losses of $113.9 million and $15.6 million as of December 31, 2019 and 2018, respectively.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2019–$365.8; 2018–$388.8; 2017–$532.9. Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses are included in Selling, general & administrative expenses and were (in millions): 2019–$81.5; 2018–$88.0; 2017–$100.2. Costs related to the Olympics sponsorship are included in the expenses for 2018. In addition, significant advertising costs are incurred by franchisees through contributions to advertising cooperatives in individual markets. The costs incurred by these advertising cooperatives are approved and managed jointly by vote of both Company-operated restaurants and franchisees.

INCOME TAXES

Income Tax Uncertainties

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled.

The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Accounting for Global Intangible Low-Taxed Income ("GILTI")

The Tax Act requires a U.S. shareholder of a foreign corporation to include GILTI in taxable income. The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

- ***Certain Financial Assets and Liabilities Measured at Fair Value***

The following tables present financial assets and liabilities measured at fair value on a recurring basis by the valuation hierarchy as defined in the fair value guidance:

	12/31/2019		
In millions	*Level 1 (1)*	*Level 2*	*Carrying Value*
Derivative assets	$ 179.1	$ 45.6	$ 224.7
Derivative liabilities		$ (11.3)	$ (11.3)

	12/31/2018		
In millions	*Level 1 (1)*	*Level 2*	*Carrying Value*
Derivative assets	$ 167.1	$ 39.2	$ 206.3
Derivative liabilities		$ (16.6)	$ (16.6)

(1) Level 1 is comprised of derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.

- ***Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2019, the Company recorded fair value adjustments to its long-lived assets, primarily to goodwill, based on Level 3 inputs which includes the use of a discounted cash flow valuation approach.

- ***Certain Financial Assets and Liabilities not Measured at Fair Value***

At December 31, 2019, the fair value of the Company's debt obligations was estimated at $37.6 billion, compared to a carrying amount of $34.2 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. The Company's derivatives that are designated for hedge accounting consist mainly of interest rate swaps, foreign currency forwards, and cross-currency interest rate swaps, and are classified as either fair value, cash flow or net investment hedges. Further details are explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company also enters into certain derivatives that are not designated for hedge accounting. The Company has entered into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Further details are explained in the “Undesignated Derivatives” section.

All derivatives (including those not designated for hedge accounting) are recognized on the Consolidated Balance Sheet at fair value and classified based on the instruments’ maturity dates. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to AOCI and/or current earnings.

The following table presents the fair values of derivative instruments included on the Consolidated Balance Sheet as of December 31, 2019 and 2018:

	Derivative Assets			Derivative Liabilities		
In millions	*Balance Sheet Classification*	***2019***	*2018*	*Balance Sheet Classification*	***2019***	*2018*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	**$ 10.0**	$ 30.9	Accrued payroll and other liabilities	**$ (5.2)**	$ (0.7)
Interest rate	Prepaid expenses and other current assets			Accrued payroll and other liabilities	**—**	(0.1)
Foreign currency	Miscellaneous other assets	**9.5**	3.8	Other long-term liabilities	**(1.2)**	(1.3)
Interest rate	Miscellaneous other assets	**12.1**	—	Other long-term liabilities	**—**	(11.8)
Total derivatives designated as hedging instruments		**$ 31.6**	$ 34.7		**$ (6.4)**	$ (13.9)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$ 1.6**	$ 167.1	Accrued payroll and other liabilities	**$ (0.1)**	$ (2.7)
Foreign currency	Prepaid expenses and other current assets	**12.4**	4.5	Accrued payroll and other liabilities	**(4.8)**	—
Equity	Miscellaneous other assets	**179.1**	—			
Total derivatives not designated as hedging instruments		**$ 193.1**	$ 171.6		**(4.9)**	$ (2.7)
Total derivatives		**$ 224.7**	$ 206.3		**$ (11.3)**	$ (16.6)

The following table presents the pre-tax amounts from derivative instruments affecting income and AOCI for the year ended December 31, 2019 and 2018, respectively:

	Location of Gain or Loss Recognized in Income on Derivative	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified into Income from AOCI		Gain (Loss) Recognized in Income on Derivative	
In millions		***2019***	*2018*	***2019***	*2018*	***2019***	*2018*
Foreign currency	Nonoperating income/ expense	**$ 22.5**	$ 60.0	**$ 50.3**	$ (2.2)		
Interest rate	Interest expense			**(1.3)**	(1.2)		
Cash flow hedges		**$ 22.5**	$ 60.0	**$ 49.0**	$ (3.4)		
Foreign currency denominated debt	Nonoperating income/ expense	**$ 317.3**	$ 682.9				
Foreign currency derivatives	Nonoperating income/ expense	**11.8**	1.3				
Foreign currency derivatives[(1)]	Interest expense					**$ 11.7**	$ 4.0
Net investment hedges		**$ 329.1**	$ 684.2			**$ 11.7**	$ 4.0
Foreign currency	Nonoperating income/ expense					**$ 14.2**	$ 22.1
Equity	Selling, general & administrative expenses					**71.8**	0.4
Undesignated derivatives						**$ 86.0**	$ 22.5

[(1)] The amount of gain (loss) recognized in income related to components excluded from effectiveness testing.

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At December 31, 2019, the carrying amount of fixed-rate debt that was effectively converted was an equivalent notional amount of $998.5 million, which included an increase of $12.1 million of cumulative hedging adjustments. For the year ended December 31, 2019, the Company recognized a $24.0 million gain on the fair value of interest rate swaps, and a corresponding loss on the fair value of the related hedged debt instrument to interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2019, the Company had derivatives outstanding with an equivalent notional amount of $754.7 million that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at December 31, 2019, the $12.0 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of Other comprehensive income ("OCI") and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of December 31, 2019, $11.9 billion of the Company's third party foreign currency denominated debt and $642.6 million of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. The changes in the fair value of these derivatives are recognized in nonoperating (income) expense, net, along with the currency gain or loss from the hedged balance sheet position.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at December 31, 2019 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2019, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on certain hedges of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

SHARE-BASED COMPENSATION

Share-based compensation includes the portion vesting of all share-based awards granted based on the grant date fair value.

Share-based compensation expense and the effect on diluted earnings per common share were as follows:

In millions, except per share data	***2019***	*2018*	*2017*
Share-based compensation expense	**$ 109.6**	$ 125.1	$ 117.5
After tax	**$ 94.2**	$ 108.1	$ 82.0
Earnings per common share-diluted	**$ 0.12**	$ 0.14	$ 0.10

Compensation expense related to share-based awards is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses. As of December 31, 2019, there was $107.5 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The following table presents the weighted-average assumptions used in the option pricing model for the 2019, 2018 and 2017 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2019	*2018*	*2017*
Expected dividend yield	**2.7 %**	2.6 %	3.1 %
Expected stock price volatility	**18.9 %**	18.7 %	18.4 %

Risk-free interest rate	**2.5 %**	2.7 %	2.2 %
Expected life of options *(in years)*	**5.8**	5.8	5.9
Fair value per option granted	**$ 25.60**	$ 23.80	$ 16.10

The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2019–6.8; 2018–7.3; 2017–8.1. Share-based compensation awards that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2019–0.1; 2018–0.5; 2017–0.1.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Segment and Geographic Information

On February 25, 2019, the Company provided investors with segment summary financial information and other data in accordance with its new organizational structure for the previously reported years ended December 31, 2016 through 2018. Effective January 1, 2019, McDonald's operates under an organizational structure with the following global business segments reflecting how management reviews and evaluates operating performance:

- U.S. - the Company's largest market. The segment is 95% franchised as of December 31, 2019.
- International Operated Markets - comprised of markets, or countries in which the Company operates and franchises restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K. The segment is 84% franchised as of December 31, 2019.
- International Developmental Licensed Markets & Corporate - comprised primarily of developmental licensee and affiliate markets in the McDonald's system. Corporate activities are also reported in this segment. The segment is 98% franchised as of December 31, 2019.

In April and October 2019, the Company completed the acquisitions of Dynamic Yield and Apprente, respectively. The related financial performance is reflected within the International Developmental Licensed Markets & Corporate segment from the dates of acquisition.

All intercompany revenues and expenses are eliminated in computing revenues and operating income. Corporate general and administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financial instruments and home office facilities.

In millions	***2019***	*2018*	*2017*
U.S.	**$ 7,842.7**	$ 7,665.8	$ 8,006.4
International Operated Markets	**11,398.6**	11,506.7	11,115.9
International Developmental Licensed Markets & Corporate	**1,835.2**	1,852.7	3,698.1
Total revenues	**$ 21,076.5**	$ 21,025.2	$ 22,820.4
U.S.	**$ 4,068.7**	$ 4,015.6	$ 4,022.4
International Operated Markets	**4,789.0**	4,643.2	4,173.6
International Developmental Licensed Markets & Corporate	**212.1**	163.8	1,356.7
Total operating income	**$ 9,069.8**	$ 8,822.6	$ 9,552.7
U.S.	**$ 21,376.9**	$ 14,483.8	$ 12,648.6
International Operated Markets	**22,847.5**	17,302.3	16,254.8
International Developmental Licensed Markets & Corporate	**3,286.4**	1,025.1	4,900.3
Total assets *	**$ 47,510.8**	$ 32,811.2	$ 33,803.7
U.S.	**$ 1,480.5**	$ 1,849.8	$ 861.2
International Operated Markets	**886.6**	762.4	808.0
International Developmental Licensed Markets & Corporate	**26.6**	129.5	184.5
Total capital expenditures	**$ 2,393.7**	$ 2,741.7	$ 1,853.7
U.S.	**$ 730.2**	$ 598.4	$ 524.1
International Operated Markets	**669.3**	703.9	687.1

International Developmental Licensed Markets & Corporate	**218.4**	179.7	152.2
Total depreciation and amortization	**$ 1,617.9**	$ 1,482.0	$ 1,363.4

* Total assets increased from 2018 to 2019 primarily due to the Company's right-of-use asset recorded as a result of the adoption of ASC 842.

Total long-lived assets, primarily property and equipment and beginning in 2019, the Company's lease right-of-use asset, were (in millions)–Consolidated: 2019–$38,291.5; 2018– $23,671.1; U.S. based: 2019–$19,487.6; 2018–$12,250.3.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, 2019	*2018*
Land	**$ 6,026.4**	$ 5,521.4
Buildings and improvements on owned land	**17,003.7**	15,377.4
Buildings and improvements on leased land	**12,605.9**	12,863.6
Equipment, signs and seating	**2,994.5**	2,942.6
Other	**420.4**	488.6
Property and equipment, at cost	**39,050.9**	37,193.6
Accumulated depreciation and amortization	**(14,890.9)**	(14,350.9)
Net property and equipment	**$ 24,160.0**	$ 22,842.7

Depreciation and amortization expense for property and equipment was (in millions): 2019–$1,392.2; 2018–$1,302.9; 2017–$1,227.5.

Franchise Arrangements

Conventional franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and royalties to the Company based upon a percent of sales with minimum rent payments. Minimum rent payments are based on the Company's underlying investment in owned sites and parallel the Company's underlying leases and escalations on properties that are leased. Under the franchise arrangement, franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. At the end of the 20-year franchise arrangement, the Company maintains control of the underlying real estate and building and can either enter into a new 20-year franchise arrangement with the existing franchisee or a different franchisee, or close the restaurant. Franchisees generally pay related occupancy costs including property taxes, insurance and site maintenance.

Developmental licensees and affiliates operating under license agreements pay a royalty to the Company based upon a percent of sales, and generally pay initial fees.

McDonald's has elected to allocate consideration in the franchise contract among lease and non-lease components in the same manner that it has historically: rental income (lease), royalty income (non-lease) and initial fee income (non-lease). This disaggregation and presentation of revenue is based on the nature, amount, timing and certainty of the revenue and cash flows. The allocation has been determined based on a mix of both observable and estimated standalone selling prices (the price at which an entity would sell a promised good or service separately to a customer).

Revenues from franchised restaurants consisted of:

In millions	***2019***	*2018*	*2017*
Rents	**$ 7,500.2**	$ 7,082.2	$ 6,496.3
Royalties	**4,107.1**	3,886.3	3,518.7
Initial fees	**48.4**	44.0	86.5
Revenues from franchised restaurants	**$ 11,655.7**	$ 11,012.5	$ 10,101.5

Future gross minimum rent payments due to the Company under existing conventional franchise arrangements are:

In millions	*Owned sites*	*Leased sites*	*Total*
2020	$ 1,558.5	$ 1,449.8	$ 3,008.3
2021	1,501.4	1,382.5	2,883.9
2022	1,439.3	1,310.5	2,749.8
2023	1,384.8	1,246.4	2,631.2
2024	1,344.4	1,196.7	2,541.1

Thereafter	11,155.2	9,354.5	20,509.7
Total minimum payments	$ 18,383.6	$15,940.4	$ 34,324.0

At December 31, 2019, net property and equipment under franchise arrangements totaled $19.2 billion (including land of $5.4 billion) after deducting accumulated depreciation and amortization of $10.9 billion.

Leasing Arrangements

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Company determines whether an arrangement is a lease at inception. Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options. Renewal options are typically solely at the Company's discretion. Escalation terms vary by market with examples including fixed-rent escalations, escalations based on an inflation index and fair-value market adjustments. The timing of these escalations generally range from annually to every five years.

The following table provides detail of rent expense:

In millions	***2019***	*2018*	*2017*
Restaurants	**$ 1,530.4**	$ 1,433.9	$ 1,562.5
Other	**76.4**	87.9	82.0
Total rent expense	**$ 1,606.8**	$ 1,521.8	$ 1,644.5

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2019–$74.4; 2018–$82.1; 2017–$115.6. Franchised restaurants: 2019–$200.7; 2018–$200.8; 2017–$204.9.

The amount of the Right of Use Asset and Lease Liability recorded at transition included known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation.

The Company has elected not to separate non-lease components from lease components in our lessee portfolio. To the extent that occupancy costs, such as site maintenance, are included in the Asset and Liability, the impact is immaterial and is generally limited to Company-owned restaurant locations. For franchised locations, which represent the majority of the restaurant portfolio, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement.

In addition, the Company is the lessee under non-restaurant related leases such as office buildings, vehicles and office equipment. These leases are not a material subset of the Company's lease portfolio.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. The weighted average discount rate used for operating leases was 4.0% as of December 31, 2019.

As of December 31, 2019, maturities of lease liabilities for our operating leases were as follows:

In millions	*Total **
2020	$ 1,161.9
2021	1,132.8
2022	1,091.4
2023	1,052.6
2024	1,010.3
Thereafter	13,573.6
Total lease payments	19,022.6
Less: imputed interest	(5,643.8)
Present value of lease liability	$ 13,378.8

* Total lease payments include option periods that are reasonably assured of being exercised. See contractual cash outflows for operating leases within the Contractual Obligations and Commitments section on page 19.

The increase in the present value of the lease liability since adoption of ASC 842 is approximately $0.9 billion. The lease liability will continue to be impacted by new leases, lease modifications, lease terminations, reevaluation of likely-term due to new facts and circumstances, and foreign currency.

As of December 31, 2019, the Weighted Average Lease Term remaining that is included in the maturities of lease liabilities was 20 years.

As of December 31, 2018, prior to the adoption of ASC 842, future minimum payments required under existing operating leases with initial terms of one year or more were:

In millions	*Restaurant*	*Other*	*Total* *
2019	$ 1,093.4	$ 51.3	$ 1,144.7
2020	1,032.1	51.0	1,083.1
2021	955.5	45.7	1,001.2
2022	873.8	35.7	909.5
2023	806.0	24.6	830.6
Thereafter	7,132.3	164.9	7,297.2
Total minimum payments	$ 11,893.1	$ 373.2	$ 12,266.3

* Future minimum payments exclude option periods that have not yet been exercised.

Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in a particular matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Other Operating (Income) Expense, Net

In millions	***2019***	*2018*	*2017*
Gains on sales of restaurant businesses	**$ (127.5)**	$ (304.1)	$ (295.4)
Equity in earnings of unconsolidated affiliates	**(153.8)**	(151.5)	(183.7)
Asset dispositions and other (income) expense, net	**23.1**	(12.9)	18.7
Impairment and other charges (gains), net	**74.3**	231.7	(702.8)
Total	**$ (183.9)**	$ (236.8)	$ (1,163.2)

- ***Gains on sales of restaurant businesses***

The Company’s purchases and sales of businesses with its franchisees are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of our business.

- ***Equity in earnings of unconsolidated affiliates***

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates but does not control. The Company records equity in (earnings) losses from these entities representing McDonald’s share of results. For foreign affiliated markets—primarily China and Japan—results are reported after interest expense and income taxes.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings and uncollectible receivables, asset write-offs due to restaurant reinvestment (including investment in EOTF), strategic sale of properties, and other miscellaneous income and expenses.

- ***Impairment and other charges (gains), net***

Impairment and other charges (gains), net includes losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value, as well as charges associated with strategic initiatives, such as refranchising and restructuring activities. The realized gains/losses from the sale of McDonald's businesses in certain markets are reflected in this category, including the 2017 gain on the sale of the Company's businesses in China and Hong Kong.

Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	***2019***	*2018*	*2017*
U.S.	**$ 2,159.1**	$ 2,218.0	$ 2,242.0
Outside the U.S.	**5,859.0**	5,598.1	6,331.5
Income before provision for income taxes	**$ 8,018.1**	$ 7,816.1	$ 8,573.5

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” The goal of this update was to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted this standard on January 1, 2018 using a modified retrospective method, resulting in a cumulative catch up adjustment of $57 million, the majority of which was recorded within Miscellaneous other assets on the Consolidated Balance Sheet. The adoption of this standard did not have a material impact on the consolidated statements of income and cash flows.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in SAB 118. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability of approximately $1.2 billion at December 31, 2017. Upon further analysis of the Tax Act and notices and regulations issued and proposed by the U.S. Department of the Treasury and the IRS, the Company increased its December 31, 2017 provisional amount by approximately $75 million during 2018. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

The provision for income taxes, classified by the timing and location of payment, was as follows:

In millions	***2019***	*2018*	*2017*
U.S. federal	**$ 521.8**	$ 292.9	$ 2,030.8
U.S. state	**194.7**	183.9	169.8
Outside the U.S.	**1,126.5**	1,312.4	1,217.0
Current tax provision	**1,843.0**	1,789.2	3,417.6
U.S. federal	**38.5**	145.7	(120.1)
U.S. state	**20.0**	18.7	12.8
Outside the U.S.	**91.2**	(61.8)	70.9
Deferred tax provision	**149.7**	102.6	(36.4)
Provision for income taxes	**$ 1,992.7**	$ 1,891.8	$ 3,381.2

Net deferred tax liabilities consisted of:

In millions	*December 31,* ***2019***	*2018*
Lease right-of-use asset	**$3,296.8**	$ —
Property and equipment	**1,316.4**	1,288.9
Intangible assets	**334.8**	312.3
Other	**511.1**	347.9
Total deferred tax liabilities	**5,459.1**	1,949.1
Lease liability	**(3,331.1)**	—
Intangible assets	**(1,051.0)**	(1,081.5)
Property and equipment	**(585.6)**	(658.9)
Deferred foreign tax credits	**(311.2)**	(216.6)
Employee benefit plans	**(192.3)**	(213.3)
Deferred revenue	**(145.5)**	(138.9)
Operating loss carryforwards	**(81.5)**	(45.7)
Other	**(323.6)**	(269.2)
Total deferred tax assets before valuation allowance	**(6,021.8)**	(2,624.1)
Valuation allowance	**741.9**	671.1
Net deferred tax (assets) liabilities	**$ 179.2**	$ (3.9)
Balance sheet presentation:		
Deferred income taxes	**$1,318.1**	$ 1,215.5
Other assets-miscellaneous	**(1,138.9)**	(1,219.4)
Net deferred tax (assets) liabilities	**$ 179.2**	$ (3.9)

At December 31, 2019, the Company had net operating loss carryforwards of $360.3 million, of which $232.7 million has an indefinite carryforward. The remainder will expire at various dates from 2020 to 2038.

Prior to 2018, the Company's effective income tax rate was generally lower than the U.S. statutory tax rate primarily because foreign income was generally subject to local statutory country tax rates that were below the 35% U.S. statutory tax rate and reflected the impact of global transfer pricing. Beginning in 2018, the Tax Act reduced the U.S. statutory tax rate to 21%. As a result, the Company’s 2019 and 2018 effective income tax rates are higher than the U.S. statutory tax rate of 21% primarily due to the impact of state income taxes and foreign income that is subject to local statutory country tax rates that are above the 21% U.S. statutory tax rate.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2019	2018	2017
Statutory U.S. federal income tax rate	**21.0 %**	21.0 %	35.0 %
State income taxes, net of related federal income tax benefit	**1.8**	1.8	1.2
Foreign income taxed at different rates	**1.6**	1.5	(4.6)
Transition tax	—	1.0	13.7
US net deferred tax liability remeasurement	—	—	(6.0)
Foreign tax credit redetermination regulations	**(1.0)**	—	—
Other, net	**1.5**	(1.1)	0.1
Effective income tax rates	**24.9 %**	24.2 %	39.4 %

As of December 31, 2019 and 2018, the Company's gross unrecognized tax benefits totaled $1,439.1 million and $1,342.8 million, respectively. After considering the deferred tax accounting impact, it is expected that about $880 million of the total as of December 31, 2019 would favorably affect the effective tax rate if resolved in the Company's favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

In millions	**2019**	2018
Balance at January 1	**$ 1,342.8**	$ 1,180.4
Decreases for positions taken in prior years	**(18.3)**	(64.1)
Increases for positions taken in prior years	**107.1**	180.8
Increases for positions related to the current year	**88.3**	75.1
Settlements with taxing authorities	**(68.6)**	(24.1)
Lapsing of statutes of limitations	**(12.2)**	(5.3)
Balance at December 31[(1)]	**$ 1,439.1**	$ 1,342.8

(1) Of this amount, $1,285.3 million and $1,313.7 million are included in Long-term income taxes for 2019 and 2018, respectively, and $138.8 million and $12.5 million are included in Prepaid expenses and other current assets for 2019 and 2018, respectively, on the Consolidated Balance Sheet. The remainder is included in Deferred income taxes on the Consolidated Balance Sheet.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and, during 2019, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2019, the Company does not yet have a signed closing agreement with the IRS related to the settlement of these issues.

In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process. The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. It is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $980 million within the next 12 months, of which only an immaterial amount would favorably affect the effective tax rate. This would be due to the possible settlement of the IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In addition, it is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate.

The Company operates within multiple tax jurisdictions and is subject to audit in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

The Company had $174.4 million and $152.0 million accrued for interest and penalties at December 31, 2019 and 2018, respectively. The Company recognized interest and penalties related to tax matters of $39.9 million in 2019, $13.9 million in 2018, and $34.9 million in 2017, which are included in the provision for income taxes.

As of December 31, 2019, the Company has accumulated undistributed earnings generated by our foreign subsidiaries, which were predominantly taxed in the U.S. as a result of the transition tax provisions enacted under the Tax Act. Management does not assert that these previously-taxed unremitted earnings are indefinitely reinvested in operations outside the U.S. Accordingly, the Company has provided deferred taxes for the tax effects incremental to the transition tax. We have not provided for deferred taxes on outside basis differences in our investments in our foreign subsidiaries that are unrelated to these accumulated undistributed earnings, as these outside basis differences are indefinitely reinvested. A determination of the unrecognized deferred taxes related to these other components of our outside basis differences is not practicable.

Employee Benefit Plans

The Company's 401k Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows participants to make pre-tax contributions that are matched each pay period (with an annual true-up) from cash contributions and through July 31, 2018 from shares released under the Employee Stock Ownership Plan. Effective August 1, 2018, the contributions are matched only through cash contributions.

All current account balances, future contributions and related earnings can be invested in eight investment alternatives as well as McDonald’s stock in accordance with each participant’s investment elections. Future participant contributions are limited to 20% investment in McDonald’s stock. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the 401k Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401k Plan. Total liabilities were $435.0 million at December 31, 2019 and $437.4 million at December 31, 2018, and were primarily included in other long-term liabilities on the Consolidated Balance Sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2019, derivatives with a fair value of $179.1 million indexed to the Company's stock and a total return swap with a notional amount of $187.7 million indexed to certain market indices were included at their fair value in Miscellaneous other assets and Prepaid expenses and other current assets, respectively, on the Consolidated Balance Sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company’s stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401k Plan, including nonqualified benefits and related hedging activities, were (in millions): 2019–$30.4; 2018–$18.0; 2017–$19.3. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2019–$35.3; 2018–$33.7; 2017–$43.3.

The total combined liabilities for international retirement plans were $42.3 million and $40.6 million at December 31, 2019 and 2018, respectively. Other post-retirement benefits and post-employment benefits were immaterial to the Consolidated Income Statement.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2019, the Company had a line of credit agreement, of which $3.5 billion expires in December 2023. The Company incurs fees of 0.080% per annum on the total commitment, which remained unused. Fees and interest rates on this line are primarily based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 1.9% at December 31, 2019 (based on $242.4 million of foreign currency bank line borrowings and $899.3 million of commercial paper outstanding) and 2.6% at December 31, 2018 (based on $253.5 million of foreign currency bank line borrowings and $99.9 million of commercial paper outstanding).

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The Company has no current plans to retire a significant amount of its debt prior to maturity.

The following table summarizes the Company's debt obligations (interest rates and debt amounts reflected in the table include the effects of interest rate swaps used to hedge debt).

		Interest rates(1) December 31		Amounts outstanding December 31	
In millions of U.S. Dollars	*Maturity dates*	***2019***	*2018*	***2019***	*2018*
Fixed		**4.0 %**	4.0 %	**$ 19,340.2**	$ 18,075.8
Floating		**2.2**	3.4	**2,049.3**	1,349.9
Total U.S. Dollar	2020-2049			**21,389.5**	19,425.7
Fixed		**1.5**	1.6	**8,671.8**	8,069.1
Floating		**2.3**	—	**337.0**	1,264.1
Total Euro	2020-2031			**9,008.8**	9,333.2
Fixed		**3.4**	—	**771.0**	—
Floating		**2.0**	—	**210.6**	—
Total Australian Dollar	2024-2029			**981.6**	—
Total British Pounds Sterling - Fixed	2020-2054	**4.6**	5.3	**1,386.3**	952.3
Total Canadian Dollar - Fixed	2021-2025	**3.1**	3.1	**768.6**	732.0
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**115.1**	114.0
Fixed		**0.2**	0.3	**413.8**	414.9
Floating		**2.2**	2.6	**241.8**	244.2
Total other currencies(2)	2020-2024			**655.6**	659.1
Debt obligations before fair value adjustments and deferred debt costs(3)				**34,305.5**	31,216.3
Fair value adjustments(4)				**12.1**	(12.0)
Deferred debt costs				**(140.4)**	(129.0)
Total debt obligations				**$ 34,177.2**	$ 31,075.3

(1) *Weighted-average effective rate, computed on a semi-annual basis.*

(2) *Consists of Swiss Francs and Korean Won.*

(3) *Aggregate maturities for 2019 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2020–$59.1; 2021–$2,132.2; 2022–$2,250.1; 2023–$6,007.0; 2024–$2,819.0; Thereafter–$21,038.1. These amounts include a reclassification of short-term obligations totaling $3.5 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2023.*

(4)

The carrying value of underlying items in fair value hedges, in this case debt obligations, are adjusted for fair value changes to the extent they are attributable to the risk designated as being hedged. The related hedging instruments are also recorded at fair value on the Consolidated Balance Sheet.

Share-based Compensation

The Company maintains a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plans was 42.5 million at December 31, 2019, including 26.5 million available for future grants.

STOCK OPTIONS

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date.

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2019, 2018 and 2017, the total intrinsic value of stock options exercised was $356.1 million, $364.4 million and $353.6 million, respectively. Cash received from stock options exercised during 2019 was $350.5 million and the tax benefit realized from stock options exercised totaled $70.5 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2019, 2018 and 2017, and changes during the years then ended, is presented in the following table:

	2019				2018		2017	
Options	*Shares in millions*	*Weighted-average exercise price*	*Weighted-average remaining contractual life in years*	*Aggregate intrinsic value in millions*	*Shares in millions*	*Weighted-average exercise price*	*Shares in millions*	*Weighted-average exercise price*
Outstanding at beginning of year	**16.6**	**$ 113.06**			18.9	$ 101.55	21.5	$ 92.25
Granted	**2.0**	**175.17**			2.7	157.95	4.0	128.74
Exercised	**(3.6)**	**97.70**			(4.5)	89.31	(5.6)	81.77
Forfeited/expired	**(0.4)**	**154.65**			(0.5)	137.08	(1.0)	118.38
Outstanding at end of year	**14.6**	**$ 124.21**	**5.9**	**$ 1,074.6**	16.6	$ 113.06	18.9	$ 101.55
Exercisable at end of year	**9.2**	**$ 107.51**	**4.7**	**$ 826.4**	10.0		11.3	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2019, 2018 and 2017 is presented in the following table:

	2019		2018		2017	
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.5**	**$ 132.56**	1.6	$ 107.34	1.9	$ 94.13
Granted	**0.6**	**171.48**	0.6	158.28	0.6	123.98
Vested	**(0.6)**	**116.42**	(0.6)	91.20	(0.7)	87.18
Forfeited	**(0.1)**	**153.58**	(0.1)	132.14	(0.2)	117.24
Nonvested at end of year	**1.4**	**$ 150.95**	1.5	$ 132.56	1.6	$ 107.34

The total fair value of RSUs vested during 2019, 2018 and 2017 was $111.0 million, $117.9 million and $87.6 million, respectively. The tax benefit realized from RSUs vested during 2019 was $21.3 million.

SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus has caused business disruption beginning in January 2020, due to the closure of some restaurants, modified operating hours in certain restaurants that remain open, and resulting traffic declines in our China market. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results, the related financial impact cannot be reasonably estimated at this time. For the year ended December 31, 2019, the China market represented approximately 5% of Systemwide sales, 1% of consolidated revenues and 3% of consolidated operating income.

Quarterly Results (Unaudited)

In millions, except per share data	Quarters ended December 31 2019	2018	Quarters ended September 30 2019	2018	Quarters ended June 30 2019	2018	Quarters ended March 31 2019	2018
Revenues								
Sales by Company-operated restaurants	**$ 2,363.3**	$ 2,371.2	**$ 2,416.6**	$ 2,511.0	**$ 2,400.4**	$ 2,594.9	**$ 2,240.5**	$ 2,535.6
Revenues from franchised restaurants	**2,985.7**	2,791.8	**3,014.0**	2,858.4	**2,940.9**	2,759.0	**2,715.1**	2,603.3
Total revenues	**5,349.0**	5,163.0	**5,430.6**	5,369.4	**5,341.3**	5,353.9	**4,955.6**	5,138.9
Company-operated margin	**423.7**	414.6	**448.9**	463.1	**433.3**	464.4	**354.3**	404.7
Franchised margin	**2,422.4**	2,282.1	**2,454.5**	2,359.0	**2,396.2**	2,275.1	**2,182.0**	2,123.0
Operating income	**2,292.6**	1,999.5	**2,409.3**	2,417.7	**2,273.9**	2,262.3	**2,094.0**	2,143.1
Net income	**$ 1,572.2**	$ 1,415.3	**$ 1,607.9**	$ 1,637.3	**$ 1,516.9**	$ 1,496.3	**$ 1,328.4**	$ 1,375.4
Earnings per common share—basic	**$ 2.10**	$ 1.84	**$ 2.13**	$ 2.12	**$ 1.99**	$ 1.92	**$ 1.74**	$ 1.74
Earnings per common share—diluted	**$ 2.08**	$ 1.82	**$ 2.11**	$ 2.10	**$ 1.97**	$ 1.90	**$ 1.72**	$ 1.72
Dividends declared per common share	**$ —**	$ —	**$ 2.41** (1)	$ 2.17 (1)	**$ 1.16**	$ 1.01	**$ 1.16**	$ 1.01
Weighted-average common shares—basic	**749.2**	769.5	**756.6**	772.8	**761.8**	780.0	**764.9**	790.9
Weighted-average common shares—diluted	**755.6**	776.6	**763.9**	779.6	**768.7**	787.1	**771.6**	798.7

(1) Includes a $1.16 and $1.01 per share dividend declared and paid in third quarter of 2019 and 2018, respectively, and a $1.25 and $1.16 per share dividend declared in the third quarter and paid in fourth quarter of 2019 and 2018, respectively.

Management’s Assessment of Internal Control Over Financial Reporting

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

I. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

II. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

III. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company’s internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control – Integrated Framework (2013 Framework).

Based on management’s assessment using those criteria, as of December 31, 2019, management believes that the Company’s internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2019, 2018 and 2017 and the Company’s internal control over financial reporting as of December 31, 2019. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD’S CORPORATION

February 26, 2020

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald’s Corporation (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in the Summary of Significant Accounting Policies note to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842).

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Unrecognized Tax Benefits

Description of the Matter	As described in the income taxes footnote to the consolidated financial statements, the Company's unrecognized tax benefits, which includes transfer pricing matters, totaled $1,439 million at December 31, 2019. The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled. Auditing the measurement of unrecognized tax benefits related to transfer pricing used in intercompany transactions was challenging because the measurement is based on judgmental interpretations of complex tax laws and legal rulings and because the pricing of the intercompany transactions is based on studies that may produce a range of outcomes (e.g., the price that would be charged in an arm's-length transaction).
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's process to assess the technical merits and measure unrecognized tax benefits related to transfer pricing used in intercompany transactions. For example, we tested management's review of the unrecognized tax benefit calculations, which included evaluation of the comparable transactions used to determine the ranges of outcomes, pricing conclusions reached in management's transfer pricing studies, and the assessment of other third-party information. With the assistance of our income tax professionals, we performed audit procedures that included, among others, evaluating the technical merits of the Company's position and testing the measurement of unrecognized tax benefits related to transfer pricing. For example, we assessed the inputs utilized and the pricing conclusions reached in the transfer pricing studies executed by management, and compared the methods used to alternative methods and industry benchmarks. We also reviewed the Company's communications with the relevant tax authorities and any advice obtained by the Company from third-party advisors. In addition, we used our knowledge of historical settlement activity, income tax laws, and other market information to evaluate the technical merits of the positions and the measurement of unrecognized tax benefits related to transfer pricing.

ERNST & YOUNG LLP

We have served as the Company's auditor since 1964.

Chicago, Illinois
February 26, 2020

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of McDonald's Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald's Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald's Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald's Corporation as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG LLP

Chicago, Illinois
February 26, 2020

Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), over the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2019. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT

Management's Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in the Consolidated Financial Statements.

Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table summarizes information about the Company's equity compensation plans as of December 31, 2019. All outstanding awards relate to the Company's common stock. Shares issued under all of the following plans may be from the Company's treasury, newly issued or both.

Equity compensation plan information

Plan category	*Number of securities to be issued upon exercise of outstanding options, warrants and rights* (a)	*Weighted-average exercise price of outstanding options, warrants and rights* (b)	*Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))* (c)
Equity compensation plans approved by security holders	16,029,240 (1)	$126.54	26,481,096
Equity compensation plans not approved by security holders	—	—	—
Total	16,029,240	$126.54	26,481,096

(1) Includes 1,587,414 stock options granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan and 13,049,313 stock options and 1,392,513 restricted stock units granted under the McDonald's Corporation 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements filed as part of this report and are included on pages 33 through 54 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

b. Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

McDonald's Corporation Exhibit Index

Exhibit Number	Description
(3)	(a) Restated Certificate of Incorporation, effective as of May 23, 2019, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), filed August 6, 2019.
	(b) By-Laws, as amended and restated with effect as of December 6, 2019, incorporated herein by reference from Exhibit 3 of Form 8-K (File No. 001-05231), filed December 10, 2019.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(c) Description of Securities.
(10)	Material Contracts
	(a) Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
	(b) McDonald's Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**
	(i) First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, incorporated herein by reference from Exhibit 10(b)(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2018.**
	(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**
	(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**
	(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**
	(d)

McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**

(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**

(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**

(f) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**

(g) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(h) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(i) Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(j) Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**

(k) Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(l) Form of 2018 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(m) Separation Agreement and General Release between Douglas Goare and the Company, dated January 7, 2019, incorporated herein by reference from Exhibit 10(r) of Form 10-K (File No. 001-05231), for the year ended December 31, 2018.**

(n) McDonald's Corporation Target Incentive Plan, effective as of January 1, 2013, as Amended and Restated February 13, 2019, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(o) McDonald's Corporation Officer Severance Plan, as Amended and Restated, effective January 1, 2019, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(p) Form of 2019 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(q) Form of 2019 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(s) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2019.**

(r) Separation Agreement and General Release between Stephen Easterbrook and the Company, dated October 31, 2019, incorporated herein by reference from Exhibit 10.1 of Form 8-K (File No. 001-05231), filed November 4, 2019.

(12) Computation of Ratios.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Registered Public Accounting Firm.

(24) Power of Attorney.

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer.

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer.

(32.1) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(101.INS) XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

(101.SCH) Inline XBRL Taxonomy Extension Schema Document.

(101.CAL) Inline XBRL Taxonomy Extension Calculation Linkbase Document.

(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
(104)	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

** Denotes compensatory plan.

Form 10-K Cross-Reference Index

(a) - Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer

February 26, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 26th day of February, 2020:

By /s/ Lloyd H. Dean
Lloyd H. Dean
Director

By /s/ Robert A. Eckert
Robert A. Eckert
Director

By /s/ Catherine M. Engelbert
Catherine M. Engelbert
Director

By /s/ Margaret H. Georgiadis
Margaret H. Georgiadis
Director

By /s/ Enrique Hernandez, Jr.
Enrique Hernandez, Jr.
Chairman of the Board and Director

By /s/ Catherine Hoovel
Catherine Hoovel
Corporate Vice President – Chief Accounting Officer
(Principal Accounting Officer)

By /s/ Christopher J. Kempczinski
Christopher J. Kempczinski
President, Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ Richard H. Lenny
Richard H. Lenny
Director

By /s/ John J. Mulligan
John J. Mulligan
Director

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Sheila A. Penrose
Sheila A. Penrose
Director

By /s/ John W. Rogers, Jr.
John W. Rogers, Jr.
Director

By /s/ Paul S. Walsh
Paul S. Walsh
Director

By /s/ Miles D. White
Miles D. White
Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2018
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

McDONALD’S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2361282** (I.R.S. Employer Identification No.)
110 North Carpenter Street **Chicago, Illinois** (Address of principal executive offices)	**60607** (Zip code)

Registrant’s telephone number, including area code: (630) 623-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
(Check one):
Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of June 29, 2018 was $121,530,450,454.

The number of shares outstanding of the registrant’s common stock as of January 31, 2019 was 765,317,332.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant’s 2019 definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

McDONALD’S CORPORATION

INDEX

PART I

ITEM 1. Business

McDonald’s Corporation, the registrant, together with its subsidiaries, is referred to herein as the “Company.”

a. General

For the year ended December 31, 2018, there were no material changes to the Company's corporate structure or in its method of conducting business. The business was structured with segments that combine markets with similar characteristics and opportunities for growth. Significant reportable segments included the United States ("U.S."), International Lead Markets and High Growth Markets. In addition, throughout this report we present the Foundational Markets & Corporate segment, which includes markets in over 80 countries, as well as Corporate activities.

As detailed in the Company's Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") on September 24, 2018, the Company announced changes to its global operating structure, effective January 1, 2019. Refer to the Segment and Geographic Information section included in Part II, Item 8, page 49 of this Form 10-K for additional information.

b. Narrative description of business

- ***General***

The Company operates and franchises McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages in more than 100 countries. McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. We continually review our mix of Company-owned and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term. The business relationship between McDonald’s and its independent franchisees is supported by adhering to standards and policies and is of fundamental importance to overall performance and to protecting the McDonald’s brand.

The Company is primarily a franchisor, with approximately 93% of McDonald's restaurants currently owned and operated by independent franchisees. Franchising enables an individual to be his or her own employer and maintain control over all employment related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald’s global brand, operating system and financial resources.

Directly operating McDonald’s restaurants contributes significantly to our ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in our Company-owned and operated restaurants, and in collaboration with franchisees, we are able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald’s restaurants.

Conventional Franchise

Under a conventional franchise arrangement, the Company generally owns the land and building or secures a long-term lease for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are also responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company frequently co-invests with franchisees to fund improvements to their restaurants or their operating systems. These investments, developed in collaboration with franchisees are designed to cater to consumer preferences, improve local business performance, and increase the value of our brand through the development of modernized, more attractive and higher revenue generating restaurants.

The Company’s typical franchise term is 20 years. The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to facilitate consistency and high quality at all McDonald’s restaurants. Conventional franchisees contribute to the Company’s revenue, primarily through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. This structure enables McDonald’s to generate significant levels of cash flow.

Developmental License or Affiliate

Under a developmental license or affiliate arrangement, licensees are responsible for operating and managing the business, providing capital (including the real estate interest) and developing and opening new restaurants. The

Company generally does not invest any capital under a developmental license or affiliate arrangement, and it receives a royalty based upon a percent of sales and generally will receive initial fees upon the opening of a new restaurant or grant of a new term. While developmental license and affiliate arrangements are largely the same, affiliate arrangements are used in a limited number of foreign markets where the Company also has an equity investment and records its share of net results in Equity in earnings of unconsolidated affiliates.

- ***Supply chain, food safety, and quality assurance***

The Company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers. The Company has established and enforces high food safety and quality standards. The Company has quality centers around the world designed to promote consistency of its high standards. The quality assurance process not only involves ongoing product reviews, but also on-site supplier visits. A Food Safety Advisory Council, composed of the Company's internal food safety experts, as well as suppliers and outside academia, provides strategic global leadership for all aspects of food safety. We have ongoing programs to educate employees about food safety practices, and our suppliers and restaurant operators participate in food safety trainings where we share best practices on food safety and quality. In addition, the Company works closely with suppliers to encourage innovation and drive continuous improvement. Leveraging scale, supply chain infrastructure and risk management strategies, the Company also collaborates with suppliers toward a goal of achieving competitive, predictable food and paper costs over the long term.

Independently owned and operated distribution centers, approved by the Company, distribute products and supplies to McDonald's restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of food for customers.

- ***Products***

McDonald's restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes. In addition, McDonald's tests new products on an ongoing basis.

McDonald's menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, french fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, pies, soft drinks, coffee, McCafé beverages and other beverages. In addition, the restaurants sell a variety of other products during limited-time promotions.

McDonald's restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches and hotcakes.

Quality, choice and nutrition are increasingly important to our customers and we are continuously evolving our menu to meet our customers' needs.

- ***Marketing***

McDonald's global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald's brand and differentiate the Company from competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience and the customer experience.

- ***Intellectual property***

The Company owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the trademarks "McDonald's" and "The Golden Arches Logo" to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying durations.

- ***Seasonal operations***

The Company does not consider its operations to be seasonal to any material degree.

- ***Working capital practices***

Information about the Company's working capital practices is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2018, 2017 and 2016 in Part II, Item 7, pages 15 through 31, and the Consolidated Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016 in Part II, Item 8, page 35 of this Form 10-K.

- ***Customers***

The Company's business is not dependent upon either a single customer or small group of customers.

- ***Backlog***

Company-operated restaurants have no backlog orders.

- ***Government contracts***

No material portion of the business is subject to renegotiation of profits or termination of contracts or subcontracts at government election.

- ***Competition***

McDonald's restaurants compete with international, national, regional and local retailers of food products. The Company competes on the basis of price, convenience, service, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company’s competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company’s primary competition, which is referred to as the informal eating out ("IEO") segment, includes the following restaurant categories defined by Euromonitor International: quick-service eating establishments, casual dining full-service restaurants, street stalls or kiosks, cafés,100% home delivery/takeaway providers, specialist coffee shops, self-service cafeterias and juice/smoothie bars. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than casual dining.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.3 trillion in annual sales in 2017, the most recent year for which data is available. McDonald’s Systemwide 2017 restaurant business accounted for 0.4% of those outlets and 7.1% of the sales.

Management also on occasion benchmarks McDonald’s against the entire restaurant industry, including the IEO segment defined above and all other full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 19 million outlets and generated $2.5 trillion in annual sales in 2017. McDonald’s Systemwide restaurant business accounted for 0.2% of those outlets and 3.7% of the sales.

- ***Environmental matters***

The Company continuously endeavors to improve its social responsibility and environmental practices to achieve long-term sustainability, which benefits McDonald’s and the communities it serves.

Increased focus by certain governmental authorities on environmental matters may lead to new governmental initiatives. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs for the Company. Also, there is a possibility that governmental initiatives, or actual or perceived effects of changes in weather patterns, climate, or water resources, could have a direct impact on the operations of the Company, its franchisees and suppliers (collectively referred to as the "System") in ways which we cannot predict at this time.

The Company monitors developments related to environmental matters and plans to respond to governmental initiatives in a timely and appropriate manner. In addition, the Company launched its Scale for Good framework in 2018, which includes the environmental-related pillars of climate action, packaging and recycling, and sustainable sourcing. These include goals and initiatives to reduce System greenhouse gas emissions, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste.

- ***Number of employees***

The Company’s number of employees worldwide, including its corporate office employees and Company-owned and operated restaurant employees, was approximately 210,000 as of year-end 2018.

c. Available information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the SEC. Such reports may be obtained by visiting the SEC's website at www.sec.gov.

Financial and other information can also be accessed on the investor section of the Company’s website at www.investor.mcdonalds.com. The Company uses this website as a primary channel for disclosing key information to its investors, some of which may contain material and previously non-public information. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623.

Also posted on McDonald’s website are the Company’s Corporate Governance Principles; the charters for each of the Committees of the Board of Directors, including the Audit and Finance Committee, Compensation Committee, Governance Committee, Public Policy and Strategy Committee and Sustainability and Corporate Responsibility Committee; the Code of Conduct for the Board of Directors; and the Company’s Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623.

Information on the Company’s website is not incorporated into this Form 10-K or the Company’s other securities filings and is not a part of them.

ITEM 1A. Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. 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 words, such as “may,” “will,” “expect,” “believe,” “anticipate” and “plan” or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry, including those under “Outlook,” are forward-looking statements. They reflect our expectations, are not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements. Our business results are subject to a variety of risks, including those that are reflected in the following considerations and factors, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations may change and our performance may be adversely affected.

If we do not successfully evolve and execute against our business strategies, including under the Velocity Growth Plan, we may not be able to increase operating income.

To drive operating income growth, our business strategies must be effective in maintaining and strengthening customer appeal, delivering sustainable guest count growth and driving a higher average check. Whether these strategies are successful depends mainly on our System’s ability to:

- Continue to innovate and differentiate the McDonald’s experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;
- Utilize our new organizational structure to build on our progress and execute against our business strategies;
- Augment our digital and delivery initiatives, including mobile ordering, along with Experience of the Future (“EOTF”), particularly in the U.S.;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;

- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations and create efficiencies through innovative use of technology; and

- Accelerate our existing strategies through growth opportunities, investments and partnerships.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Our investments to enhance the customer experience, including through technology, may not generate the expected returns.

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in EOTF, which focus on restaurant modernization and technology, as well as digital engagement and delivery, in order to transform the customer experience. As part of these investments, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to refine our delivery initiatives and partnerships, which may not generate expected returns. 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.

If we do not anticipate and address evolving consumer preferences and effectively execute our pricing, promotional and marketing plans, our business could suffer.

Our continued success depends on our System's ability to retain, regain and convert customers. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics, and trends in food sourcing, food preparation, food offerings and consumer preferences in the "informal eating out" ("IEO") segment. If we are not able to quickly and effectively respond to these changes, or our competitors respond more effectively, our financial results could be adversely impacted.

Our ability to retain, regain and convert customers also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful in retaining, regaining and converting customers, or may not be as successful as the efforts of our competitors, and could negatively impact sales, guest counts and market share.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in retaining, regaining and converting customers. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels allows us to reach our customers effectively. If the advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, our business practices and the manner in which we source the commodities we use. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our operations, our suppliers or our franchisees. If we are unsuccessful in addressing adverse commentary, whether or not accurate, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require Systemwide coordination and alignment. If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by new or continuing actions of our competitors, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, develop new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations and respond effectively to our competitors' actions or disruptive actions from others which we do not foresee. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Sustained adverse economic conditions or periodic adverse changes in economic conditions in our markets could pressure our operating performance, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates and unfavorable currency fluctuations could adversely affect reported earnings.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including shortages and transportation issues, and price increases can adversely affect us as well as our suppliers and franchisees whose performance may have a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers, franchisees or us. If we experience interruptions in our System's supply chain, our costs could increase and it could limit the availability of products critical to our System's operations.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future. Food safety is a top priority, and we dedicate substantial resources to offer safe food products to our customers, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and, in addition, could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

As the Company's business model has evolved to a more heavily franchised structure, our success relies to large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us.

Our success also relies on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. The ability of franchisees to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of our franchisees or the Company or by banks' lending practices. If our franchisees are unwilling or unable to invest in major initiatives or are unable to obtain financing at commercially reasonable rates, or at all, our future growth and results of operations could be adversely affected.

Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex. The benefits of our more heavily franchised structure depends on various factors including whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, whether we are able to successfully integrate them into our structure and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and facilitate smooth management and personnel transitions could disrupt our business and adversely affect our results.

Challenges with respect to labor availability and cost could impact our business and results of operations.

Our success depends in part on our System's ability to proactively recruit, motivate and retain a qualified workforce to work in our restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Information technology system failures or interruptions, or breaches of network security, may impact our operations.

We are increasingly reliant on technological systems, such as point-of-sale and other systems or platforms, technologies supporting McDonald's digital and delivery solutions, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, customers, employees or independent third parties to conduct our business, including technology-enabled systems provided to us by third parties. Any failure of these systems could significantly impact our operations and customer experience and perceptions.

Despite the implementation of security measures, those technology systems and solutions could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely manner, we could experience an interruption in our operations.

Furthermore, security breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees), or those of third party providers. These may include such things as unauthorized access, denial of service, computer viruses, introduction of malware or ransomware and other disruptive problems caused by hackers. Our information technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees and other third parties, as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. Further, the General Data Protection Regulation ("GDPR") requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. Failure to meet GDPR requirements could result in substantial penalties and materially adversely impact our financial results. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory and economic environments within and among the more than 100 countries where McDonald's restaurants operate, and our ability to achieve our business objectives depends on the System's success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System's ability to leverage operating successes across markets and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our franchisees' or our suppliers' operations, and asset seizures. The cost and disruption of responding to governmental investigations or inquiries, whether or not they have merit, or the impact of these other measures, may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental investigations or inquiries.

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges may be exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.'s decision to leave the European Union through a negotiated exit over a period of time, including its formal commencement of exit proceedings, it is possible that there will be increased regulatory complexities, as well as potential referenda in the U.K. and/or other European countries, that could cause uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

Increasing regulatory complexity may adversely affect restaurant operations and our financial results.

Our regulatory environment worldwide exposes us to complex compliance and similar risks that could affect our operations and results in material ways. In many of our markets, we are subject to increasing regulation, which has increased our cost of doing business. We are affected by the cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by multiple governmental authorities can adversely affect our business and increase our exposure to litigation or governmental investigations or proceedings.

Our success depends in part on our ability to manage the impact of new, potential or changing regulations that can affect our business plans and operations. These regulations include product packaging, marketing, the nutritional content and 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 (particularly given varying requirements and practices for testing and disclosure).

Additionally, we are working to manage the risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include the increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include the increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks. If we are unable to effectively manage the risks associated with our complex regulatory environment, it could have a material adverse effect on our business and financial condition.

We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.

Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations and proceedings, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers, claims by current or former franchisees and intellectual property claims (including claims that we infringed another party’s trademarks, copyrights or patents). Regardless of whether any claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations which could have a material adverse effect on our business and financial condition.

Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to regulatory proceedings or litigation.

Litigation and regulatory action concerning our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact our business operations and the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions.

We are also subject to legal and compliance risks and associated liability, such as in the areas of privacy and data collection, protection and management, as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees or other third parties.

Our results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from claims may hurt our business.

We may not be able to adequately protect our intellectual property or adequately confirm we are not infringing the intellectual property of others, which could harm the value of the McDonald’s brand and our business.

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. The steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately confirm that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot guarantee that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald’s may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;

- The impact of our stock repurchase program or dividend rate; and

- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies in light of changing business, legal and tax considerations and evolve our corporate structure.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the System. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns the land and building or secures long-term leases for conventional franchised and Company-operated restaurant sites, which facilitates long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network.

In addition, the Company owns and leases real estate in connection with its corporate headquarters and field offices.

Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, pages 15 through 31 and in Financial statements and supplementary data in Part II, Item 8, pages 31 through 52 of this Form 10-K.

ITEM 3. Legal Proceedings

The Company has pending a number of lawsuits that have been filed in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's entire business. The following is a brief description of the more significant types of claims and lawsuits. In addition, the Company is subject to various national and local laws and regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

- ***Franchising***

A substantial number of McDonald's restaurants are franchised to independent owner/operators under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its current or former franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, menu pricing, contentions regarding grants or terminations of franchises, delinquent payments of rents and fees, and franchisee claims for additional franchises or renewals of franchises. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald's franchise or who challenge the legal distinction between the Company and its franchisees for employment law purposes.

- ***Suppliers***

The Company and its affiliates and subsidiaries generally do not supply food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers, including service providers, that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its suppliers (or former suppliers) which include, for example, compliance with product specifications and the Company's business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants.

In the ordinary course of business, disputes arise regarding hiring, termination, promotion and pay practices, including wage and hour disputes, alleged discrimination and compliance with labor and employment laws.

- ***Customers***

Restaurants owned by subsidiaries of the Company regularly serve a broad segment of the public. In so doing, disputes arise as to products, service, incidents, pricing, advertising, nutritional and other disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

- ***Intellectual Property***

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third party intellectual property.

- ***Government Regulations***

Local and national governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, competition, zoning, employment and taxation. The Company is occasionally involved in litigation or other proceedings regarding these matters. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from these matters or the issuance of additional requirements in the future.

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The following are the Executive Officers of our Company (as of the date of this filing):

Ian Borden, 50, is President - International Developmental Licensed Markets, a position he has held since January 1, 2019. Prior to that, Mr. Borden served as President - Foundational Markets, from July 2015 through December 2018. From January 2014 through June 2015, Mr. Borden served as Vice President and Chief Financial Officer - McDonald’s Asia/Pacific, Middle East and Africa. Prior to that time, Mr. Borden served as Regional Vice President of Europe’s East Division from April 2011 to December 2013 and as Managing Director - McDonald’s Ukraine from December 2007 to December 2013. He has served the Company for 24 years.

Francesca A. DeBiase, 53, is Corporate Executive Vice President - Worldwide Supply Chain Sustainability, a position she has held since April 1, 2018. Prior to that, Ms. DeBiase served as Corporate Senior Vice President - Worldwide Supply Chain and Sustainability, from March 2015 through March 2018. From August 2007 through February 2015, Ms. DeBiase served as Corporate Vice President - Worldwide Strategic Sourcing. Prior to that, Ms. DeBiase served as Europe Vice President - Supply Chain, from January 2006 through July 2007. Ms. DeBiase has served the Company for 27 years.

Stephen Easterbrook, 51, is President and Chief Executive Officer, a position he has held since March 2015. Mr. Easterbrook was also elected a Director of the Company effective March 2015. From May 2014 through February 2015, Mr. Easterbrook served as Corporate Senior Executive Vice President and Global Chief Brand Officer. From June 2013 through April 2014, Mr. Easterbrook served as Corporate Executive Vice President and Global Chief Brand Officer. From September 2012 through May 2013, Mr. Easterbrook served as the Chief Executive Officer of Wagamama Limited, a pan-Asian restaurant chain, and from September 2011 to September 2012, he served as the Chief Executive Officer of PizzaExpress Limited, an Italian restaurant brand. From December 2010 to September 2011, he held the position of President, McDonald’s Europe. Prior to that, Mr. Easterbrook served in a number of roles with the Company. Mr. Easterbrook has served the Company for 25 years.

Joseph Erlinger, 45, is President - International Operated Markets, a position he has held since January 1, 2019. Prior to that, Mr. Erlinger served as President - High Growth Markets, from September 2016 through December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets (serving in dual roles from September 2016 through January 2017), as Managing Director of McDonald’s Korea from April 2013 to January 2016 (serving in dual roles from March 2015 through January 2016), and US Vice President - GM for the Indianapolis region from December 2010 to March 2013. He has served the Company for 17 years.

David Fairhurst, 50, is Corporate Executive Vice President & Chief People Officer, a position he has held since October 2015. Mr. Fairhurst served as Corporate Senior Vice President, International Human Resources and Strategy from April 2015 to September 2015. Prior to that time, he served as Europe Vice President - Chief People Officer from January 2011 to March 2015. Mr. Fairhurst has served the Company for 13 years.

Robert Gibbs, 47, is Corporate Executive Vice President and Global Chief Communications Officer, a position he has held since June 2015. Mr. Gibbs joined the Company from The Incite Agency, a strategic communications advisory firm that he co-founded in 2013. Prior to that, Mr. Gibbs held several senior advisory roles in the White House, serving as the White House Press Secretary beginning in 2009, then as Senior Advisor in the 2012 re-election campaign. Mr. Gibbs has been with the Company for 4 years.

Daniel Henry, 48, is Corporate Executive Vice President - Chief Information Officer, a position he has held since May 1, 2018. From October 2017 through April 2018, Mr. Henry served as Corporate Vice President - Chief Information Officer. Prior to that, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture at American Airlines from April 2012 to October 2017.

Catherine Hoovel, 47, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Prior to that time, Ms. Hoovel served as a Senior Director of Finance from February 2012 to April 2014 and was a Divisional Director from August 2010 to February 2012. Ms. Hoovel has served the Company for 23 years.

Christopher Kempczinski, 50, is President, McDonald’s USA, a position he has held since January 2017. Prior to that, Mr. Kempczinski served as Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, a manufacturer and marketer of food and beverage products, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Prior to that, Mr. Kempczinski served as President of Kraft Canada from July 2012 through December 2014 and as Senior Vice President - U.S. Grocery from December 2008 to July 2012. Mr. Kempczinski has been with the Company for 3 years.

Jerome Krulewitch, 54, is Corporate Executive Vice President, General Counsel and Secretary, a position he has held since March 2017. From May 2011 until March 2017, Mr. Krulewitch served as Corporate Senior Vice President - Chief Counsel, Global Operations. Prior to that, Mr. Krulewitch was Corporate Senior Vice President - General Counsel, The Americas from September 2010 to April 2011. Mr. Krulewitch has served the Company for 17 years.

Silvia Lagnado, 55, is Corporate Executive Vice President, Global Chief Marketing Officer, a position she has held since August 2015. Ms. Lagnado served as Chief Marketing Officer of Bacardi Limited, a spirits company, from

September 2010 to October 2012. Prior to that, Ms. Lagnado served more than 20 years in positions of increased responsibility at Unilever. Ms. Lagnado has been with the Company for 3 years.

Kevin Ozan, 55, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 21 years.

PART II

ITEM 5. Market for Registrant’s Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION AND DIVIDEND POLICY

The Company’s common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S.

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2019 was estimated to be 2,150,000.

Given the Company’s returns on incremental invested capital and significant cash provided by operations, management believes it is prudent to reinvest in the business in markets with acceptable returns and/or opportunity for long-term growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 43 consecutive years through 2018 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2018*:

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)*	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)*
October 1-31, 2018	1,696,789	168.75	1,696,789	$7,694,783,993
November 1-30, 2018	1,483,658	182.15	1,483,658	7,424,533,360
December 1-31, 2018	2,297,726	178.44	2,297,726	7,014,533,413
Total	5,478,173	176.44	5,478,173	

* *Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.*

(1) On July 27, 2017, the Company's Board of Directors approved a share repurchase program, effective July 28, 2017, that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date.

Stock Performance Graph

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of our revenues and income is generated outside the U.S. In addition, because of our size, McDonald's inclusion in those indices tends to skew the results. Therefore, we believe that such a comparison is not meaningful.

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2018. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2013. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

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Company/Index	**12/31/2013**	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**
McDonald's Corporation	$100	$100	$130	$138	$201	$212
S&P 500 Index	100	114	115	129	157	150
Dow Jones Industrials	100	110	110	128	165	159

Source: S&P Capital IQ

ITEM 6. Selected Financial Data

6-Year Summary

In millions, except per share and unit amounts	Years ended December 31, **2018**	2017	2016	2015	2014	2013
Consolidated Statement of Income Data						
Revenues						
Sales by Company-operated restaurants	**$ 10,013**	$ 12,719	$ 15,295	$ 16,488	$ 18,169	$ 18,875
Revenues from franchised restaurants	**11,012**	10,101	9,327	8,925	9,272	9,231
Total revenues	**21,025**	22,820	24,622	25,413	27,441	28,106
Operating income	**8,823**	9,553	7,745	7,146	7,949	8,764
Net income	**5,924**	5,192	4,687	4,529	4,758	5,586
Consolidated Statement of Cash Flows Data						
Cash provided by operations	**$ 6,967**	$ 5,551	$ 6,060	$ 6,539	$ 6,730	$ 7,121
Cash used for (provided by) investing activities	**2,455**	(562)	982	1,420	2,305	2,674
Capital expenditures	**2,742**	1,854	1,821	1,814	2,583	2,825
Cash used for (provided by) financing activities	**5,950**	5,311	11,262	(735)	4,618	4,043
Treasury stock purchases[(1)]	**5,247**	4,651	11,142	6,182	3,175	1,810
Common stock dividends	**3,256**	3,089	3,058	3,230	3,216	3,115
Financial Position						
Total assets	**$ 32,811**	$ 33,804	$ 31,024	$ 37,939	$ 34,227	$ 36,626
Total debt	**31,075**	29,536	25,956	24,122	14,936	14,130
Total shareholders' equity (deficit)	**(6,258)**	(3,268)	(2,204)	7,088	12,853	16,010
Shares outstanding	**767**	794	819	907	963	990
Per Common Share Data						
Earnings-diluted	**$ 7.54**	$ 6.37	$ 5.44	$ 4.80	$ 4.82	$ 5.55
Dividends declared	**4.19**	3.83	3.61	3.44	3.28	3.12
Market price at year end	**177.57**	172.12	121.72	118.44	93.70	97.03
Restaurant Information and Other Data						
Restaurants at year end						
Company-operated restaurants	**2,770**	3,133	5,669	6,444	6,714	6,738
Franchised restaurants	**35,085**	34,108	31,230	30,081	29,544	28,691
Total Systemwide restaurants	**37,855**	37,241	36,899	36,525	36,258	35,429
Franchised sales[(2)]	**$ 86,134**	$ 78,191	$ 69,707	$ 66,226	$ 69,617	$ 70,251

(1) Represents treasury stock purchases as reflected in Shareholders' equity.

(2) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent approximately 93% of McDonald's restaurants worldwide at December 31, 2018.

ITEM 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Overview

DESCRIPTION OF THE BUSINESS

The Company operates and franchises McDonald’s restaurants. Of the 37,855 restaurants in 120 countries at year-end 2018, 35,085 were franchised.

Under McDonald’s conventional franchise arrangement, the Company generally owns the land and building or secures a long-term lease for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are also responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company frequently co-invests with franchisees to fund improvements to their restaurants or their operating systems. These investments, developed in collaboration with franchisees are designed to cater to consumer preferences, improve local business performance, and increase the value of our brand through the development of modernized, more attractive and higher revenue generating restaurants.

Under McDonald's developmental license or affiliate arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company generally has no capital invested. The Company also has an equity investment in a limited number of foreign affiliates (primarily in China and Japan).

McDonald's is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally-relevant customer experiences and driving profitability. Franchising enables an individual to be his or her own employer and maintain control over all employment-related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald's global brand, operating system and financial resources.

Directly operating McDonald’s restaurants contributes significantly to our ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in our Company-owned and operated restaurants, and in collaboration with franchisees, we are able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald’s restaurants. McDonald's continually reviews its mix of Company-operated and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term.

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments, and initial fees. Revenues from developmental licensees and affiliate restaurants include a royalty based on a percent of sales, and generally include initial fees upon the opening of a new restaurant or grant of a new license. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

Through the end of 2018, the business was structured into the following segments that combined markets with similar characteristics and ownership structure, and reflected how management reviewed and evaluated operating performance:

- U.S. - the Company's largest segment.
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.
- High Growth Markets - markets that the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, the Netherlands, Poland, Russia, Spain, Switzerland and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model. Corporate activities are also reported within this segment.

Beginning in 2019, the Company changed its global operating structure as detailed in the Company's Form 8-K filed with the SEC on September 24, 2018. Refer to the Strategic Direction and Financial Performance section on the next page for additional information as well as the Segment and Geographic Information section included in Part II, Item 8, page 49 of this Form 10-K.

MANAGEMENT'S VIEW OF THE BUSINESS

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance and financial measures which are considered to be non-GAAP, including comparable sales and comparable guest count growth, Systemwide sales growth, return on incremental invested capital ("ROIIC"), free cash flow and free cash flow conversion rate, as described below.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases most incentive compensation plans on these results because the Company believes this better represents its underlying business trends.

- Comparable sales and comparable guest counts are key performance indicators used within the retail industry and are indicative of the impact of the Company’s initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales and comparable guest counts represent the percent change in sales and transactions, respectively, from the same period in the prior year for all restaurants, whether operated by the Company or franchisees, in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation, and, beginning in 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

- Systemwide sales include sales at all restaurants. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

- ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the markets, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.

- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company's ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value.

STRATEGIC DIRECTION AND FINANCIAL PERFORMANCE

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the "System") is key to McDonald's long-term success. By leveraging the System, McDonald's is able to identify, implement and scale ideas that meet customers' changing needs and preferences. McDonald's continually builds on its competitive advantages of System alignment and geographic diversification to deliver consistent, yet locally-relevant restaurant experiences to customers as an integral part of their communities.

In 2018, the Company continued to evolve to a more heavily franchised business model, and is currently about 93% franchised, with a long-term goal of approximately 95%. The Company will continue to make progress toward this long-term goal in 2019 primarily by refranchising restaurants to conventional licensees. As a result of the continued evolution of the Company's business model, in September 2018, the Company announced several organizational changes to its global business structure. These changes are designed to continue the Company's efforts toward efficiently driving growth as a better McDonald's through the Velocity Growth Plan. Effective January 1, 2019, McDonald's is operating with the following global business segments:

- U.S., the Company's largest market.

- International Operated Markets (IOM), comprised of wholly-owned markets, or countries in which the Company operates restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K.

- International Developmental Licensed Markets (IDL), comprised primarily of developmental licensee and affiliate markets in the McDonald's system. Corporate activities will also be reported within this segment.

Australia, Canada, France, Germany, and the U.K. may be collectively referred to as "the Big Five international markets" in the Company's disclosures.

CUSTOMER-CENTRIC GROWTH STRATEGY

The Velocity Growth Plan (the "Plan"), the Company's customer-centric strategy, is rooted in extensive customer research and insights, along with a deep understanding of the key drivers of the business. The Plan is designed to drive sustainable guest count growth, which is a reliable long-term measure of the Company's strength and is vital to growing sales and shareholder value. 2018 was a year of broad-based strength around the world along with significant execution against the Plan in the U.S. While the Company made meaningful progress, our focus in 2019 will be to optimize execution of the Plan to unlock further potential and drive long-term sustainable growth.

The Company continues to target the opportunity at the core of its business - its food, value and customer experience. The strategy is built on the following three pillars, all focusing on building a better McDonald's:

- <u>Retaining existing customers</u> - focusing on areas where it already has a strong foothold in the IEO category, including family occasions and food-led breakfast.

-

Regaining customers who visit less often - recommitting to areas of historic strength, namely food taste and quality, convenience and value.

- Converting casual to committed customers - building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack and treat offerings.

In each pillar, McDonald’s has established sustainable platforms that enable execution of the Plan with greater speed, efficiency and impact while remaining relentlessly focused on the fundamentals of running great restaurants. Additionally, through three identified growth accelerators - Experience of the Future (“EOTF”), digital and delivery - McDonald’s is enhancing the overall customer experience with hospitable, friendly service and ever-improving convenience for customers on their terms. The Company worked to aggressively deploy each of these accelerators in 2018 and will continue further implementation in 2019 and beyond.

- Experience of the Future. The Company continues to build upon its investments in EOTF, focusing on restaurant modernization and technology in order to transform the restaurant service experience and enhance the brand in the eyes of our customers. EOTF introduces a new hospitality experience via the restaurant Guest Experience Leaders and table service, both of which have proven to be critical drivers of customer satisfaction. The modernization efforts are designed to provide a better customer experience, leading to increased frequency of customer visits along with higher average check. As of the end of 2018, EOTF is now deployed in about half of the restaurants in our global system, and in 2019, the Company will continue to deploy EOTF in many markets. In 2018, the U.S. converted about 4,500 restaurants to EOTF, exceeding its ambitious target of 4,000 restaurants, resulting in over half of the U.S. restaurants now having EOTF. We expect to convert substantially all of the restaurants in the U.S. to EOTF by the end of 2020.

- Digital. As the Company continues its ambitious pace of converting restaurants to EOTF, it is placing renewed emphasis on improving its existing service model (i.e., eat in, take out, or drive-thru) and strengthening its relationships with customers through technology. By evolving the technology platform, the Company is redefining how we provide convenience to customers by expanding choices for how customers order, pay and are served through additional functionality on its global mobile app, self-order kiosks, and technologies that enable conveniences such as table service and curb-side pick-up. In 2018, the Company made further progress in rolling out digital platforms to improve convenience for our customers and provide a simpler and more personalized experience. This included having kiosks deployed in nearly 17,000 restaurants, digital menu boards in more than 21,000 restaurants, and availability of Mobile Order & Pay in over 22,000 restaurants. The popularity and utilization of self-order kiosks continues to grow over time, and in France, Italy and Spain, well over half of all in-restaurant visits orders are placed through the kiosk. Germany made a strong push to grow digital engagement in 2018 through digital calendar promotions, and saw success, driving sales and guest count growth, as well as increased app downloads. In 2019, the Company will continue to utilize digital initiatives to engage customers, grow awareness and adoption of digital offerings, and support our menu offerings.

- Delivery. The Company continues to build momentum with its delivery platform as a way of expanding the convenience for its customers. In 2018, McDonald’s expanded the number of restaurants offering delivery and it is now available in over half of the global system. Customers are responding positively, as demonstrated by high satisfaction ratings, high reorder rates, and average checks that are 1.5-2 times higher than average non-delivery transactions. In addition, many of our larger markets, such as the U.S., France and the U.K., have achieved delivery sales growth in the high double digits in restaurants offering the service for more than 12 months. Further, in several of our top markets, delivery now represents as much as 10% of sales in those restaurants offering delivery. While growing customer awareness remains a priority and focus in 2019, we have been effective in markets like Australia, where awareness has more than doubled through a major campaign that promoted delivery with in-restaurant signs, engaging social media outreach, public relations activity and advertising.

The Velocity Growth Plan is a global strategy that is tailored at a market level to allow for the best customer experience and most convenience for our valued customers. While the Plan provides a consistent framework on how to retain, regain, and convert customers, the execution varies across the globe. Markets continue to make progress on the three pillars of the Plan and its growth accelerators. The U.S., for example, remains diligently focused on driving guest count growth in 2019 through actions that collectively transform the customer experience. In addition to continuing its aggressive execution of the growth accelerators of EOTF, digital and delivery, the U.S. will also enhance the customer experience through strong restaurant execution, with a focus on the drive thru experience, and reducing complexity in the restaurants. In 2018, several markets, including key markets outside of the U.S., experienced strong business results, driven by the Velocity Growth Plan, and the markets will continue to hone their execution of the Plan in 2019, focusing on value, quality and convenience.

Our Plan also includes the Company further embedding actions in response to certain social and environmental issues into the core of our business, which we refer to as using our Scale for Good. As one of the world’s largest restaurant companies, our Scale for Good highlights our commitment to global priorities that are consistent with our strategic priorities and provides an opportunity to collaborate with our franchisees and suppliers to drive meaningful progress. We recognize that our success in advancing each of the pillars within our strategy will be demonstrated as customers continue to feel good about visiting McDonald’s restaurants and eating our food.

While we're committed to working to address many challenges facing society today, we are elevating a few global priorities where we believe we can make the greatest difference in driving industry-wide change. Our four global priorities reflect the social and environmental impacts of our food and our business and are: beef sustainability, packaging and recycling, commitment to families and our investment in people. In 2018, the Company demonstrated its dedication to these priorities, pledging commitments related to reducing greenhouse gas emissions and the use of antibiotics, sourcing sustainable packaging, and making a difference for families through our food offerings, reading programs and Ronald McDonald House Charities.

The Company is confident that, with the Velocity Growth Plan in place, the System will work together in 2019 to focus on improving the taste of our delicious food, enhancing convenience, offering compelling value and upholding the trust consumers place in our brand, which we believe will enhance our ability to deliver long-term sustainable growth.

2018 FINANCIAL PERFORMANCE

The Company's 2018 financial performance continued to demonstrate that the Velocity Growth Plan is working. By focusing on the aforementioned three pillars, and the identified growth accelerators, the Company has achieved 14 consecutive quarters of positive global comparable sales. In 2018, global comparable sales increased 4.5% and global comparable guest counts increased 0.2%.

- Comparable sales in the U.S. increased 2.5% and comparable guest counts decreased 2.2%. The increase in comparable sales was driven by growth in average check resulting from both product mix shifts and menu price increases.
- Comparable sales in the International Lead segment increased 5.8% and comparable guest counts increased 2.4%, reflecting positive results across all markets.
- Comparable sales in the High Growth segment increased 4.1% and comparable guest counts increased 1.8%. This performance reflects positive results across most of the segment, led by strong performance in Italy and the Netherlands.
- Comparable sales in the Foundational Markets increased 7.1% and comparable guest counts increased 1.5%, reflecting positive sales performance in Japan and across all geographic regions.

In addition to improved comparable sales and consolidated guest count performance, the Company achieved the following financial results in 2018:

- Due to the impact of the Company's strategic refranchising initiative, consolidated revenues decreased 8% (8% in constant currencies).
- Systemwide sales increased 6% (6% in constant currencies).
- Consolidated operating income decreased 8% (8% in constant currencies). 2018 results included non-cash impairment and strategic restructuring charges. 2017 results reflected a gain on the sale of the Company's businesses in China and Hong Kong, partly offset by restructuring and impairment charges. Excluding these items in both years, consolidated operating income increased 2% (2% in constant currencies).
- Operating margin, defined as operating income as a percent of total revenues, increased from 41.9% in 2017 to 42.0% in 2018. Excluding the items described in the previous bullet point, operating margin increased from 38.8% in 2017 to 43.1% in 2018.
- Diluted earnings per share of $7.54 increased 18% (18% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 21 for additional details.
- Cash provided by operations was $6.97 billion.
- Capital expenditures of $2.74 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.
- Free cash flow was $4.23 billion.
- Across the System, about 1,100 restaurants (including those in our developmental licensee and affiliated markets) were opened.
- One-year ROIIC was (80.4%) and three-year ROIIC was 78.0% for the period ended December 31, 2018. Excluding the gain from the sale of businesses in China and Hong Kong, as well as significant investing cash inflows from strategic refranchising initiatives, one year and three year ROIIC were 10.2% and 34.7%, respectively (see reconciliation in Exhibit 12).
- The Company increased its quarterly cash dividend per share by 15% to $1.16 for the fourth quarter, equivalent to an annual dividend of $4.64 per share.
- The Company returned $8.5 billion to shareholders through share repurchases and dividends for the year and increased the cash return to shareholder target for the 3-year period ending 2019 to about $25 billion.

OUTLOOK

2019 Outlook

The following information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1 percentage point to 2019 Systemwide sales growth (in constant currencies).

- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point change in comparable sales for either the U.S. or the new International Operated Markets segment would change annual diluted earnings per share by about 6 to 7 cents.

- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2019, costs for the total basket of goods are expected to increase about 1% to 2% in the U.S. and about 2% in the Big Five international markets.

- The Company expects full year 2019 selling, general and administrative expenses to decrease about 4% in constant currencies.

- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2019 to increase about 10% to 12% due primarily to higher average debt balances.

- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 80% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 35 cents.

- The Company expects the effective income tax rate for the full year 2019 to be in the 24% to 26% range. Some volatility may result in a quarterly tax rate outside of the annual range. Primarily due to tax costs associated with new regulations issued in January 2019, the effective income tax rate for the first quarter of 2019 is expected to be in the 28% to 29% range.

- The Company expects capital expenditures for 2019 to be approximately $2.3 billion. About $1.5 billion will be dedicated to our U.S. business, nearly two-thirds of which is allocated to approximately 2,000 EOTF projects. Globally, we expect to open roughly 1,200 restaurants. We will spend approximately $600 million in our wholly owned markets to open 300 restaurants and our developmental licensee and affiliated markets will contribute capital toward the remaining 900 restaurant openings in their respective markets. The Company expects about 750 net restaurant additions in 2019.

- During 2019, the Company expects to return about $9 billion to shareholders, which will complete its cash return to shareholder target of about $25 billion for the 3-year period ending 2019.

Long-Term Outlook

- Over the long-term, the Company expects to achieve the following average annual (constant currency) financial targets:

    - Systemwide sales growth of 3% to 5%;

    - Operating margin in the mid-40% range;

    - Earnings per share growth in the high-single digits; and

    - Return on incremental invested capital in the mid-20% range.

Consolidated Operating Results

Operating results

Dollars and shares in millions, except per share data	**2018** Amount	**2018** Increase/ (decrease)	2017 Amount	2017 Increase/ (decrease)	2016 Amount
Revenues					
Sales by Company-operated restaurants	**$ 10,013**	**(21 %)**	$ 12,719	(17 %)	$ 15,295
Revenues from franchised restaurants	**11,012**	**9**	10,101	8	9,327
Total revenues	**21,025**	**(8)**	22,820	(7)	24,622
Operating costs and expenses					
Company-operated restaurant expenses	**8,266**	**(21)**	10,410	(18)	12,699
Franchised restaurants-occupancy expenses	**1,973**	**10**	1,789	4	1,718
Selling, general & administrative expenses	**2,200**	**(1)**	2,231	(6)	2,384
Other operating (income) expense, net	**(237)**	**80**	(1,163)	n/m	76
Total operating costs and expenses	**12,202**	**(8)**	13,267	(21)	16,877
Operating income	**8,823**	**(8)**	9,553	23	7,745
Interest expense	**981**	**7**	922	4	885
Nonoperating (income) expense, net	**26**	**(56)**	58	n/m	(6)
Income before provision for income taxes	**7,816**	**(9)**	8,573	25	6,866
Provision for income taxes	**1,892**	**(44)**	3,381	55	2,180
Net income	**$ 5,924**	**14 %**	$ 5,192	11 %	$ 4,686
Earnings per common share—diluted	**$ 7.54**	**18 %**	$ 6.37	17 %	$ 5.44
Weighted-average common shares outstanding—diluted	**785.6**	**(4 %)**	815.5	(5 %)	861.2

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows.

In 2018, results reflected a positive foreign currency impact of $0.04, primarily due to the stronger Euro and British Pound. In 2017, results reflected the stronger Euro, offset by the weaker British Pound. In 2016, results were negatively impacted by the weaker British Pound as well as many other currencies.

Impact of foreign currency translation on reported results

	Reported amount			*Currency translation benefit/(cost)*		
In millions, except per share data	***2018***	*2017*	*2016*	***2018***	*2017*	*2016*
Revenues	**$ 21,025**	$ 22,820	$ 24,622	**$ 123**	$ 186	$ (692)
Company-operated margins	**1,747**	2,309	2,596	**4**	17	(89)
Franchised margins	**9,039**	8,312	7,609	**57**	25	(118)
Selling, general & administrative expenses	**2,200**	2,231	2,384	**(13)**	(10)	28
Operating income	**8,823**	9,553	7,745	**56**	28	(173)
Net income	**5,924**	5,192	4,686	**33**	2	(97)
Earnings per common share—diluted	**7.54**	6.37	5.44	**0.04**	—	(0.11)

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2018, net income increased 14% (13% in constant currencies) to $5.9 billion and diluted earnings per common share increased 18% (18% in constant currencies) to $7.54. Foreign currency translation had a positive impact of $0.04 on diluted earnings per share.

In 2017, net income increased 11% (11% in constant currencies) to $5.2 billion and diluted earnings per common share increased 17% (17% in constant currencies) to $6.37. Foreign currency translation had no impact on diluted earnings per share.

Results in 2018 reflected a lower effective tax rate, and stronger operating performance due to an increase in sales-driven franchised margin dollars, partly offset by lower Company-operated margin dollars due to the impact of refranchising. Results in 2017 reflected stronger operating performance, G&A savings, improved performance in Japan, and the benefit of a reversal of a valuation allowance on a deferred tax asset in Japan.

Included in the full year 2018 results were:

- approximately $140 million, or $0.17 per share, of non-cash impairment charges;
- pre-tax strategic restructuring charges of $94 million, or $0.09 per share (of which $85 million relates to the restructuring of the U.S. business); and
- approximately $75 million, or $0.10 per share, of net tax cost associated with 2018 adjustments to the provisional amounts recorded in the prior year under the Tax Cuts and Jobs Act ("Tax Act").

Included in the full year 2017 results were:

- approximately $700 million, or $0.82 per share, of net tax cost associated with the Tax Act; and
- a pre-tax gain of approximately $850 million on the sale of the Company’s businesses in China and Hong Kong, offset in part by $150 million of restructuring and impairment charges in connection with the Company’s global G&A and refranchising initiatives, for a net benefit of $0.53 per share.

Excluding these 2018 and 2017 items, 2018 net income was $6.2 billion, an increase of 14% (14% in constant currencies), and diluted earnings per share was $7.90, an increase of 19% (18% in constant currencies). Excluding items impacting 2017 and the 2016 strategic charges of $342 million, 2017 net income was $5.4 billion, an increase of 10% (10% in constant currencies), and diluted earnings per share was $6.66, an increase of 16% (16% in constant currencies).

The Company repurchased 32.2 million shares of its stock for $5.2 billion in 2018 and 31.4 million shares of its stock for $4.6 billion in 2017, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales, minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to foreign affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees.

The Company has continually reviewed its mix of Company-owned and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term. Franchised restaurants represent approximately 93% of McDonald's restaurants worldwide at December 31, 2018. Although refranchising allows the Company to generate more stable and predictable revenue and cash flow streams while operating with a less resource-intensive structure, the shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales are replaced by franchised revenues, where the Company receives rent and/or royalty revenue based on a percentage of sales.

Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers." This standard changed the way initial fees from franchisees for new restaurant openings and new franchise terms are recognized. Under the new guidance, initial franchise fees are being recognized evenly over the franchise term rather than immediately upon receipt. Revenues for 2018 reflected a negative impact of approximately $42 million as a result of this new guidance.

In 2018, revenues decreased 8% (8% in constant currencies) and in 2017, revenues decreased 7% (8% in constant currencies). For both periods, the decreases in revenues were due to the Company's strategic refranchising initiatives, partly offset by positive comparable sales.

Revenues

Dollars in millions	**2018**	2017	2016	**2018**	2017	**2018**	2017
			Amount	*Increase/ (decrease)*		*Increase/(decrease) excluding currency translation*	
Company-operated sales:							
U.S.	**$ 2,665**	$ 3,260	$ 3,743	**(18%)**	(13%)	**(18%)**	(13%)
International Lead Markets	**3,962**	4,080	4,278	**(3)**	(5)	**(5)**	(4)
High Growth Markets	**2,848**	4,592	5,378	**(38)**	(15)	**(37)**	(17)
Foundational Markets & Corporate	**538**	787	1,896	**(32)**	(58)	**(32)**	(59)
Total	**$ 10,013**	$ 12,719	$ 15,295	**(21%)**	(17%)	**(22%)**	(18%)
Franchised revenues:							
U.S.	**$ 5,001**	$ 4,746	$ 4,510	**5%**	5%	**5%**	5%
International Lead Markets	**3,638**	3,260	2,945	**12**	11	**9**	10
High Growth Markets	**1,141**	942	783	**21**	20	**18**	18
Foundational Markets & Corporate	**1,232**	1,154	1,089	**7**	6	**9**	7
Total	**$ 11,012**	$ 10,102	$ 9,327	**9%**	8%	**8%**	8%
Total revenues:							
U.S.	**$ 7,666**	$ 8,006	$ 8,253	**(4%)**	(3%)	**(4%)**	(3%)
International Lead Markets	**7,600**	7,340	7,223	**4**	2	**1**	1
High Growth Markets	**3,989**	5,533	6,161	**(28)**	(10)	**(28)**	(13)
Foundational Markets & Corporate	**1,770**	1,941	2,985	**(9)**	(35)	**(8)**	(35)
Total	**$ 21,025**	$ 22,820	$ 24,622	**(8%)**	(7%)	**(8%)**	(8%)

- ***U.S.:*** In 2018 and 2017, the decrease in revenues reflected the benefit from positive comparable sales that was more than offset by the impact of refranchising.

- ***International Lead Markets:*** In 2018 and 2017, the increase in revenues was due to positive comparable sales across all markets, partly offset by the impact of refranchising.

- ***High Growth Markets:*** In 2018 and 2017, the decrease in revenues reflected positive comparable sales across most markets that were more than offset by the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

The following tables present comparable sales, comparable guest counts and Systemwide sales increases/(decreases):

Comparable sales and guest count increases/(decreases)

	2018		2017		2016	
	Sales	***Guest Counts***	*Sales*	*Guest Counts*	*Sales*	*Guest Counts*
U.S.	**2.5%**	**(2.2%)**	3.6%	1.0%	1.7%	(2.1%)
International Lead Markets	**5.8**	**2.4**	5.3	2.3	3.4	1.5
High Growth Markets	**4.1**	**1.8**	5.3	1.8	2.8	(0.8)
Foundational Markets & Corporate	**7.1** *	**1.5**	9.0 *	3.3	10.0	1.9
Total	**4.5%** *	**0.2%**	5.3% *	1.9%	3.8%	(0.3%)

* In 2018 and 2017, the Company excluded sales from markets identified as hyper-inflationary (currently only Venezuela) from the comparable sales calculation as the Company believes this more accurately reflects the underlying business trends. There was no significant impact related to 2016.

*Systemwide sales increases/(decreases)**

Increase/(decrease)

			excluding currency translation	
	2018	*2017*	***2018***	*2017*
U.S.	**2 %**	3 %	**2 %**	3 %
International Lead Markets	**9**	7	**7**	7
High Growth Markets	**10**	12	**8**	10
Foundational Markets & Corporate	**6**	11	**9**	14
Total	**6 %**	7 %	**6 %**	7 %

* Unlike comparable sales, the Company has not excluded hyper-inflationary market results from Systemwide sales as these sales are the basis on which the Company calculates and records revenues. The difference between comparable sales growth rates and Systemwide sales growth rates are due to both restaurant expansion and the hyper-inflationary impact.

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):

Franchised sales

			Amount	Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	***2018***	*2017*	*2016*	***2018***	*2017*	***2018***	*2017*
U.S.	**$ 35,860**	$ 34,379	$ 32,646	**4 %**	5 %	**4 %**	5 %
International Lead Markets	**20,972**	18,820	17,049	**11**	10	**9**	9
High Growth Markets *	**9,725**	6,888	4,858	**41**	42	**38**	39
Foundational Markets & Corporate	**19,577**	18,104	15,154	**8**	19	**11**	24
Total	**$ 86,134**	$ 78,191	$ 69,707	**10 %**	12 %	**10 %**	13 %
Ownership type							
Conventional franchised	**$ 63,251**	$ 59,151	$ 56,035	**7 %**	6 %	**6 %**	5 %
Developmental licensed	**13,519**	12,546	9,082	**8**	38	**13**	44
Foreign affiliated *	**9,364**	6,494	4,590	**44**	41	**42**	44
Total	**$ 86,134**	$ 78,191	$ 69,707	**10 %**	12 %	**10 %**	13 %

* Reflects the impact of refranchising the Company's businesses in China and Hong Kong in the third quarter of 2017.

FRANCHISED MARGINS

Franchised margin dollars represent revenues from franchised restaurants less the Company's costs associated with those restaurants, primarily occupancy costs (rent and depreciation). Franchised margin dollars represented about 85% of the combined restaurant margins in 2018, about 80% in 2017, and about 75% in 2016.

In 2018, franchised margin dollars increased $727 million or 9% (8% in constant currencies). In 2017, franchised margin dollars increased $703 million or 9% (9% in constant currencies). For both 2018 and 2017, the constant currency increases were due to positive comparable sales performance across all segments, refranchising and expansion.

Franchised margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	***2018***		*2017*		*2016*		***2018***	*2017*	***2018***	*2017*
U.S.	**$ 4,070**	**81.4 %**	$ 3,913	82.4 %	$ 3,726	82.6 %	**4 %**	5 %	**4 %**	5 %
International Lead Markets	**2,952**	**81.1**	2,634	80.8	2,363	80.2	**12**	11	**10**	10
High Growth Markets	**867**	**76.0**	693	73.6	550	70.2	**25**	26	**22**	24
Foundational Markets & Corporate	**1,150**	**93.3**	1,072	92.9	970	89.1	**7**	10	**9**	12
Total	**$ 9,039**	**82.1 %**	$ 8,312	82.3 %	$ 7,609	81.6 %	**9 %**	9 %	**8 %**	9 %

- ***U.S.:*** In 2018 and 2017, the decreases in the franchised margin percents were primarily due to higher depreciation costs related to investments in EOTF, partly offset by positive comparable sales.

- ***International Lead Markets:*** In 2018 and 2017, the increases in the franchised margin percent primarily reflected the benefit from positive comparable sales performance, partly offset by the impact of refranchising and higher occupancy costs.

- ***High Growth Markets:*** In 2018 and 2017, the increases in the franchised margin percents were primarily due to the impact of refranchising, mainly related to the sale of the Company's businesses in China and Hong Kong in 2017, as well as strong comparable sales performance.

The franchised margin percent in Foundational Markets & Corporate is higher relative to the other segments due to a larger proportion of developmental licensed and affiliated restaurants where the Company receives royalty income with no corresponding occupancy costs.

COMPANY-OPERATED MARGINS

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. In 2018, Company-operated margin dollars decreased $562 million or 24% (25% in constant currencies). In 2017, Company-operated margin dollars decreased $287 million or 11% (12% in constant currencies).

Company-operated margins

Dollars in millions	Amount 2018	% of Revenue 2018	Amount 2017	% of Revenue 2017	Amount 2016	% of Revenue 2016	Increase/ (decrease) 2018	Increase/ (decrease) 2017	Increase/ (decrease) excluding currency translation 2018	Increase/ (decrease) excluding currency translation 2017
U.S.	**$ 397**	**14.9 %**	$ 523	16.0 %	$ 618	16.5 %	**(24 %)**	(15 %)	**(24 %)**	(15 %)
International Lead Markets	**848**	**21.4**	861	21.1	886	20.7	**(2)**	(3)	**(3)**	(3)
High Growth Markets	**394**	**13.8**	781	17.0	796	14.8	**(50)**	(2)	**(48)**	(4)
Foundational Markets & Corporate	**108**	**20.1**	144	18.3	296	15.6	**(25)**	(51)	**(25)**	(53)
Total	**$ 1,747**	**17.4 %**	$ 2,309	18.2 %	$ 2,596	17.0 %	**(24 %)**	(11 %)	**(25 %)**	(12 %)

- ***U.S.:*** In 2018 and 2017, the Company-operated margin percent decreased as the benefits of positive comparable sales and refranchising were more than offset by the impact of EOTF (primarily additional depreciation expense in 2017 and both labor productivity and depreciation expense in 2018), as well as higher labor and commodity costs.

- ***International Lead Markets:*** In 2018 and 2017, the increases in the Company-operated margin percents were primarily due to positive comparable sales partly offset by higher labor, commodity and occupancy costs.

- ***High Growth Markets:*** In 2018, the decrease in the Company-operated margin percent was primarily due to the impact of refranchising, mainly related to the sale of the Company's businesses in China and Hong Kong, and higher labor costs, partly offset by positive comparable sales performance. In 2017, the increase was primarily due to strong comparable sales and the benefit of lower depreciation in China and Hong Kong (due to held for sale accounting treatment). This increase was partly offset by negative comparable sales in South Korea and the impact of refranchising.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses decreased 1% (2% in constant currencies) in 2018 and decreased 6% (7% in constant currencies) in 2017. The decreases in 2018 and 2017 were primarily due to lower employee-related costs, partly offset by investment in restaurant technology. Expenses in 2018 also reflected costs related to the 2018 Worldwide Owner/Operator Convention and sponsorship of the 2018 Winter Olympics.

Selling, general & administrative expenses

Dollars in millions	Amount 2018	Amount 2017	Amount 2016	Increase/(decrease) 2018	Increase/(decrease) 2017	Increase/(decrease) excluding currency translation 2018	Increase/(decrease) excluding currency translation 2017
U.S.	**$ 591**	$ 624	$ 741	**(5 %)**	(16 %)	**(5 %)**	(16 %)
International Lead Markets	**445**	451	464	**(1)**	(3)	**(3)**	(4)
High Growth Markets	**174**	248	294	**(30)**	(16)	**(31)**	(17)
Foundational Markets & Corporate(1)	**990**	908	885	**9**	3	**9**	2
Total Selling, General & Administrative Expenses	**$ 2,200**	$ 2,231	$ 2,384	**(1 %)**	(6 %)	**(2 %)**	(7 %)
Less: Incentive-Based Compensation(2)	**284**	336	418	**(16 %)**	(20 %)	**(16 %)**	(20 %)
	$ 1,916	$ 1,895	$ 1,966	**1 %**	(4 %)	**1 %** (3)	(4 %) (4)

Total Excluding Incentive-Based Compensation	

(1) Included in Foundational Markets & Corporate are home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training.

(2) Includes all cash incentives and share-based compensation expense.

(3) Excludes $12.2 million of foreign currency cost.

(4) Excludes $9.4 million of foreign currency cost.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.3% in 2018, 2.5% in 2017 and 2.8% in 2016. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	***2018***	*2017*	*2016*
Gains on sales of restaurant businesses	**$ (304)**	$ (295)	$ (283)
Equity in earnings of unconsolidated affiliates	**(152)**	(184)	(55)
Asset dispositions and other (income) expense, net	**(13)**	19	72
Impairment and other charges (gains), net	**232**	(703)	342
Total	**$ (237)**	$ (1,163)	$ 76

- ***Gains on sales of restaurant businesses***

In 2018 and 2017, gains on sales of restaurant businesses remained relatively flat with the prior year.

- ***Equity in earnings of unconsolidated affiliates***

In 2018 and 2017, results benefited from improved performance in Japan. 2017 results also included the benefit of the reversal of a valuation allowance on a deferred tax asset in Japan in the fourth quarter 2017.

- ***Impairment and other charges (gains), net***

In 2018, impairment and other charges (gains), net reflected approximately $140 million of impairment charges due to the Company's assessment of the recoverability of long-lived assets as well as the strategic restructuring charge in the U.S. of $85 million. The results for 2017 reflected a gain on the Company's sale of its businesses in China and Hong Kong of approximately $850 million, partly offset by $150 million of restructuring and impairment charges. Restructuring and impairment charges for all three years related to the Company's global refranchising and G&A initiatives.

OPERATING INCOME

Operating income

			Amount	*Increase/(decrease)*		*Increase/ (decrease) excluding currency translation*	
Dollars in millions	***2018***	*2017*	*2016*	***2018***	*2017*	***2018***	*2017*
U.S.	**$ 4,016**	$ 4,023	$ 3,769	**0 %**	7 %	**0 %**	7 %
International Lead Markets	**3,486**	3,167	2,838	**10**	12	**8**	11
High Growth Markets	**1,001**	2,001	1,049	**(50)**	91	**(51)**	89
Foundational Markets & Corporate	**320**	362	89	**(12)**	n/m	**(6)**	n/m
Total	**$ 8,823**	$ 9,553	$ 7,745	**(8 %)**	23 %	**(8 %)**	23 %

n/m Not meaningful

- ***U.S.:*** 2018 and 2017 operating income reflected higher franchised margin dollars and lower G&A costs, partly offset by lower Company-operated margin dollars. 2018 results also reflected the $85 million strategic restructuring charge. Excluding this charge, operating income for 2018 increased 2%.

- ***International Lead Markets:*** In 2018 and 2017, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars across all markets. 2018 results also reflected higher gains on sales of restaurant businesses in the U.K. and Australia, while 2017 benefited from a property disposition gain in Australia.

- ***High Growth Markets:*** Results for 2018 and 2017 reflected impairment charges while 2017 also reflected a gain on the sale of the Company's businesses in China and Hong Kong. Excluding these items, 2018 operating income decreased 10% (11% in constant currencies) due to the impact of refranchising in China and Hong Kong, and 2017 operating income increased 17% (15% in constant currencies) due to higher sales-driven franchised margin dollar performance, the impact of refranchising and G&A savings, as well as benefiting from lower depreciation expense in China and Hong Kong.

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Foundational Markets and Corporate: In 2018 and 2017, results reflected higher G&A costs in Corporate, mainly due to investments in restaurant technology. 2017 results also included the benefit of the reversal of a valuation allowance on a deferred tax asset in Japan.

- ***Operating margin:*** Operating margin was 42.0% in 2018, 41.9% in 2017 and 31.5% in 2016. Excluding the previously described impairment and restructuring charges, as well as the 2017 refranchising gain, operating margin was 43.1%, 38.8% and 32.8% for the years ended 2018, 2017 and 2016, respectively.

INTEREST EXPENSE

Interest expense increased 7% and 4% in 2018 and 2017, respectively, primarily reflecting higher average debt balances, partly offset by lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2018***	*2017*	*2016*
Interest income	**$ (4)**	$ (7)	$ (4)
Foreign currency and hedging activity	**5**	26	(24)
Other expense	**25**	39	22
Total	**$ 26**	$ 58	$ (6)

Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2018, 2017 and 2016, the reported effective income tax rates were 24.2%, 39.4% and 31.7%, respectively.

The effective income tax rate for 2018 reflected approximately $75 million of net tax cost associated with the 2018 adjustments to the provisional amounts recorded in the prior year under the Tax Act. Excluding the impact of the Tax Act and the current year impairment charges, the effective income tax rate was 22.9% for 2018. Excluding the prior year provisional net tax cost of approximately $700 million under the Tax Act, the effective income tax rate was 31.6% for 2017.

Excluding the impact of the Tax Act and the current year impairment charges, the lower effective income tax rate for 2018 reflected the reduction in the U.S. corporate tax rate from 35% to 21% in 2018. In addition, both 2018 and 2017 reflected a benefit from a change in tax reserves as a result of global audit progression.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $2.0 billion in 2018 and $1.5 billion in 2017. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included in Part II, Item 8, page 37 of this Form 10-K.

Cash Flows

The Company generates significant cash from its operations and has substantial credit availability and capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $7.0 billion and free cash flow was $4.2 billion in 2018, an increase in free cash flow of $528 million or 14% compared with 2017. Cash provided by operations totaled $5.6 billion and free cash flow was $3.7 billion in 2017. The Company's free cash flow conversion rate was 71% in 2018 and 2017 (see reconciliation in Exhibit 12). In 2018, cash provided by operations increased by $1.4 billion or 25% compared with 2017, primarily due to lower tax payments. In 2017, cash provided by operations decreased by $508 million or 8% compared with 2016, as improved operating results were more than offset by higher income tax payments in the U.S. and other working capital changes.

Cash used for investing activities totaled $2.5 billion in 2018, an increase of $3 billion compared with 2017. The increase was primarily due to lower proceeds from the sale of restaurant businesses in 2018, as well as higher capital expenditures. Cash provided by investing activities totaled $562 million in 2017, an increase of $1.5 billion compared with 2016. The increase was primarily due to proceeds associated with the sale of the Company's businesses in China and Hong Kong.

Cash used for financing activities totaled $5.9 billion in 2018, an increase of $639 million compared with 2017, primarily due to higher treasury stock purchases. Cash used for financing activities totaled $5.3 billion in 2017, a decrease of $6 billion compared with 2016, primarily due to lower treasury stock purchases, partly offset by a decrease in net borrowings.

The Company's cash and equivalents balance was $866 million and $2.5 billion at year end 2018 and 2017, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2018, the Company opened 1,081 restaurants and closed 467 restaurants. In 2017, the Company opened 929 restaurants and closed 587 restaurants. The Company closes restaurants for a variety of reasons, such as existing sales and profit performance or loss of real estate tenure.

Systemwide restaurants at year end

	2018	*2017*	*2016*

U.S.	**13,914**	14,036	14,155
International Lead Markets	**6,987**	6,921	6,851
High Growth Markets	**6,305**	5,884	5,552
Foundational Markets & Corporate	**10,649**	10,400	10,341
Total	**37,855**	37,241	36,899

Approximately 93% of the restaurants at year-end 2018 were franchised, including 95% in the U.S., 88% in International Lead Markets, 83% in High Growth Markets and 98% in Foundational Markets.

Capital expenditures increased $888 million or 48% in 2018, primarily due to reinvestment in existing restaurants (including investment in EOTF). Capital expenditures were relatively flat in 2017 as higher expenditures on restaurant reinvestment were offset by fewer restaurant openings that required the Company's capital. Under McDonald's developmental licensee and affiliate arrangements, licensees provide capital for the entire business and the Company generally has no capital invested.

Capital expenditures invested in the U.S., International Lead Markets and High Growth Markets represented over 90% of the total in 2018, 2017 and 2016.

Capital expenditures

In millions	***2018***	*2017*	*2016*
New restaurants	**$ 488**	$ 537	$ 674
Existing restaurants	**2,111**	1,236	1,108
Other[(1)]	**143**	81	39
Total capital expenditures	**$ 2,742**	$ 1,854	$ 1,821
Total assets	**$ 32,811**	$ 33,804	$ 31,024

(1) Primarily corporate equipment and other office-related expenditures

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald's restaurants in the U.S. averaged approximately $3.8 million in 2018.

The Company owned approximately 50% of the land and approximately 80% of the buildings for restaurants in its consolidated markets at year-end 2018 and 2017.

SHARE REPURCHASES AND DIVIDENDS

In 2018, the Company returned approximately $8.5 billion to shareholders through a combination of shares repurchased and dividends paid. This brings the cumulative two-year return to shareholders to $16.2 billion toward our targeted return of about $25 billion for the three-year period ending 2019.

Shares repurchased and dividends

In millions, except per share data	***2018***	*2017*	*2016*
Number of shares repurchased	**32.2**	31.4	92.3
Shares outstanding at year end	**767**	794	819
Dividends declared per share	**$ 4.19**	$ 3.83	$ 3.61
Treasury stock purchases *(in Shareholders' equity)*	**$ 5,247**	$ 4,651	$ 11,142
Dividends paid	**3,256**	3,089	3,058
Total returned to shareholders	**$ 8,503**	$ 7,740	$ 14,200

In July 2017, the Company's Board of Directors authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2018, approximately 32.2 million shares were repurchased for $5.2 billion, bringing total purchases under the program to approximately 49.5 million shares or $7.9 billion.

The Company has paid dividends on its common stock for 43 consecutive years and has increased the dividend amount every year. The 2018 full year dividend of $4.19 per share reflects the quarterly dividend paid for each of the first three quarters of $1.01 per share, with an increase to $1.16 per share paid in the fourth quarter. This 15% increase in the quarterly dividend equates to a $4.64 per share annual dividend and reflects the Company's confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company's Board of Directors.

Financial Position and Capital Resources

TOTAL ASSETS

Total assets decreased $1.0 billion or 3% in 2018 primarily due to a decrease in cash and equivalents and the impact of foreign exchange rates, partly offset by an increase in accounts and notes receivable due to the significant number of EOTF projects and corresponding billings to franchisees for their portion of the reinvestment. Net property and equipment increased $394.4 million in 2018, primarily due to capital expenditures, partly offset by depreciation and the impact of foreign exchange rates. Net property and equipment represented about 70% of total assets at year-end. Approximately 96% of total assets were in the U.S., International Lead Markets, and High Growth Markets at year-end 2018.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2018 totaled $31.1 billion, compared with $29.5 billion at December 31, 2017. The net increase in 2018 was primarily due to net long-term issuances of $2.0 billion.

Debt highlights(1)

	2018	*2017*	*2016*
Fixed-rate debt as a percent of total debt(2,3)	**91 %**	89 %	82 %
Weighted-average annual interest rate of total debt(3)	**3.2**	3.3	3.5
Foreign currency-denominated debt as a percent of total debt(2)	**38**	42	34
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)(2)	**125**	112	109
Cash provided by operations as a percent of total debt(2)	**22**	19	23

(1) *All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year.*

(2) *Based on debt obligations before the effects of fair value hedging adjustments and deferred debt costs. These effects are excluded as they have no impact on the obligation at maturity. See Debt Financing note to the consolidated financial statements.*

(3) *Includes the effect of interest rate swaps used to hedge debt.*

Standard & Poor’s and Moody’s currently rate, with a stable outlook, the Company’s commercial paper A-2 and P-2, respectively; and its long-term debt BBB+ and Baa1, respectively. To access the debt capital markets, the Company relies on credit-rating agencies to assign short-term and long-term credit ratings.

Certain of the Company’s debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company’s debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company’s business. Under existing authorization from the Company’s Board of Directors, the Company has $15.0 billion of authority to borrow funds, of which $6.5 billion remains outstanding as of December 31, 2018. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $3.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). In 2019, the Company plans to issue long-term debt to refinance $2.1 billion of maturing corporate debt. As of December 31, 2018, the Company's subsidiaries also had $254 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

The Company uses major capital markets, bank financings and derivatives to meet its financing requirements. The Company manages its debt portfolio in response to changes in interest rates and foreign currency rates by periodically retiring, redeeming and repurchasing debt, terminating swaps and using derivatives. The Company does not hold or issue derivatives for trading purposes. All swaps are over-the-counter instruments.

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders’ equity. Total foreign currency-denominated debt was $11.8 billion and $12.4 billion for the years ended December 31, 2018 and 2017, respectively. In addition, where practical, the Company’s restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2018, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company’s supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

The Company’s net asset exposure is diversified among a broad basket of currencies. The Company’s largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

In millions of U.S. Dollars	***2018***	*2017*
British Pounds Sterling	**$ 1,840**	$ 1,877

Australian Dollars	**1,499**	1,519
Canadian Dollars	**684**	733
Russian Ruble	**631**	563
Japanese Yen	**407**	589

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company’s results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2018 levels nor a 10% adverse change in foreign currency rates from 2018 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

The Company has significant operations outside the U.S. where we earn about 65% of our operating income. A significant portion of these historical earnings have been reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of our international operations.

The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $708 million as of December 31, 2018.

Consistent with prior years, we expect existing domestic cash and equivalents, domestic cash flows from operations, repatriation of a portion of foreign earnings, and the issuance of domestic debt to continue to be sufficient to fund our domestic operating, investing, and financing activities. We also continue to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund our foreign operating, investing and financing activities.

In the future, should we require more capital to fund activities in the U.S. than is generated by our domestic operations and is available through the issuance of domestic debt, we could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2018. See discussions of cash flows, financial position and capital resources as well as the Notes to the consolidated financial statements for further details.

	Contractual cash outflows		Contractual cash inflows
In millions	*Operating leases (1)*	*Debt obligations (2)*	*Minimum rent under franchise arrangements*
2019	$ 1,145	$ —	$ 2,962
2020	1,083	2,418	2,856
2021	1,001	2,159	2,734
2022	909	2,269	2,598
2023	831	4,959	2,481
Thereafter	7,297	19,412	20,796
Total	$ 12,266	$ 31,217	$ 34,427

(1) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2018. In addition, future minimum payments exclude option periods that have not yet been exercised.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of $2.4 billion, as they are supported by a long-term line of credit agreement expiring in December 2023. Debt obligations do not include the impact of non-cash fair value hedging adjustments, deferred debt costs and accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2018, total liabilities for the supplemental plans were $437 million.

At December 31, 2018, total liabilities for gross unrecognized tax benefits were $1.3 billion. In addition, a liability of approximately $757 million remains resulting from the Tax Act, which imposed a deemed repatriation tax on the Company's undistributed foreign earnings. This additional tax liability will be paid over the next eight years. Refer to the Income Taxes footnote on page 45 for additional information.

There are certain purchase commitments that are not recognized in the consolidated financial statements and are primarily related to construction, inventory, energy, marketing and other service related arrangements that occur in the normal course of business. Such commitments are generally shorter term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

Other Matters

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management’s Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company’s consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to confirm that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management’s estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

- ***Share-based compensation***

The Company has a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units ("RSUs") to employees and nonemployee directors. The expense for these equity-based incentives is based on their fair value at date of grant and generally amortized over their vesting period. The Company estimates forfeitures when determining the amount of compensation costs to be recognized in each period.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company’s stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company’s stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs granted beginning in 2016, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

- ***Long-lived assets impairment review***

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company’s long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company’s experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company’s estimates or underlying assumptions change in the future, the Company may be required to record impairment charges. Based on the annual goodwill impairment test, conducted in the fourth quarter, the Company does not have any reporting units (defined as each individual market) with risk of material goodwill impairment.

- ***Litigation accruals***

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

- ***Income taxes***

The Company records a valuation allowance to reduce its deferred tax assets if it is considered more likely than not that some portion or all of the deferred assets will not be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax strategies, including the sale of appreciated assets, in assessing the need for the valuation allowance, if these estimates and assumptions change in the future, the Company may be required to adjust its valuation allowance. This could result in a charge to, or an increase in, income in the period such determination is made.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The most significant new developments in 2018 and 2017 are described below.

In 2018 and 2017, the Company increased the balance of unrecognized tax benefits by $162 million and $256 million, respectively. In both 2018 and 2017, there was audit progression in the U.S. federal and state audits as well as multiple foreign tax jurisdictions. The Company has considered this new information in evaluating the unrecognized tax benefits and in certain situations, the Company changed its judgment on the measurement of the related unrecognized tax benefits. These changes have been reflected in the Unrecognized Tax Benefits table that is included in the Income Taxes footnote in the Consolidated Financial Statements.

In 2015, the Internal Revenue Service (“IRS”) issued a Revenue Agent Report (“RAR”) that included certain disagreed transfer pricing adjustments related to the Company’s U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and additional meetings are anticipated in 2019. The Company expects resolution on these issues in 2019 or 2020.

In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process, such that resolution is expected in either 2019 or 2020.

While the Company cannot predict the ultimate resolution of the aforementioned tax matters, we believe that the liabilities recorded are appropriate and adequate as determined in accordance with Topic 740 - Income Taxes of the Accounting Standards Codification (“ASC”).

In December 2015, the European Commission opened a formal investigation against the Luxembourg government to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries complied with European Union rules on state aid. In September 2018, the European Commission concluded that Luxembourg’s tax treatment of these McDonald’s subsidiaries did not constitute state aid under the European Union rules. This decision resulted in no impact to the Company’s financial statements as of and for the year ended December 31, 2018.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in Staff Accounting Bulletin ("SAB") 118 because the Company had not yet completed its enactment-date accounting for these effects. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings. As further discussed below, during 2018, the Company recognized adjustments of approximately $75 million to the provisional amounts recorded at December 31, 2017, primarily related to the transition tax. These adjustments are included as a component of income tax expense from continuing operations.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability for each of its foreign subsidiaries, resulting in a transition tax liability of approximately $1.2 billion at December 31, 2017.

Upon further analyses of the Tax Act and notices and regulations issued and proposed by the IRS and the U.S. Department of the Treasury, the Company finalized its calculations of the transition tax liability during 2018 and increased its December 31, 2017 provisional amount by approximately $75 million. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

EFFECTS OF CHANGING PRICES—INFLATION

The Company has demonstrated an ability to manage inflationary cost increases effectively. This ability is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

RISK FACTORS AND CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2019. Refer to the cautionary statement regarding forward-looking statements in Part 1, Item 1A, page 3, of this Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 28 of the Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	Years ended December 31, **2018**	2017	2016
REVENUES			
Sales by Company-operated restaurants	**$ 10,012.7**	$ 12,718.9	$ 15,295.0
Revenues from franchised restaurants	**11,012.5**	10,101.5	9,326.9
Total revenues	**21,025.2**	22,820.4	24,621.9
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**3,153.8**	4,033.5	4,896.9
Payroll & employee benefits	**2,937.9**	3,528.5	4,134.2
Occupancy & other operating expenses	**2,174.2**	2,847.6	3,667.7
Franchised restaurants-occupancy expenses	**1,973.3**	1,790.0	1,718.4
Selling, general & administrative expenses	**2,200.2**	2,231.3	2,384.5
Other operating (income) expense, net	**(236.8)**	(1,163.2)	75.7
Total operating costs and expenses	**12,202.6**	13,267.7	16,877.4
Operating income	**8,822.6**	9,552.7	7,744.5
Interest expense-net of capitalized interest of $5.6, $5.3 and $7.1	**981.2**	921.3	884.8
Nonoperating (income) expense, net	**25.3**	57.9	(6.3)
Income before provision for income taxes	**7,816.1**	8,573.5	6,866.0
Provision for income taxes	**1,891.8**	3,381.2	2,179.5
Net income	**$ 5,924.3**	$ 5,192.3	$ 4,686.5
Earnings per common share–basic	**$ 7.61**	$ 6.43	$ 5.49
Earnings per common share–diluted	**$ 7.54**	$ 6.37	$ 5.44
Dividends declared per common share	**$ 4.19**	$ 3.83	$ 3.61
Weighted-average shares outstanding–basic	**778.2**	807.4	854.4
Weighted-average shares outstanding–diluted	**785.6**	815.5	861.2

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions *Years ended December 31,*	***2018***	*2017*	*2016*
Net income	**$ 5,924.3**	$ 5,192.3	$ 4,686.5
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**(453.6)**	827.7	(272.8)
Reclassification of (gain) loss to net income	**—**	109.3	94.0
Foreign currency translation adjustments-net of tax benefit (expense) of $(90.7), $453.1, and $(264.4)	**(453.6)**	937.0	(178.8)
Cash flow hedges:			
Gain (loss) recognized in AOCI	**46.5**	(48.4)	18.5
Reclassification of (gain) loss to net income	**2.4**	9.0	(15.6)
Cash flow hedges-net of tax benefit (expense) of $(14.5), $22.4, and $(1.6)	**48.9**	(39.4)	2.9
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**(27.0)**	16.3	(47.1)
Reclassification of (gain) loss to net income	**0.6**	0.6	9.9
Defined benefit pension plans-net of tax benefit (expense) of $4.3, $(3.9), and $(10.0)	**(26.4)**	16.9	(37.2)
Total other comprehensive income (loss), net of tax	**(431.1)**	914.5	(213.1)
Comprehensive income	**$ 5,493.2**	$ 6,106.8	$ 4,473.4

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	*December 31,* ***2018***	*2017*
ASSETS		
Current assets		
Cash and equivalents	**$ 866.0**	$ 2,463.8
Accounts and notes receivable	**2,441.5**	1,976.2
Inventories, at cost, not in excess of market	**51.1**	58.8
Prepaid expenses and other current assets	**694.6**	828.4
Total current assets	**4,053.2**	5,327.2
Other assets		
Investments in and advances to affiliates	**1,202.8**	1,085.7
Goodwill	**2,331.5**	2,379.7
Miscellaneous	**2,381.0**	2,562.8
Total other assets	**5,915.3**	6,028.2
Property and equipment		
Property and equipment, at cost	**37,193.6**	36,626.4
Accumulated depreciation and amortization	**(14,350.9)**	(14,178.1)
Net property and equipment	**22,842.7**	22,448.3
Total assets	**$32,811.2**	$ 33,803.7
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$1,207.9**	$ 924.8
Income taxes	**228.3**	265.8
Other taxes	**253.7**	275.4
Accrued interest	**297.0**	278.4
Accrued payroll and other liabilities	**986.6**	1,146.2
Total current liabilities	**2,973.5**	2,890.6
Long-term debt	**31,075.3**	29,536.4
Long-term income taxes	**2,081.2**	2,370.9
Deferred revenues - initial franchise fees	**627.8**	—
Other long-term liabilities	**1,096.3**	1,154.4
Deferred income taxes	**1,215.5**	1,119.4
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**7,376.0**	7,072.4
Retained earnings	**50,487.0**	48,325.8
Accumulated other comprehensive income	**(2,609.5)**	(2,178.4)
Common stock in treasury, at cost; 893.5 and 866.5 million shares	**(61,528.5)**	(56,504.4)
Total shareholders' equity (deficit)	**(6,258.4)**	(3,268.0)
Total liabilities and shareholders' equity (deficit)	**$32,811.2**	$ 33,803.7

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Years ended December 31,	***2018***	*2017*	*2016*
Operating activities			
Net income	**$5,924.3**	$5,192.3	$4,686.5
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,482.0**	1,363.4	1,516.5
Deferred income taxes	**102.6**	(36.4)	(538.6)
Share-based compensation	**125.1**	117.5	131.3
Net gain on sale of restaurant businesses	**(308.8)**	(1,155.8)	(310.7)
Other	**114.2**	1,050.7	407.6
Changes in working capital items:			
Accounts receivable	**(479.4)**	(340.7)	(159.0)
Inventories, prepaid expenses and other current assets	**(1.9)**	(37.3)	28.1
Accounts payable	**129.4**	(59.7)	89.8
Income taxes	**(33.4)**	(396.4)	169.7
Other accrued liabilities	**(87.4)**	(146.4)	38.4
Cash provided by operations	**6,966.7**	5,551.2	6,059.6
Investing activities			
Capital expenditures	**(2,741.7)**	(1,853.7)	(1,821.1)
Purchases of restaurant businesses	**(101.7)**	(77.0)	(109.5)
Sales of restaurant businesses	**530.8**	974.8	975.6
Proceeds from sale of businesses in China and Hong Kong	**—**	1,597.0	—
Sales of property	**160.4**	166.8	82.9
Other	**(302.9)**	(245.9)	(109.5)
Cash provided by (used for) investing activities	**(2,455.1)**	562.0	(981.6)
Financing activities			
Net short-term borrowings	**95.9**	(1,050.3)	(286.2)
Long-term financing issuances	**3,794.5**	4,727.5	3,779.5
Long-term financing repayments	**(1,759.6)**	(1,649.4)	(822.9)
Treasury stock purchases	**(5,207.7)**	(4,685.7)	(11,171.0)
Common stock dividends	**(3,255.9)**	(3,089.2)	(3,058.2)
Proceeds from stock option exercises	**403.2**	456.8	299.4
Other	**(20.0)**	(20.5)	(3.0)
Cash used for financing activities	**(5,949.6)**	(5,310.8)	(11,262.4)
Effect of exchange rates on cash and equivalents	**(159.8)**	264.0	(103.7)
Cash and equivalents increase (decrease)	**(1,597.8)**	1,066.4	(6,288.1)
Change in cash balances of businesses held for sale	**—**	174.0	(174.0)
Cash and equivalents at beginning of year	**2,463.8**	1,223.4	7,685.5
Cash and equivalents at end of year	**$ 866.0**	$2,463.8	$1,223.4
Supplemental cash flow disclosures			
Interest paid	**$ 959.6**	$ 885.2	$ 873.5
Income taxes paid	**1,734.4**	2,786.3	2,387.5

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

In millions, except per share data	Common stock issued: Shares	Common stock issued: Amount	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss): Pensions	Accumulated other comprehensive income (loss): Cash flow hedges	Accumulated other comprehensive income (loss): Foreign currency translation	Common stock in treasury: Shares	Common stock in treasury: Amount	Total shareholders' equity
Balance at December 31, 2015	1,660.6	$16.6	$ 6,533.4	$ 44,594.5	$ (169.9)	$ 20.0	$ (2,729.9)	(753.8)	$ (41,176.8)	$ 7,087.9
Net income				4,686.5						4,686.5
Other comprehensive income (loss), net of tax					(37.2)	2.9	(178.8)			(213.1)
Comprehensive income										4,473.4
Common stock cash dividends ($3.61 per share)				(3,058.2)						(3,058.2)
Treasury stock purchases								(92.3)	(11,141.5)	(11,141.5)
Share-based compensation			131.3							131.3
Stock option exercises and other (including tax benefits of $0.6)			93.2	(0.1)				4.8	209.7	302.8
Balance at December 31, 2016	1,660.6	16.6	6,757.9	46,222.7	(207.1)	22.9	(2,908.7)	(841.3)	(52,108.6)	(2,204.3)
Net income				5,192.3						5,192.3
Other comprehensive income (loss), net of tax					16.9	(39.4)	937.0			914.5
Comprehensive income										6,106.8
Common stock cash dividends ($3.83 per share)				(3,089.2)						(3,089.2)
Treasury stock purchases								(31.4)	(4,650.5)	(4,650.5)
Share-based compensation			117.5							117.5
Stock option exercises and other (including tax benefits of $0.0)			197.0	—				6.2	254.7	451.7
Balance at December 31, 2017	1,660.6	16.6	7,072.4	48,325.8	(190.2)	(16.5)	(1,971.7)	(866.5)	(56,504.4)	(3,268.0)
Net income				**5,924.3**						**5,924.3**
Other comprehensive income (loss), net of tax					**(26.4)**	**48.9**	**(453.6)**			**(431.1)**
Comprehensive income										**5,493.2**
				(450.2)						**(450.2)**

Adoption of ASC 606 [1]										
Adoption of ASU 2016-16 [2]				**(57.0)**						**(57.0)**
Common stock cash dividends ($4.19 per share)				**(3,255.9)**						**(3,255.9)**
Treasury stock purchases								**(32.2)**	**(5,247.5)**	**(5,247.5)**
Share-based compensation			**125.1**							**125.1**
Stock option exercises and other (including tax benefits of $0.0)			**178.5**					**5.2**	**223.4**	**401.9**
Balance at December 31, 2018	**1,660.6**	**$16.6**	**$ 7,376.0**	**$ 50,487.0**	**$ (216.6)**	**$ 32.4**	**$ (2,425.3)**	**(893.5)**	**$ (61,528.5)**	**$ (6,258.4)**

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers." Refer to the ***Revenue Recognition*** footnote on page 38 for further details.

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." Refer to the ***Income Tax*** footnote on page 45 for further details.

See Notes to consolidated financial statements.

Summary of Significant Accounting Policies

NATURE OF BUSINESS

The Company franchises and operates McDonald's restaurants in the global restaurant industry. All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchised arrangements, and developmental licensees and foreign affiliates under license agreements.

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2018***	*2017*	*2016*
Conventional franchised	**21,685**	21,366	21,559
Developmental licensed	**7,225**	6,945	6,300
Foreign affiliated	**6,175**	5,797	3,371
Franchised	**35,085**	34,108	31,230
Company-operated	**2,770**	3,133	5,669
Systemwide restaurants	**37,855**	37,241	36,899

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements for periods prior to purchase and sale.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less (primarily McDonald's China and Japan) are accounted for by the equity method.

On an ongoing basis, the Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the variable interest entity consolidation guidance. The Company has concluded that consolidation of any such entity is not appropriate for the periods presented.

ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RECENTLY ISSUED ACCOUNTING STANDARDS

Income Taxes

In February 2018, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income ("AOCI")." The guidance permits entities to reclassify the stranded tax effects resulting from the Tax Act from AOCI to retained earnings. ASU 2018-02 will be effective for fiscal years beginning after December 15, 2018, including interim periods within those annual reporting periods. ASU 2018-02 may be applied in the period of adoption or retrospectively to each period in which the effect of the change related to the Tax Act was recognized. The Company has adopted the provisions of ASU 2018-02 as of January 1, 2019, and plans to not make an election to reclassify the income tax effects of the Tax Act from AOCI to retained earnings.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, “Leases (Topic 842),” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years.

As discussed further in the “Franchise Arrangements” and “Leasing Arrangements” footnotes, the Company is engaged in a significant amount of leasing activity, both from a lessee and a lessor perspective. As required by the standard, the Company has adopted the provisions of the new standard effective January 1, 2019, using the required modified retrospective approach.

The Company has elected the package of practical expedients, which allows the Company to retain the classification of existing leases; therefore, there will be minimal initial impact on the Consolidated Statement of Income. Moving forward, as the Company enters into new leases or as leases are modified, the expectation is that many of the Company's ground leases may be reclassified from operating classification to financing classification, which will change the timing and classification of a portion of lease expense between operating income and interest expense. It is not possible to quantify the impact at this time, due to the unknown timing of new leases and lease modifications, however the Company does not expect the impact to be material to any given year.

ASU 2016-02 will have a material impact on the Consolidated Balance Sheet due to the significance of the Company’s operating lease portfolio. The Company estimates adoption of the new standard will result in a Right of Use Asset and Lease Liability in the range of approximately $10.5 billion to $12.5 billion. At transition, the Right of Use Asset and Lease Liability reflect a present value of the Company's current minimum lease payments over a lease term, which may include options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. The impact of ASU 2016-02 is non-cash in nature, therefore, it will not affect the Company’s cash flows. The Company has also made an accounting policy election to keep leases with an initial term of 12 months or less off the balance sheet. It will continue to recognize those lease payments in the Consolidated Statement of Income on a straight-line basis over the lease term.

REVENUE RECOGNITION

The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and foreign affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to foreign affiliates and developmental licensees include a royalty based on a percent of sales, and may include initial fees.

ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This standard does not impact the Company's recognition of revenue from Company-operated restaurants as those sales are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. The standard also does not change the recognition of royalties from restaurants operated by franchisees or licensed to affiliates and developmental licensees, which are based on a percent of sales and recognized at the time the underlying sales occur. Rental income from restaurants operated by conventional franchisees is also not impacted by this standard as those revenues are subject to the guidance in ASC 840, "Leases." The standard does change the timing in which the Company recognizes initial fees from franchisees for new restaurant openings and new franchise terms. The Company's accounting policy through December 31, 2017, was to recognize initial franchise fees when received, upon a new restaurant opening and at the start of a new franchise term. Beginning in January 2018, initial franchise fees have been recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years. Refer to the Franchise Arrangements footnote on page 44 for additional information.

The Company adopted ASC 606 as of January 1, 2018, using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As such, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative adjustment recorded upon adoption of ASC 606 consisted of deferred revenue of approximately $600 million within long-term liabilities and approximately $150 million of associated adjustments to the deferred tax balances which are recorded in Deferred income taxes and Miscellaneous other assets on the Consolidated Balance Sheet.

The following table presents revenue disaggregated by revenue source (in millions):

Years ended December 31,	***2018***	*2017*	*2016*
Company-operated sales:			
U.S.	**$ 2,664.6**	$ 3,260.4	$ 3,742.6
International Lead Markets	**3,961.6**	4,080.0	4,278.5
High Growth Markets	**2,847.8**	4,591.5	5,377.9
Foundational Markets & Corporate	**538.7**	787.0	1,896.0
Total	**$ 10,012.7**	$ 12,718.9	$ 15,295.0
Franchised revenues:			
U.S.	**$ 5,001.2**	$ 4,746.0	$ 4,510.1
International Lead Markets	**3,638.5**	3,260.3	2,944.9
High Growth Markets	**1,140.9**	941.7	782.8
Foundational Markets & Corporate	**1,231.9**	1,153.5	1,089.1
Total *	**$ 11,012.5**	$ 10,101.5	$ 9,326.9
Total revenues:			
U.S.	**$ 7,665.8**	$ 8,006.4	$ 8,252.7
International Lead Markets	**7,600.1**	7,340.3	7,223.4
High Growth Markets	**3,988.7**	5,533.2	6,160.7
Foundational Markets & Corporate	**1,770.6**	1,940.5	2,985.1
Total	**$ 21,025.2**	$ 22,820.4	$ 24,621.9

* Revenues for 2018 reflected a negative impact of approximately $42 million as a result of the change in timing of recognizing revenue associated with initial fees.

FOREIGN CURRENCY TRANSLATION

Generally, the functional currency of operations outside the U.S. is the respective local currency.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2018–$388.8; 2017–$532.9; 2016–$645.8. Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses included in Selling, general & administrative expenses were (in millions): 2018–$88.0; 2017–$100.2; 2016–$88.8. Costs related to the Olympics sponsorship are included in the expenses for 2018 and 2016. In addition, significant advertising costs are incurred by franchisees through contributions to advertising cooperatives in individual markets. The costs incurred by these advertising cooperatives are approved and managed jointly by vote of both Company-operated restaurants and franchisees.

SHARE-BASED COMPENSATION

Share-based compensation includes the portion vesting of all share-based awards granted based on the grant date fair value.

Share-based compensation expense and the effect on diluted earnings per common share were as follows:

In millions, except per share data	***2018***	*2017*	*2016*
Share-based compensation expense	**$ 125.1**	$ 117.5	$ 131.3
After tax	**$ 108.1**	$ 82.0	$ 89.6
Earnings per common share-diluted	**$ 0.14**	$ 0.10	$ 0.11

Compensation expense related to share-based awards is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses. As of December 31, 2018, there was $114.3 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The following table presents the weighted-average assumptions used in the option pricing model for the 2018, 2017 and 2016 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2018	*2017*	*2016*
Expected dividend yield	**2.6%**	3.1%	3.0%
Expected stock price volatility	**18.7%**	18.4%	19.2%
Risk-free interest rate	**2.7%**	2.2%	1.2%
Expected life of options *(in years)*	**5.8**	5.9	5.9
Fair value per option granted	**$ 23.80**	$ 16.10	$ 13.65

The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs granted beginning in 2016, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–the lesser of useful lives of assets or lease terms, which generally include certain option periods; and equipment–3 to 12 years.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald's restaurant assets for potential impairment, assets are initially grouped together in the U.S. at a field office level, and internationally, at a market level. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, an individual restaurant's cash flows are not generally independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management and the Board of Directors, as required, have approved and committed to a plan to dispose of the assets, the assets are available for disposal and the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value, among other factors. Generally, such losses are related to restaurants that have closed and ceased operations as well as other assets that meet the criteria to be considered "available for sale."

GOODWILL

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurant businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in subsidiaries or affiliates, and it is generally assigned to the reporting unit (defined as each individual market) expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the reporting unit.

The following table presents the 2018 activity in goodwill by segment:

In millions	U.S.	International Lead Markets	High Growth Markets	Foundational Markets & Corporate	Consolidated
Balance at December 31, 2017	$ 1,274.0	$750.5	$ 316.7	$ 38.5	$2,379.7
Net restaurant purchases (sales)	2.5	20.2	(1.3)	(0.3)	21.1
Impairment losses	—	—	—	(1.1)	(1.1)
Currency translation		(52.4)	(14.1)	(1.7)	(68.2)
Balance at December 31, 2018	**$ 1,276.5**	**$718.3**	**$ 301.3**	**$ 35.4**	**$2,331.5**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever an indicator of impairment exists. If an indicator of impairment exists (e.g., estimated earnings multiple value of a reporting unit is less than its carrying value), the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Accumulated goodwill impairment losses on the Consolidated Balance Sheet at December 31, 2018 and 2017 were $15.6 million and $14.5 million, respectively.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

- ***Certain Financial Assets and Liabilities Measured at Fair Value***

The following tables present financial assets and liabilities measured at fair value on a recurring basis by the valuation hierarchy as defined in the fair value guidance:

December 31, 2018

In millions	Level 1*	Level 2	Carrying Value
Derivative assets	$ 167.1	$ 39.2	$ 206.3
Derivative liabilities		$ (16.6)	$ (16.6)

December 31, 2017

In millions	Level 1*	Level 2	Carrying Value
Derivative assets	$ 167.3	$ 0.6	$ 167.9
Derivative liabilities		$ (45.4)	$ (45.4)

*

Level 1 is comprised of derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.

- ***Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2018, the Company recorded fair value adjustments to its long-lived assets, primarily to property and equipment, based on Level 3 inputs which includes the use of a discounted cash flow valuation approach.

- ***Certain Financial Assets and Liabilities not Measured at Fair Value***

At December 31, 2018, the fair value of the Company's debt obligations was estimated at $31.7 billion, compared to a carrying amount of $31.1 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

In 2018, the Company adopted ASU 2017-12, "Derivatives and Hedging (Topic 815)", utilizing the modified retrospective transition method. The adoption of this standard did not have a material impact on the consolidated financial statements.

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. The Company's derivatives that are designated for hedge accounting consist mainly of interest rate swaps, foreign currency forwards, and cross-currency swaps, and are classified as either fair value, cash flow or net investment hedges. Further details are explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company also enters into certain derivatives that are not designated for hedge accounting. The Company has entered into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Further details are explained in the "Undesignated Derivatives" section.

All derivatives (including those not designated for hedge accounting) are recognized on the Consolidated Balance Sheet at fair value and classified based on the instruments' maturity dates. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to AOCI and/or current earnings.

The following table presents the fair values of derivative instruments included on the Consolidated Balance Sheet as of December 31, 2018 and 2017:

	Derivative Assets			**Derivative Liabilities**		
In millions	*Balance Sheet Classification*	***2018***	*2017*	*Balance Sheet Classification*	***2018***	*2017*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	**$ 30.9**	$ 0.5	Accrued payroll and other liabilities	**$ (0.7)**	$ (31.0)
Interest rate	Prepaid expenses and other current assets			Accrued payroll and other liabilities	**(0.1)**	(0.3)
Foreign currency	Miscellaneous other assets	**3.8**	0.1	Other long-term liabilities	**(1.3)**	(1.4)
Interest rate	Miscellaneous other assets	**—**	—	Other long-term liabilities	**(11.8)**	(5.9)
Total derivatives designated as hedging instruments		**$ 34.7**	$ 0.6		**$ (13.9)**	$ (38.6)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$ 167.1**	$ —	Accrued payroll and other liabilities	**$ (2.7)**	$ (1.3)
Foreign currency	Prepaid expenses and other current assets	**4.5**	—	Accrued payroll and other liabilities	**—**	(5.5)
Equity	Miscellaneous other assets	**—**	167.3			
Total derivatives not designated as hedging instruments		**$ 171.6**	$ 167.3		**(2.7)**	$ (6.8)
Total derivatives		**$ 206.3**	$ 167.9		**$ (16.6)**	$ (45.4)

The following table presents the pre-tax amounts from derivative instruments affecting income and AOCI for the year ended December 31, 2018 and 2017, respectively:

	Location of Gain or Loss Recognized in Income on Derivative	**Gain (Loss) Recognized in Accumulated OCI**		**Gain (Loss) Reclassified into Income from Accumulated OCI**		**Gain (Loss) Recognized in Income on Derivative**	
In millions		***2018***	*2017*	***2018***	*2017*	***2018***	*2017*

Foreign currency	Nonoperating income/ expense	**$ 60.0**	$ (76.0)	**$ (2.2)**	$ (13.7)		
Interest rate	Interest expense	**—**	—	**(1.2)**	(0.5)		
Cash flow hedges		**$ 60.0**	$ (76.0)	**$ (3.4)**	$ (14.2)		
Foreign currency denominated debt	Nonoperating income/ expense	**$ 682.9**	$ (1,599.7)	**$ —**	$ —		
Foreign currency derivatives	Nonoperating income/ expense	**1.3**	(8.9)	**—**	8.6		
Foreign currency derivatives[1]	Interest expense					**$ 4.0**	$ —
Net investment hedges		**$ 684.2**	$ (1,608.6)	**$ —**	$ 8.6	**$ 4.0**	$ —
Foreign currency	Nonoperating income/ expense					**$ 22.1**	$ (24.2)
Equity	Selling, general & administrative expenses					**0.4**	92.7
Undesignated derivatives						**$ 22.5**	$ 68.5

[1]*The amount of gain (loss) recognized in income related to components excluded from effectiveness testing.*

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At December 31, 2018, the carrying amount of fixed-rate debt that was effectively converted was $738.0 million, which included a decrease of $12.0 million of cumulative hedging adjustments. For the year ended December 31, 2018, the Company recognized a $5.8 million loss on the fair value of interest rate swaps, and a corresponding gain on the fair value of the related hedged debt instrument to Interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2018, the Company had derivatives outstanding with an equivalent notional amount of $726.3 million that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at December 31, 2018, the $32.4 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of December 31, 2018, $10.8 billion of the Company's third party foreign currency denominated debt and $3.5 billion of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in Selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. The changes in the fair value of these derivatives are recognized in Nonoperating (income) expense, net, along with the currency gain or loss from the hedged balance sheet position.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at December 31, 2018 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2018, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on certain hedges of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

INCOME TAXES

Income Tax Uncertainties

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled.

The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Accounting for Global Intangible Low-Taxed Income ("GILTI")

The Tax Act requires a U.S. shareholder of a foreign corporation to include GILTI in taxable income. The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2018–7.3; 2017–8.1; 2016–6.8. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2018–0.5; 2017–0.1; 2016–1.2.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the financial statements were issued and filed with the SEC. There were no subsequent events that required recognition or disclosure.

Property and Equipment

Net property and equipment consisted of:

In millions	*December 31,* ***2018***	*2017*
Land	**$ 5,521.4**	$ 5,662.2
Buildings and improvements on owned land	**15,377.4**	14,776.9
Buildings and improvements on leased land	**12,863.6**	12,509.2
Equipment, signs and seating	**2,942.6**	3,165.7
Other	**488.6**	512.4
Property and equipment, at cost	**37,193.6**	36,626.4
Accumulated depreciation and amortization	**(14,350.9)**	(14,178.1)
Net property and equipment	**$ 22,842.7**	$ 22,448.3

Depreciation and amortization expense for property and equipment was (in millions): 2018–$1,302.9; 2017–$1,227.5; 2016–$1,390.7.

Other Operating (Income) Expense, Net

In millions	***2018***	*2017*	*2016*
Gains on sales of restaurant businesses	**$ (304.1)**	$ (295.4)	$ (283.4)
Equity in earnings of unconsolidated affiliates	**(151.5)**	(183.7)	(54.8)
Asset dispositions and other (income) expense, net	**(12.9)**	18.7	72.3
Impairment and other charges (gains), net	**231.7**	(702.8)	341.6
Total	**$ (236.8)**	$ (1,163.2)	$ 75.7

- ***Gains on sales of restaurant businesses***

The Company's purchases and sales of businesses with its franchisees are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of our business.

- ***Equity in earnings of unconsolidated affiliates***

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates but does not control. The Company records equity in (earnings) losses from these entities representing McDonald's share of results. For foreign affiliated markets—primarily China and Japan—results are reported after interest expense and income taxes.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings and uncollectible receivables, asset write-offs due to restaurant reinvestment (including investment in EOTF), and other miscellaneous income and expenses.

- ***Impairment and other charges (gains), net***

Impairment and other charges (gains), net includes the losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value. Charges associated with strategic initiatives, such as refranchising and restructuring activities are also included. In addition, as the Company continues to make progress toward its long-term global refranchising goals, the realized gains/losses from the sale of McDonald's businesses in certain markets are reflected in this category, including the 2017 gain on the sale of the Company's businesses in China and Hong Kong.

Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

Franchise Arrangements

Conventional franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and royalties to the Company based upon a percent of sales with minimum rent payments. Minimum rent payments are based on the Company's underlying investment in owned sites and parallel the Company's underlying leases and escalations on properties that are leased. Under the franchise arrangement, franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. These franchisees pay related occupancy costs including property taxes, insurance and site maintenance. Developmental licensees and affiliates operating under license agreements pay a royalty to the Company based upon a percent of sales, and may pay initial fees.

Revenues from franchised restaurants consisted of:

In millions	***2018***	*2017*	*2016*
Rents	**$ 7,082.2**	$ 6,496.3	$ 6,107.6
Royalties	**3,886.3**	3,518.7	3,129.9
Initial fees	**44.0**	86.5	89.4
Revenues from franchised restaurants	**$ 11,012.5**	$ 10,101.5	$ 9,326.9

Future gross minimum rent payments due to the Company under existing conventional franchise arrangements are:

In millions	*Owned sites*	*Leased sites*	*Total*
2019	$ 1,452.3	$ 1,509.4	$ 2,961.7
2020	1,417.1	1,438.5	2,855.6
2021	1,374.0	1,360.3	2,734.3
2022	1,322.8	1,275.0	2,597.8
2023	1,275.5	1,205.9	2,481.4
Thereafter	11,116.4	9,680.1	20,796.5
Total minimum payments	$ 17,958.1	$16,469.2	$ 34,427.3

At December 31, 2018, net property and equipment under franchise arrangements totaled $17.8 billion (including land of $4.9 billion) after deducting accumulated depreciation and amortization of $10.4 billion.

Leasing Arrangements

At December 31, 2018, the Company was the lessee at 12,334 restaurant locations through ground leases (the Company leases the land and the Company generally owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalation terms vary by market with examples including fixed-rent escalations, escalations based on an inflation index and fair-value market adjustments. The timing of these escalations generally range from annually to every five years. For most franchised locations, the related occupancy costs including property taxes, insurance and site maintenance; are required to be paid by the franchisees as part of the franchise arrangement. In addition, the Company is the lessee under non-restaurant related leases such as office buildings, vehicles and office equipment.

The following table provides detail of rent expense:

In millions	***2018***	*2017*	*2016*
Company-operated restaurants:			
U.S.	**$ 29.4**	$ 37.4	$ 48.6
Outside the U.S.	**241.6**	427.2	613.3
Total	**271.0**	464.6	661.9
Franchised restaurants:			
U.S.	**504.9**	488.6	471.2
Outside the U.S.	**658.0**	609.3	589.8
Total	**1,162.9**	1,097.9	1,061.0
Other	**87.9**	82.0	91.3
Total rent expense	**$ 1,521.8**	$ 1,644.5	$ 1,814.2

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2018–$82.1; 2017–$115.6; 2016–$135.0. Franchised restaurants: 2018–$200.8; 2017–$204.9; 2016–$186.4.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

In millions	*Restaurant*	*Other*	*Total **
2019	$ 1,093.4	$ 51.3	$ 1,144.7
2020	1,032.1	51.0	1,083.1
2021	955.5	45.7	1,001.2
2022	873.8	35.7	909.5
2023	806.0	24.6	830.6
Thereafter	7,132.3	164.9	7,297.2
Total minimum payments	$ 11,893.1	$ 373.2	$ 12,266.3

* For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2018. In addition, future minimum payments exclude option periods that have not yet been exercised.

Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	***2018***	*2017*	*2016*
U.S.	**$ 2,218.0**	$ 2,242.0	$ 2,059.4
Outside the U.S.	**5,598.1**	6,331.5	4,806.6
Income before provision for income taxes	**$ 7,816.1**	$ 8,573.5	$ 6,866.0

In October 2016, the FASB issued ASU 2016-16, “Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory.” The goal of this update was to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted this standard on January 1, 2018 using a modified retrospective method, resulting in a cumulative catch up adjustment of $57 million, the majority of which was recorded within Miscellaneous other assets on the Consolidated Balance Sheet. The adoption of this standard did not have a material impact on the consolidated statements of income and cash flows.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in SAB 118 because the Company had not yet completed its enactment-date accounting for these effects. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings. As further discussed below, during 2018, the Company recognized adjustments of approximately $75 million to the provisional amounts recorded at December 31, 2017, primarily related to the transition tax. These adjustments are included as a component of income tax expense from continuing operations.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U,S. law. The Company recorded a provisional amount for its one-time transition tax liability of approximately $1.2 billion at December 31, 2017. Upon further analyses of the Tax Act and notices and regulations issued and proposed by the U.S. Department of the Treasury and the IRS, the Company increased its December 31, 2017 provisional amount by approximately $75 million during 2018. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

The provision for income taxes, classified by the timing and location of payment, was as follows:

In millions	***2018***	*2017*	*2016*
U.S. federal	**$ 292.9**	$ 2,030.8	$ 1,046.6
U.S. state	**183.9**	169.8	121.3
Outside the U.S.	**1,312.4**	1,217.0	1,550.2
Current tax provision	**1,789.2**	3,417.6	2,718.1
U.S. federal	**145.7**	(120.1)	(122.1)
U.S. state	**18.7**	12.8	14.1
Outside the U.S.	**(61.8)**	70.9	(430.6)
Deferred tax provision	**102.6**	(36.4)	(538.6)
Provision for income taxes	**$ 1,891.8**	$ 3,381.2	$ 2,179.5

Net deferred tax liabilities consisted of:

In millions	*December 31,* ***2018***	*2017*
Property and equipment	**$1,288.9**	$ 1,211.5
Intangible liabilities	**312.3**	296.2
Other	**347.9**	242.0
Total deferred tax liabilities	**1,949.1**	1,749.7
Property and equipment	**(658.9)**	(633.8)
Employee benefit plans	**(213.3)**	(253.1)
Intangible assets	**(1,081.5)**	(228.8)
Deferred foreign tax credits	**(216.6)**	(208.6)
Deferred revenue	**(138.9)**	—
Operating loss carryforwards	**(45.7)**	(71.1)
Other	**(269.2)**	(266.0)
Total deferred tax assets before valuation allowance	**(2,624.1)**	(1,661.4)
Valuation allowance	**671.1**	163.2
Net deferred tax (assets) liabilities	**$ (3.9)**	$ 251.5
Balance sheet presentation:		
Deferred income taxes	**$1,215.5**	$ 1,119.4
Other assets-miscellaneous	**(1,219.4)**	(867.9)
Net deferred tax (assets) liabilities	**$ (3.9)**	$ 251.5

At December 31, 2018, the Company had net operating loss carryforwards of $216.7 million, of which $136.6 million has an indefinite carryforward. The remainder will expire at various dates from 2019 to 2037.

Prior to 2018, the Company's effective income tax rate was generally lower than the U.S. statutory tax rate primarily because foreign income was generally subject to local statutory country tax rates that were below the 35% U.S. statutory tax rate and reflected the impact of global transfer pricing. Beginning in 2018, the Tax Act reduced the U.S. statutory tax rate to 21%. As a result, the Company’s 2018 effective income tax rate is higher than the U.S. statutory tax rate of 21% primarily due to the impact of state income taxes and foreign income that is subject to local statutory country tax rates that are above the 21% U.S. statutory tax rate.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2018	2017	2016
Statutory U.S. federal income tax rate	**21.0 %**	35.0 %	35.0 %
State income taxes, net of related federal income tax benefit	**1.8**	1.2	1.5
Foreign income taxed at different rates	**1.5**	(4.6)	(6.5)
Transition tax	**1.0**	13.7	—
US net deferred tax liability remeasurement	—	(6.0)	—
Other, net	**(1.1)**	0.1	1.7
Effective income tax rates	**24.2 %**	39.4 %	31.7 %

As of December 31, 2018 and 2017, the Company's gross unrecognized tax benefits totaled $1,342.8 million and $1,180.4 million, respectively. After considering the deferred tax accounting impact, it is expected that about $940 million of the total as of December 31, 2018 would favorably affect the effective tax rate if resolved in the Company's favor.

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

In millions	**2018**	2017
Balance at January 1	**$ 1,180.4**	$ 924.1
Decreases for positions taken in prior years	**(64.1)**	(13.7)
Increases for positions taken in prior years	**180.8**	143.9
Increases for positions related to the current year	**75.1**	140.2
Settlements with taxing authorities	**(24.1)**	(6.5)
Lapsing of statutes of limitations	**(5.3)**	(7.6)
Balance at December 31[(1)]	**$ 1,342.8**	$ 1,180.4

(1) Of this amount, $1,313.7 million and $1,132.3 million are included in Other long-term liabilities for 2018 and 2017, respectively, and $12.5 million and $30.8 million are included in Prepaid expenses and other current assets for 2018 and 2017, respectively, on the Consolidated Balance Sheet. The remainder is included in Deferred income taxes on the Consolidated Balance Sheet.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and additional meetings are anticipated in 2019.

In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process. The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. It is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $900 million within the next 12 months, of which only a portion could favorably affect the effective tax rate. This would be due to the possible settlement of the IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In addition, it is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate.

The Company operates within multiple tax jurisdictions and is subject to audit in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

The Company had $152.0 million and $155.3 million accrued for interest and penalties at December 31, 2018 and 2017, respectively. The Company recognized interest and penalties related to tax matters of $13.9 million in 2018, $34.9 million in 2017, and $41.7 million in 2016, which are included in the provision for income taxes.

In the fourth quarter of 2018, the Company completed the accounting of the income tax effects of the Tax Act, including the conclusion on the Company's accounting position related to the indefinite reinvestment of unremitted foreign earnings. As of December 31, 2018, the Company has accumulated undistributed earnings generated by our foreign subsidiaries, which were predominantly taxed in the U.S. as a result of the transition tax provisions enacted under the Tax Act. Management does not assert that these previously-taxed unremitted earnings are indefinitely reinvested in operations outside the U.S. Accordingly, the Company has provided deferred taxes for the tax effects incremental to the transition tax. We have not provided for deferred taxes on outside basis differences in our investments in our foreign subsidiaries that are unrelated to these accumulated undistributed earnings, as these outside basis differences are indefinitely reinvested. A determination of the unrecognized deferred taxes related to these other components of our outside basis differences is not practicable.

Employee Benefit Plans

The Company's 401k Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows participants to make pre-tax contributions that are matched each pay period (with an annual true-up) from cash contributions and through July 31, 2018 from shares released under the Employee Stock Ownership Plan. Effective August 1, 2018, the contributions are matched only through cash contributions.

All current account balances, future contributions and related earnings can be invested in eight investment alternatives as well as McDonald’s stock in accordance with each participant’s investment elections. Future participant contributions are limited to 20% investment in McDonald’s stock. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the 401k Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401k Plan. Total liabilities were $437.4 million at December 31, 2018, and $484.3 million at December 31, 2017, and were primarily included in other long-term liabilities on the Consolidated Balance Sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2018, derivatives with a fair value of $167.1 million indexed to the Company's stock and a total return swap with a notional amount of $169.2 million indexed to certain market indices were included at their fair value in Prepaid expenses and other current assets and Accrued payroll and other liabilities, respectively, on the Consolidated Balance Sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company’s stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401k Plan, including nonqualified benefits and related hedging activities, were (in millions): 2018–$18.0; 2017–$19.3; 2016–$24.8. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2018–$33.7; 2017–$43.3; 2016–$46.0.

The total combined liabilities for international retirement plans were $40.6 million and $44.6 million at December 31, 2018 and 2017, respectively. Other post-retirement benefits and post-employment benefits were immaterial.

Segment and Geographic Information

The Company franchises and operates McDonald’s restaurants in the global restaurant industry. The following reporting segments reflect how management reviews and evaluates operating performance through December 31, 2018:

- U.S. - the Company's largest segment.
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.
- High Growth Markets - markets the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model. Corporate activities are also reported within this segment.

All intercompany revenues and expenses are eliminated in computing revenues and operating income. Corporate general and administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financial instruments and home office facilities.

In millions	***2018***	*2017*	*2016*
U.S.	**$ 7,665.8**	$ 8,006.4	$ 8,252.7
International Lead Markets	**7,600.1**	7,340.3	7,223.4
High Growth Markets	**3,988.7**	5,533.2	6,160.7
Foundational Markets & Corporate	**1,770.6**	1,940.5	2,985.1
Total revenues	**$ 21,025.2**	$ 22,820.4	$ 24,621.9
U.S.	**$ 4,015.6**	$ 4,022.4	$ 3,768.7
International Lead Markets	**3,485.7**	3,166.5	2,838.4
High Growth Markets	**1,001.2**	2,001.4	1,048.8
Foundational Markets & Corporate	**320.1**	362.4	88.6
Total operating income	**$ 8,822.6**	$ 9,552.7	$ 7,744.5
U.S.	**$ 14,483.8**	$ 12,648.6	$ 11,960.6
International Lead Markets	**12,713.0**	11,844.3	9,112.5
High Growth Markets	**4,404.9**	4,480.7	5,208.6
Foundational Markets & Corporate	**1,209.5**	4,830.1	4,742.2
Total assets	**$ 32,811.2**	$ 33,803.7	$ 31,023.9
U.S.	**$ 1,849.8**	$ 861.2	$ 586.7
International Lead Markets	**436.4**	515.3	635.6
High Growth Markets	**285.6**	378.5	493.2
Foundational Markets & Corporate	**169.9**	98.7	105.6
Total capital expenditures	**$ 2,741.7**	$ 1,853.7	$ 1,821.1
U.S.	**$ 598.4**	$ 524.1	$ 510.3
International Lead Markets	**472.9**	461.1	451.6
High Growth Markets	**233.0**	231.7	362.0
Foundational Markets & Corporate	**177.7**	146.5	192.6
Total depreciation and amortization	**$ 1,482.0**	$ 1,363.4	$ 1,516.5

Total long-lived assets, primarily property and equipment, were (in millions)–Consolidated: 2018–$27,511.7; 2017– $27,164.2; 2016–$25,200.4; U.S. based: 2018–$13,602.4; 2017–$12,308.7; 2016–$11,689.7.

Effective January 1, 2019, McDonald’s operates under a new organizational structure designed to continue the Company's efforts toward efficiently driving growth through the Velocity Growth Plan with the following three segments:

- U.S. - the Company’s largest market.
- International Operated Markets - comprised of wholly-owned markets, or countries in which the Company operates restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K.
- International Developmental Licensed Markets - comprised primarily of developmental licensee and affiliate markets in the McDonald’s system. Corporate activities will also be reported in this segment.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2018, the Company had a $3.5 billion line of credit agreement expiring in December 2023 with fees of 0.080% per annum on the total commitment, which remained unused. Fees and interest rates on this line are primarily based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 2.6% at December 31, 2018 (based on $253.5 million of foreign currency bank line borrowings and $99.9 million of commercial paper outstanding) and 2.5% at December 31, 2017 (based on $268.0 million of foreign currency bank line borrowings).

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The Company has no current plans to retire a significant amount of its debt prior to maturity.

The following table summarizes the Company's debt obligations (interest rates and debt amounts reflected in the table include the effects of interest rate swaps used to hedge debt).

		Interest rates(1) December 31		*Amounts outstanding December 31*	
In millions of U.S. Dollars	*Maturity dates*	***2018***	*2017*	***2018***	*2017*
Fixed		**4.0%**	4.0%	**$ 18,075.8**	$ 15,533.3
Floating		**3.4**	4.3	**1,349.9**	1,750.0
Total U.S. Dollars	2019-2048			**19,425.7**	17,283.3
Fixed		**1.6**	1.6	**8,069.1**	8,446.6
Floating		**0.0**	0.0	**1,264.1**	1,323.4
Total Euro	2019-2029			**9,333.2**	9,770.0
Total British Pounds Sterling - Fixed	2020-2054	**5.3**	5.3	**952.3**	1,008.9
Total Canadian Dollar - Fixed	2021-2025	**3.1**	3.1	**732.0**	793.8
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**114.0**	110.9
Fixed		**0.3**	0.8	**414.9**	451.5
Floating		**2.6**	2.3	**244.2**	244.7
Total other currencies(2)	2019-2056			**659.1**	696.2
Debt obligations before fair value adjustments and deferred debt costs(3)				**31,216.3**	29,663.1
Fair value adjustments(4)				**(12.0)**	(6.2)
Deferred debt costs				**(129.0)**	(120.5)
Total debt obligations				**$ 31,075.3**	$ 29,536.4

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Primarily consists of Swiss Francs and Korean Won.

(3) Aggregate maturities for 2018 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2019–$0.0; 2020–$2,418.0; 2021–$2,159.0; 2022–$2,269.1; 2023–$4,958.5; Thereafter–$19,411.7. These amounts include a reclassification of short-term obligations totaling $2.4 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2023.

(4) The carrying value of underlying items in fair value hedges, in this case debt obligations, are adjusted for fair value changes to the extent they are attributable to the risk designated as being hedged. The related hedging instruments are also recorded at fair value on the Consolidated Balance Sheet.

Share-based Compensation

The Company maintains a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units ("RSUs") to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plans was 46.5 million at December 31, 2018, including 28.4 million available for future grants.

STOCK OPTIONS

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date.

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2018, 2017 and 2016, the total intrinsic value of stock options exercised was $364.4 million, $353.6 million and $184.9 million, respectively. Cash received from stock options exercised during 2018 was $403.2 million and the tax benefit realized from stock options exercised totaled $73.2 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2018, 2017 and 2016, and changes during the years then ended, is presented in the following table:

	2018				2017		2016	
Options	*Shares in millions*	*Weighted-average exercise price*	*Weighted-average remaining contractual life in years*	*Aggregate intrinsic value in millions*	*Shares in millions*	*Weighted-average exercise price*	*Shares in millions*	*Weighted-average exercise price*
Outstanding at beginning of year	**18.9**	**$ 101.55**			21.5	$ 92.25	21.9	$ 84.76
Granted	**2.7**	**157.95**			4.0	128.74	4.3	117.10
Exercised	**(4.5)**	**89.31**			(5.6)	81.77	(4.0)	75.30
Forfeited/expired	**(0.5)**	**137.08**			(1.0)	118.38	(0.7)	106.50
Outstanding at end of year	**16.6**	**$ 113.06**	**6.2**	**$ 1,073.4**	18.9	$ 101.55	21.5	$ 92.25
Exercisable at end of year	**10.0**	**$ 98.65**	**4.9**	**$ 792.0**	11.3		13.4	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs granted beginning in 2016, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2018, 2017 and 2016 is presented in the following table:

	2018		2017		2016	
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.6**	**$ 107.34**	1.9	$ 94.13	2.4	$ 83.50
Granted	**0.6**	**158.28**	0.6	123.98	0.7	109.86
Vested	**(0.6)**	**91.20**	(0.7)	87.18	(0.8)	79.54
Forfeited	**(0.1)**	**132.14**	(0.2)	117.24	(0.4)	88.45
Nonvested at end of year	**1.5**	**$ 132.56**	1.6	$ 107.34	1.9	$ 94.13

The total fair value of RSUs vested during 2018, 2017 and 2016 was $117.9 million, $87.6 million and $99.3 million, respectively. The tax benefit realized from RSUs vested during 2018 was $23.8 million.

Quarterly Results (Unaudited)

In millions, except per share data	Quarters ended December 31		Quarters ended September 30		Quarters ended June 30		Quarters ended March 31	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Revenues								
Sales by Company-operated restaurants	**$ 2,371.2**	$ 2,673.1	**$ 2,511.0**	$ 3,064.3	**$ 2,594.9**	$ 3,569.6	**$ 2,535.6**	$ 3,411.9
Revenues from franchised restaurants	**2,791.8**	2,667.1	**2,858.4**	2,690.3	**2,759.0**	2,480.1	**2,603.3**	2,264.0
Total revenues	**5,163.0**	5,340.2	**5,369.4**	5,754.6	**5,353.9**	6,049.7	**5,138.9**	5,675.9
Company-operated margin	**414.6**	463.0	**463.1**	584.5	**464.4**	666.3	**404.7**	595.5
Franchised margin	**2,282.1**	2,202.5	**2,359.0**	2,233.0	**2,275.1**	2,042.1	**2,123.0**	1,833.9
Operating income	**1,999.5**	2,144.2	**2,417.7**	3,079.4	**2,262.3**	2,295.1	**2,143.1**	2,034.0
Net income	**$ 1,415.3**	$ 698.7	**$ 1,637.3**	$ 1,883.7	**$ 1,496.3**	$ 1,395.1	**$ 1,375.4**	$ 1,214.8
Earnings per common share—basic	**$ 1.84**	$ 0.88	**$ 2.12**	$ 2.34	**$ 1.92**	$ 1.72	**$ 1.74**	$ 1.48
Earnings per common share—diluted	**$ 1.82**	$ 0.87	**$ 2.10**	$ 2.32	**$ 1.90**	$ 1.70	**$ 1.72**	$ 1.47
Dividends declared per common share	**$ —**	$ —	**$ 2.17** (1)	$ 1.95 (1)	**$ 1.01**	$ 0.94	**$ 1.01**	$ 0.94
Weighted-average common shares—basic	**769.5**	794.3	**772.8**	805.3	**780.0**	811.6	**790.9**	818.8
Weighted-average common shares—diluted	**776.6**	803.0	**779.6**	813.5	**787.1**	819.2	**798.7**	825.2

(1) Includes a $1.01 and $0.94 per share dividend declared and paid in third quarter of 2018 and 2017, respectively, and a $1.16 and $1.01 per share dividend declared in the third quarter and paid in fourth quarter of 2018 and 2017, respectively.

Management’s Assessment of Internal Control Over Financial Reporting

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company’s internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company’s internal control over financial reporting includes those policies and procedures that:

I. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

II. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

III. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company’s assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company’s internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) in Internal Control – Integrated Framework (2013 Framework).

Based on management’s assessment using those criteria, as of December 31, 2018, management believes that the Company’s internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2018, 2017 and 2016 and the Company’s internal control over financial reporting as of December 31, 2018. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD’S CORPORATION

February 22, 2019

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald's Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald's Corporation (the Company) as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

ERNST & YOUNG LLP

We have served as the Company's auditor since 1964.

Chicago, Illinois
February 22, 2019

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald’s Corporation’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald’s Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald’s Corporation as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and our report dated February 22, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG LLP

Chicago, Illinois
February 22, 2019

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company’s management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), over the effectiveness of the design and operation of the Company’s disclosure controls and procedures as of December 31, 2018. Based on that evaluation, the CEO and CFO concluded that the Company’s disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT’S REPORT

Management’s Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in Part II, Item 8 of this Form 10-K.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information is incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2018. We will post any amendments to or any waivers for directors and executive officers from provisions of the Company's Standards of Business Conduct or Code of Conduct for the Board of Directors on the Company’s website at www.aboutmcdonalds.com.

Information regarding all of the Company’s executive officers is included in Part I, page 11 of this Form 10-K.

ITEM 11. Executive Compensation

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table summarizes information about the Company's equity compensation plans as of December 31, 2018. All outstanding awards relate to the Company's common stock. Shares issued under all of the following plans may be from the Company's treasury, newly issued or both.

Equity compensation plan information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
Plan category	*(a)*	*(b)*	*(c)*
Equity compensation plans approved by security holders	18,109,370 (1)	$114.64	28,407,326
Equity compensation plans not approved by security holders	—	—	—
Total	18,109,370	$114.64	28,407,326

(1) Includes 3,056,489 stock options granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan and 13,582,616 stock options and 1,470,265 restricted stock units granted under the McDonald's Corporation 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

ITEM 14. Principal Accounting Fees and Services

Incorporated herein by reference from the Company’s definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements filed as part of this report are listed under Part II, Item 8, pages 31 through 52 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

b. Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

McDonald’s Corporation Exhibit Index (Item 15)

Exhibit Number		Description
(3)	(a)	Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2012.
	(b)	By-Laws, as amended and restated with effect as of October 26, 2015, incorporated herein by reference from Exhibit 3(b) of Form 8-K (File No. 001-05231), filed October 28, 2015.
(4)		Instruments defining the rights of security holders, including Indentures:*
	(a)	Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b)	Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
(10)		Material Contracts
	(a)	Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
	(b)	McDonald’s Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**
		(i) First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, incorporated herein by reference from Exhibit 10(b)(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2018.**

(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**

(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**

(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**

(d) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**

(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**

(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**

(f) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(g) McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(h) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**

(i) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(j) McDonald's Corporation Severance Plan, as Amended and Restated, effective September 30, 2015, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**

(i) First Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(ii) Second Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(ii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(iii) Third Amendment to the McDonald's Corporation Severance Plan, effective as of July 15, 2016, incorporated herein by reference from Exhibit 10(l)(iii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(iv) Fourth Amendment to the McDonald's Corporation Severance Plan, effective as of July 1, 2017, incorporated herein by reference from Exhibit 10(k)(iv) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2017.**

(v) Fifth Amendment to the McDonald's Corporation Severance Plan, effective as of June 5, 2018, incorporated herein by reference from Exhibit 10(j)(v) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2018.**

(k) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(l) Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(m) Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**

(n) Offer Letter between Silvia Lagnado and the Company, dated June 8, 2015, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2017.**

(o) Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(p)

Form of 2018 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **

(q) Termination Agreement and General Release between Gloria Santona and the Company, dated March 3, 2017, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2018. **

(r) Separation Agreement and General Release between Douglas Goare and the Company, dated January 7, 2019, filed herewith.**

(12) Computation of Ratios.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Registered Public Accounting Firm.

(24) Power of Attorney.

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer.

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer.

(32.1)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101.INS)	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
(101.SCH)	XBRL Taxonomy Extension Schema Document.
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document.
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document.
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document.

* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

** Denotes compensatory plan.

ITEM 16. Form 10-K Summary

None.

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and
Chief Financial Officer

February 22, 2019
Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 22nd day of February, 2019:

Signature, Title

By /s/ Lloyd H. Dean
Lloyd H. Dean
Director

By /s/ Stephen J. Easterbrook
Stephen J. Easterbrook
President, Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ Robert A. Eckert
Robert A. Eckert
Director

By /s/ Margaret H. Georgiadis
Margaret H. Georgiadis
Director

By /s/ Enrique Hernandez, Jr.
Enrique Hernandez, Jr.
Chairman of the Board and Director

By /s/ Catherine Hoovel
Catherine Hoovel
Corporate Vice President – Chief Accounting Officer
(Principal Accounting Officer)

By /s/ Jeanne P. Jackson
Jeanne P. Jackson
Director

By /s/ Richard H. Lenny
Richard H. Lenny
Director

Signature, Title

By /s/ John J. Mulligan
John J. Mulligan
Director

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Sheila A. Penrose
Sheila A. Penrose
Director

By /s/ John W. Rogers, Jr.
John W. Rogers, Jr.
Director

By /s/ Paul S. Walsh
Paul S. Walsh
Director

By /s/ Miles D. White
Miles D. White
Director

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

McDONALD’S CORPORATION

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**36-2361282** (I.R.S. Employer Identification No.)
One McDonald’s Plaza **Oak Brook, Illinois** (Address of principal executive offices)	**60523** (Zip code)

Registrant’s telephone number, including area code: (630) 623-3000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
(Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ (do not check if a smaller reporting company)
Smaller reporting company ☐ Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2017 was $124,038,758,906.

The number of shares outstanding of the registrant's common stock as of January 31, 2018 was 794,497,880.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2018 definitive proxy statement, which will be filed no later than 120 days after December 31, 2017.

McDONALD’S CORPORATION

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PART I

ITEM 1. Business

McDonald’s Corporation, the registrant, together with its sub-sidiaries, is referred to herein as the “Company.”

a. General

During 2017, there were no material changes to the Company's corporate structure or in its method of conducting business. The business is structured with segments that combine markets with similar characteristics and opportunities for growth. Significant reportable segments include the United States ("U.S."), International Lead Markets and High Growth Markets. In addition, throughout this report we present the Foundational Markets & Corporate segment, which includes markets in over 80 countries, as well as Corporate activities.

b. Financial information about segments

Segment data for the years ended December 31, 2017, 2016, and 2015 are included in Part II, Item 8, page 47 of this Form 10-K.

c. Narrative description of business

- ***General***

The Company operates and franchises McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages sold at various price points in more than 100 countries. McDonald’s global system is comprised of both Company-owned and franchised restaurants. McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. We continually review our mix of Company-owned and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term. The business relationship between McDonald’s and its independent franchisees is of fundamental importance to overall performance and to the McDonald’s brand. This business relationship is supported by an agreement that requires adherence to standards and policies essential to protecting our brand.

The Company is primarily a franchisor, with more than 90% of McDonald's restaurants currently owned and operated by independent franchisees. Franchising enables an individual to be their own employer and maintain control over all employment related matters, marketing and pricing decisions, while also benefiting from the strength of McDonald’s global brand, operating system and financial resources. One of the strengths of this model is that the expertise gained from operating Company-owned restaurants allows McDonald’s to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants.

Directly operating McDonald’s restaurants contributes significantly to our ability to act as a credible franchisor. Having Company-owned restaurants provides Company personnel with a venue for

Under a conventional franchise arrangement, the Company generally owns the land and building or secures a long-term lease for the restaurant location and the franchisee pays for equipment, signs, seating and décor. The Company believes that ownership of real estate, combined with the co-investment by franchisees, enables us to achieve restaurant performance levels that are among the highest in the industry.

Franchisees are also responsible for reinvesting capital in their businesses over time. In addition, to accelerate implementation of certain initiatives, the Company frequently co-invests with franchisees to fund improvements to their restaurants or their operating systems. These investments, developed with input from McDonald’s with the aim of improving local business performance, increase the value of our brand through the development of modernized, more attractive and higher revenue generating restaurants.

The Company’s typical franchise term is 20 years. The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to ensure consistency and high quality at all McDonald’s restaurants. Conventional franchisees contribute to the Company’s revenue through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. This structure enables McDonald’s to generate significant levels of cash flow.

Under a developmental license arrangement, licensees provide capital for the entire business, including the real estate interest. The Company generally does not invest any capital under a developmental license arrangement. The Company receives a royalty based upon a percent of sales as well as initial fees upon the opening of a new restaurant or grant of a new license. We use the developmental license ownership structure in over 80 countries with a total of approximately 6,900 restaurants. The largest developmental licensee operates approximately 2,200 restaurants in 19 countries in Latin America and the Caribbean.

Finally, the Company also has an equity investment in a limited number of foreign affiliated markets, referred to as “affiliates.” In these markets, the Company receives a royalty based on a percent of sales and records its share of net results in Equity in earnings of unconsolidated affiliates. In 2017, the Company completed the sale of its businesses in China and Hong Kong, while retaining a 20% ownership in the entity that now owns the business. There are approximately 5,800 restaurants in foreign affiliated markets, the largest of which are Japan and China, where there are about 2,900 and 2,600 restaurants, respectively.

- ***Supply Chain and Quality Assurance***

The Company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers. The Company has established and enforces high quality standards and product specifications. The Company has quality centers around the world designed to ensure that its high standards are consistently met. The quality assurance process not only involves ongoing product reviews, but also on-site supplier visits. A Food Safety Advisory Council, composed of the Company’s technical, safety and supply chain specialists, as well as suppliers and outside academia, provides strategic global leadership for all aspects of food safety. In addition, the Company works closely with suppliers to encourage innovation,

Independently owned and operated distribution centers, approved by the Company, distribute products and supplies to McDonald’s restaurants. In addition, restaurant personnel are trained in the proper storage, handling and preparation of products.

Products

McDonald’s restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes. In addition, McDonald’s tests new products on an ongoing basis.

McDonald’s menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, french fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, pies, soft drinks, coffee, McCafé beverages and other beverages. In addition, the restaurants sell a variety of other products during limited-time promotions.

McDonald’s restaurants in the U.S. and many international markets offer a full or limited breakfast menu. Breakfast offerings may include Egg McMuffin, Sausage McMuffin with Egg, McGriddles, biscuit and bagel sandwiches and hotcakes.

Quality, choice and nutrition are increasingly important to our customers and we are continuously evolving our menu to meet our customers' needs.

Marketing

McDonald’s global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald’s brand and differentiate the Company from competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience and the customer experience.

Intellectual property

The Company owns or is licensed to use valuable intellectual property including trademarks, service marks, patents, copyrights, trade secrets and other proprietary information. The Company considers the trademarks “McDonald’s” and “The Golden Arches Logo” to be of material importance to its business. Depending on the jurisdiction, trademarks and service marks generally are valid as long as they are used and/or registered. Patents, copyrights and licenses are of varying durations.

Seasonal operations

The Company does not consider its operations to be seasonal to any material degree.

Working capital practices

Information about the Company’s working capital practices is incorporated herein by reference to Management’s Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2017, 2016, and 2015 in Part II, Item 7, pages 14 through 29, and the consolidated statement of cash flows for the years ended December 31, 2017, 2016, and 2015 in Part II, Item 8, page 34 of this Form 10-K.

Customers

The Company’s business is not dependent upon either a single customer or small group of customers.

Backlog

Company-operated restaurants have no backlog orders.

Competition

McDonald’s restaurants compete with international, national, regional and local retailers of food products. The Company competes on the basis of price, convenience, service, menu variety and product quality in a highly fragmented global restaurant industry.

In measuring the Company’s competitive position, management reviews data compiled by Euromonitor International, a leading source of market data with respect to the global restaurant industry. The Company’s primary competition, which is referred to as the informal eating out ("IEO") segment, includes the following restaurant categories defined by Euromonitor International: quick-service eating establishments, casual dining full-service restaurants, street stalls or kiosks, cafés,100% home delivery/takeaway providers, specialist coffee shops, self-service cafeterias and juice/ smoothie bars. The IEO segment excludes establishments that primarily serve alcohol and full-service restaurants other than casual dining.

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.2 trillion in annual sales in 2016, the most recent year for which data is available. McDonald’s Systemwide 2016 restaurant business accounted for 0.4% of those outlets and 7.0% of the sales.

Management also on occasion benchmarks McDonald’s against the entire restaurant industry, including the IEO segment defined above and all other full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 19 million outlets and generated $2.4 trillion in annual sales in 2016. McDonald’s Systemwide restaurant business accounted for 0.2% of those outlets and 3.5% of the sales.

Research and development

The Company performs research and development activities in the U.S., Europe and Asia. While research and development activities are important to the Company’s business, these expenditures are not material. Independent suppliers also conduct research activities that benefit the Company, its franchisees and suppliers (collectively referred to as the "System").

Environmental matters

The Company continuously endeavors to improve its social responsibility and environmental practices to achieve long-term sustainability, which benefits McDonald’s and the communities it serves.

Increased focus by certain governmental authorities on environmental matters may lead to new governmental initiatives. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs for the Company. Also, there is a possibility that governmental initiatives, or actual or perceived effects of changes in weather patterns, climate, or water resources, could have a direct impact on the operations of the System in ways which we cannot predict at this time.

The Company monitors developments related to environmental matters and plans to respond to governmental initiatives in a timely and appropriate manner. At this time, the Company has already begun to undertake its own initiatives relating to preservation of

- ***Number of employees***

The Company's number of employees worldwide, including its corporate office employees and company-owned restaurant employees, was approximately 235,000 as of year-end 2017.

d. Financial information about geographic areas

Financial information about geographic areas is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, pages 14 through 29 and Segment and geographic information in Part II, Item 8, page 47 of this Form 10-K.

e. Available information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information.

Financial and other information can also be accessed on the investor section of the Company's website at www.investor.mcdonalds.com. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623 or by sending a request to McDonald's Corporation Shareholder Services, Department 720, 711 Jorie Boulevard, Oak Brook, Illinois 60523.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters for each of the Committees of the Board of Directors, including the Audit and Finance Committee, Compensation Committee, Governance Committee, Public Policy and Strategy Committee and Sustainability and Corporate Responsibility Committee; the Code of Conduct for the Board of Directors; and the Company's Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623 or by sending a request to McDonald's Corporation Shareholder Services, Department 720, 711 Jorie Boulevard, Oak Brook, Illinois 60523.

Information on the Company's website is not incorporated into this Form 10-K or the Company's other securities filings and is not a part of them.

ITEM 1A. Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

The information in this report includes forward-looking statements about future events and circumstances and their effects upon revenues, expenses and business opportunities. Generally speaking, any statement in this not guarantees of performance and speak only as of the date of this report. Except as required by law, we do not undertake to update them. Our expectations (or the underlying assumptions) may change or not be realized, and you should not rely unduly on forward-looking statements. Our business results are subject to a variety of risks, including those that are reflected in the following considerations and factors, as well as elsewhere in our filings with the SEC. If any of these considerations or risks materialize, our expectations may change and our performance may be adversely affected.

If we do not successfully evolve and execute against our business strategies, we may not be able to increase operating income.

To drive future results, our business strategies must be effective in delivering increased guest counts to drive operating income growth. Whether these strategies are successful depends mainly on our System's ability to:

- Continue to innovate and differentiate the McDonald's experience by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;
- Utilize our more adaptive organizational structure to execute against our initiatives at an accelerated pace;
- Strengthen customer appeal and augment our digital initiatives, including mobile ordering and delivery, along with Experience of the Future ("EOTF"), particularly in the U.S.;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants; and
- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations.

If we are delayed or unsuccessful in executing our strategies, or if our strategies do not yield the desired results, our business, financial condition and results of operations may suffer.

Our investments to enhance the customer experience, including through technology, may not generate the expected returns.

We will continue to build upon our investments in EOTF, which focus on restaurant modernization and technology and digital engagement in order to transform the restaurant experience. As we accelerate our pace of converting restaurants to EOTF, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to build on delivery initiatives, which may not generate expected returns. We may not fully realize the intended benefits of these significant investments, or these initiatives may not be well executed, and therefore our business results may suffer.

If we do not anticipate and address evolving consumer preferences, our business could suffer.

Our continued success depends on our System's

that these initiatives will be successful and, if they are not, our financial results could be adversely impacted.

Activities relating to our refranchising and cost savings initiatives remain ongoing and entail various risks.

Our previously announced refranchising and cost saving initiatives remain ongoing. As we continue on those initiatives, the existing risks we face in our business may be intensified. Our efforts to reduce costs and capital expenditures depend, in part, upon our refranchising efforts, which, in turn, depend upon our selection and integration of capable third parties. Our cost savings initiatives also depend upon a variety of factors, including our ability to achieve efficiencies through the consolidation of global, back-office functions. If these various initiatives are not successful, take longer to complete than initially projected, or are not well executed, or if our cost reduction efforts adversely impact our effectiveness, our business operations, financial results and results of operations could be adversely affected.

If pricing, promotional and marketing plans are not effective, our results may be negatively impacted.

Our results depend on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful and could negatively impact sales and margins. Further, the promotion of menu offerings may yield results below the desired levels.

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful, and we may fail to attract and retain customers. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels allows us to reach our customers effectively. If the advertising and marketing programs are not successful, or are not as successful as those of our competitors, our sales, guest counts and market share could decrease.

Failure to preserve the value and relevance of our brand could have an adverse impact on our financial results.

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, our business practices and the manner in which we source the commodities we use. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand generally or relative to available alternatives. Consumer perceptions may also be affected by third parties presenting or promoting adverse commentary or portrayals of the quick-service category of the IEO segment, our brand and/or our operations, our suppliers or our franchisees. If we are unsuccessful in addressing effective in addressing social responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

We face intense competition in our markets, which could hurt our business.

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by new or continuing actions of our competitors, which may have a short- or long-term impact on our results.

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, develop new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations and respond effectively to our competitors' actions or disruptive actions from others which we do not foresee. Recognizing these dependencies, we have intensified our focus in recent periods on strategies to achieve these goals, and we will likely continue to modify our strategies and implement new strategies in the future. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics.

Unfavorable general economic conditions could adversely affect our business and financial results.

Our results of operations are substantially affected by economic conditions, which can vary significantly by market and can impact consumer disposable income levels and spending habits. Economic conditions can also be impacted by a variety of factors including hostilities, epidemics and actions taken by governments to manage national and international economic matters, whether through austerity, stimulus measures or trade measures, and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers. Continued adverse economic conditions or adverse changes in economic conditions in our markets could pressure our operating performance, and our business and financial results may suffer.

Our results of operations are also affected by fluctuations in currency exchange rates, which may adversely affect reported earnings.

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient product supply, including on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including shortages and transportation issues, and price increases can adversely affect us as well as our suppliers and franchisees whose performance may have a significant impact on our results. Such shortages or

franchisees or us. If we experience interruptions in our System's supply chain, our costs could increase and it could limit the availability of products critical to our System's operations.

Food safety concerns may have an adverse effect on our business.

Our ability to increase sales and profits depends on our System's ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald's of food-borne illnesses and food or product safety issues that may arise in the future. Food safety is a top priority, and we dedicate substantial resources to ensure that our customers enjoy safe food products, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, have occurred in the food industry in the past, and could occur in the future. Instances of food tampering, food contamination or food-borne illness, whether actual or perceived, could adversely affect our brand and reputation as well as our revenues and profits.

Our franchise business model presents a number of risks.

Our success increasingly relies on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates, yet we have limited influence over their operations. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us. Our refranchising efforts will continue to increase that dependence and the potential effect of those factors.

Our success also increasingly depends on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. Franchisees' ability to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general or by the creditworthiness of our franchisees or the Company. Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Our ability to achieve the benefits of

franchisees, licensees and/or affiliates that meet our rigorous standards, and whether their performance and the resulting ownership mix supports our brand and financial objectives.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions could disrupt our business and adversely affect our results.

Our success depends in part on our System's ability to recruit, motivate and retain a qualified workforce to work in our restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

Information technology system failures or interruptions, or breaches of network security, may interrupt our operations.

We are increasingly reliant on technological systems, such as point-of-sale and other in-store systems or platforms, technologies supporting McDonald's delivery and digital solutions, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, customers or independent third parties to conduct our business, including technology-enabled systems provided to us by third parties. Any failure of these systems could significantly impact our operations and customer experience and perceptions.

Despite the implementation of security measures, those technology systems and solutions could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely way, we could experience an interruption in our operations.

Furthermore, security breaches have from time to time occurred and may in the future occur involving our systems, the systems of the parties we communicate or collaborate with (including franchisees), or those of third

our employees and other third parties, as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and criminal penalties or civil liabilities.

The global scope of our business subjects us to risks that could negatively affect our business.

We encounter differing cultural, regulatory and economic environments within and among the more than 100 countries where McDonald's restaurants operate, and our ability to achieve our business objectives depends on the System's success in these environments. Meeting customer expectations is complicated by the risks inherent in our global operating environment, and our global success is partially dependent on our System's ability to leverage operating successes across markets. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, government-mandated closure of our, our franchisees' or our suppliers' operations, and asset seizures. The cost and disruption of responding to governmental investigations or inquiries, whether or not they have merit, may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental investigations or inquiries.

Additionally, challenges and uncertainties are associated with operating in developing markets, which may entail a relatively higher risk of political instability, economic volatility, crime, corruption and social and ethnic unrest. Such challenges may be exacerbated in many cases by a lack of an independent and experienced judiciary and uncertainties in how local law is applied and enforced, including in areas most relevant to commercial transactions and foreign investment. An inability to manage effectively the risks associated with our international operations could have a material adverse effect on our business and financial condition.

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.'s decision to leave the European Union through a negotiated exit over a period of time, including its recent formal commencement of exit proceedings, it is possible that there will be increased regulatory complexities, as well as potential referenda in the U.K. and/or other European countries, that could cause uncertainty in European or worldwide economic conditions. In the short term, the decision created volatility in certain foreign currency exchange rates, and the resulting depression in those exchange rates may continue. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

Changes in tax laws and unanticipated tax liabilities could adversely affect the taxes we pay and our profitability.

We are subject to income and other taxes in the particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations, including changes and uncertainties resulting from proposals for comprehensive or corporate tax reforms in the U.S. or elsewhere. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. While we have estimated the effects of the Tax Act, we continue to refine those estimates with the possibility they could change, and those changes could be material. We are also impacted by settlements of pending or any future adjustments proposed by taxing authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

Changes in commodity and other operating costs could adversely affect our results of operations.

The profitability of our Company-operated restaurants depends in part on our ability to anticipate and react to changes in commodity costs, including food, paper, supplies, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices or fluctuation in labor costs could adversely affect our operating results by impacting restaurant profitability. The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

Increasing regulatory complexity may adversely affect restaurant operations and our financial results.

Our regulatory environment worldwide exposes us to complex compliance and similar risks that could affect our operations and results in material ways. In many of our markets, we are subject to increasing regulation, which has increased our cost of doing business. We are affected by the cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by multiple governmental authorities can adversely affect our business and increase our exposure to litigation or governmental investigations or proceedings.

Our success depends in part on our ability to manage the impact of new, potential or changing regulations that can affect our business plans and operations. These regulations include product packaging, marketing, the nutritional content and 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 (particularly given varying requirements and practices for testing and disclosure).

Additionally, we are working to manage the risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks

establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks. If we are unable to effectively manage the risks associated with our complex regulatory environment, it could have a material adverse effect on our business and financial condition.

We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.

Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers, claims by current or former franchisees and intellectual property claims (including claims that we infringed another party's trademarks, copyrights or patents).

Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to regulatory proceedings or litigation.

Litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions. We are also subject to legal and compliance risks and associated liability, such as in the areas of privacy and data collection, protection and management, as it relates to information we collect and share when we provide optional technology-related services and platforms to third parties.

Our operating results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;
- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from these claims may hurt our business.

a combination of trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. The steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately ensure that we do not infringe the intellectual property of others, and third parties may claim infringement by us in the future. In particular, we may be involved in intellectual property claims, including often aggressive or opportunistic attempts to enforce patents used in information technology systems, which might affect our operations and results. Any claim of infringement, whether or not it has merit, could be time-consuming, result in costly litigation and harm our business.

We cannot ensure that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

Changes in accounting standards or the recognition of impairment or other charges may adversely affect our future operations and results.

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

A decrease in our credit ratings or an increase in our funding costs could adversely affect our profitability.

Our credit ratings may be negatively affected by our results of operations or changes in our debt levels. As a result, our interest expense, the availability of acceptable counterparties, our ability to obtain funding on favorable terms, collateral requirements and our operating or financial flexibility could all be negatively affected, especially if lenders impose new operating or financial covenants.

Our operations may also be impacted by regulations affecting capital flows, financial markets or financial institutions, which can limit our ability to manage and deploy our liquidity or increase our funding costs. If any of these events were to occur, they could have a material adverse effect on our business and financial condition.

Trading volatility and price of our common stock may be adversely affected by many factors.

Many factors affect the volatility and price of our common stock in addition to our operating results and prospects. The most important of these factors, some of which are outside our control, are the following:

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald's may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;
- The impact of our stock repurchase program or dividend rate; and
- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies in light of changing business, legal and tax considerations and evolve our corporate structure.

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.

Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns and leases real estate primarily in

helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network. Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, pages 14 through 29 and in Financial statements and supplementary data in Part II, Item 8, pages 30 through 50 of this Form 10-K.

ITEM 3. Legal Proceedings

The Company has pending a number of lawsuits that have been filed in various jurisdictions. These lawsuits cover a broad variety of allegations spanning the Company's entire business. The following is a brief description of the more significant types of claims and lawsuits. In addition, the Company is subject to various national and local laws and regulations that impact various aspects of its business, as discussed below. While the Company does not believe that any such claims, lawsuits or regulations will have a material adverse effect on its financial condition or results of operations, unfavorable rulings could occur. Were an unfavorable ruling to occur, there exists the possibility of a material adverse impact on net income for the period in which the ruling occurs or for future periods.

- ***Franchising***

A substantial number of McDonald's restaurants are franchised to independent owner/operators under contractual arrangements with the Company. In the course of the franchise relationship, occasional disputes arise between the Company and its current or former franchisees relating to a broad range of subjects including, but not limited to, quality, service and cleanliness issues, menu pricing, contentions regarding grants or terminations of franchises, delinquent payments of rents and fees, and franchisee claims for additional franchises or rewrites of franchises. Additionally, occasional disputes arise between the Company and individuals who claim they should have been granted a McDonald's franchise or who challenge the legal distinction between the Company and its franchisees for employment law purposes.

- ***Suppliers***

The Company and its affiliates and subsidiaries generally do not supply food, paper or related items to any McDonald's restaurants. The Company relies upon numerous independent suppliers, including service providers, that are required to meet and maintain the Company's high standards and specifications. On occasion, disputes arise between the Company and its suppliers (or former suppliers) which include, for example, compliance with product specifications and the Company's business relationship with suppliers. In addition, disputes occasionally arise on a number of issues between the Company and individuals or entities who claim that they should be (or should have been) granted the opportunity to supply products or services to the Company's restaurants.

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such

disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

- ***Intellectual Property***

The Company has registered trademarks and service marks, patents and copyrights, some of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to protect its intellectual property and defend against the alleged use of third party intellectual property.

- ***Government Regulations***

Local and national governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, zoning, employment and taxation. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from the issuance of additional requirements in the future.

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

The following are the Executive Officers of our Company (as of the date of this filing):

Ian Borden, 49, is President - Foundational Markets, a position he has held since July 2015. From January 2014 through June 2015, Mr. Borden served as Vice President and Chief Financial Officer - McDonald's Asia/Pacific, Middle East and Africa. Prior to that time, Mr. Borden served as Regional Vice President of Europe's East Division from April 2011 to December 2013 and as Managing Director - McDonald's Ukraine from December 2007 to December 2013. He has served the Company for 23 years.

Stephen Easterbrook, 50, is President and Chief Executive Officer, a position he has held since March 2015. Mr. Easterbrook was also elected a Director of the Company effective March 2015. From May 2014 through February 2015, Mr. Easterbrook served as Corporate Senior Executive Vice President and Global Chief Brand Officer. From June 2013 through April 2014, Mr. Easterbrook served as Corporate Executive Vice President and Global Chief Brand Officer. From September 2012 through May 2013, Mr. Easterbrook served as the Chief Executive Officer of Wagamama Limited, a pan-Asian restaurant chain, and from September 2011 to September 2012, he served as the Chief Executive Officer of PizzaExpress Limited, an Italian restaurant brand. From December 2010 to September 2011, he held the position of President, McDonald's Europe. Prior to that, Mr. Easterbrook served in a number of roles with the Company. Mr. Easterbrook has served the Company for 24 years.

Joseph Erlinger, 44, is President - High Growth Markets, a position he has held since September 2016. Prior to that, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets from March 2015 to January 2017 (serving in dual roles from September 2016 through January 2017), as Managing Director of McDonald's Korea from April 2013 to January 2016 (serving in dual roles from March 2015 through January 2016), and US Vice President - GM for the Indianapolis region from December 2010 to March 2013. He has served the Company for nearly 16 years.

David Fairhurst, 49, is Corporate Executive Vice President & Chief People Officer, a position he has held since October 2015. Mr. Fairhurst served as Corporate Senior Vice President, International Human Resources and Strategy from April 2015 to September 2015. Prior to that time, he served as Europe Vice President - Chief People Officer from January 2011 to March 2015. Mr. Fairhurst has served the Company for 12 years.

Robert Gibbs, 46, is Corporate Executive Vice President and Global Chief Communications Officer, a position he has held since June 2015. Mr. Gibbs joined the Company from The Incite Agency, a strategic communications advisory firm that he co-founded in 2013. Prior to that, Mr. Gibbs held several senior advisory roles in the White House, serving as the White House Press Secretary beginning in 2009, then as Senior Advisor in the 2012 re-election campaign. Mr. Gibbs has been with the Company for nearly 3 years.

Douglas Goare, 65, has served as President, International Lead Markets since July 2015 and in October 2016, he assumed responsibility as Chief Restaurant Officer. From October 2011 through June 2015, Mr. Goare served as President, McDonald's Europe. Prior to that time, Mr. Goare served as Corporate Executive Vice President of Supply Chain and Development from February 2011 through September 2011. In addition, Mr. Goare assumed responsibility for Development in December 2010 and served as

Catherine Hoovel, 46, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Prior to that time, Ms. Hoovel served as a Senior Director of Finance from February 2012 to April 2014 and was a Divisional Director from August 2010 to February 2012. Ms. Hoovel has served the Company for nearly 22 years.

Christopher Kempczinski, 49, is President, McDonald's USA, a position he has held since January 2017. Prior to that, Mr. Kempczinski served as Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, a manufacturer and marketer of food and beverage products, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Prior to that, Mr. Kempczinski served as President of Kraft Canada from July 2012 through December 2014 and as Senior Vice President - U.S. Grocery from December 2008 to July 2012. Mr. Kempczinski has been with the Company for over 2 years.

Jerome Krulewitch, 53, is Corporate Executive Vice President, General Counsel and Secretary, a position he has held since March 2017. From May 2011 until March 2017, Mr. Krulewitch served as Corporate Senior Vice President - Chief Counsel, Global Operations. Prior to that, Mr. Krulewitch was Corporate Senior Vice President - General Counsel, The Americas from September 2010 to April 2011. Mr. Krulewitch has served the Company for nearly 16 years.

Silvia Lagnado, 54, is Corporate Executive Vice President, Global Chief Marketing Officer, a position she has held since August 2015. Ms. Lagnado served as Chief Marketing Officer of Bacardi Limited, a spirits company, from September 2010 to October 2012. Prior to that, Ms. Lagnado served more than 20 years in positions of increased responsibility at Unilever. Ms. Lagnado has been with the Company for over 2 years.

Kevin Ozan, 54, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 20 years.

Jim Sappington, 59, is Corporate Executive Vice President, Operations and Technology Systems, a position he has held since March 2015. From January 2013 through February 2015, Mr. Sappington served as Corporate Senior Vice President-Chief Information Officer. Prior to that time, Mr. Sappington served as U.S. Vice President - General Manager for the Northwest Region from September 2010 to December 2012. Mr. Sappington has been with the Company for 30 years.

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION AND DIVIDEND POLICY

The Company's common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S. The following table sets forth the common stock price ranges on the New York Stock Exchange and dividends declared per common share:

	2017				2016			
Dollars per share	*High*	*Low*	*Dividend*		*High*	*Low*	*Dividend*	
Quarter:								
First	**130.19**	**118.18**	**0.94**		126.96	112.71	0.89	
Second	**155.46**	**128.65**	**0.94**		131.96	116.08	0.89	
Third	**161.72**	**151.77**	**1.95**	*	128.60	113.96	1.83	*
Fourth	**175.78**	**155.80**	**—**		124.00	110.33	—	
Year	**175.78**	**118.18**	**3.83**		131.96	110.33	3.61	

* *Includes a $0.94 and $0.89 per share dividend declared and paid in third quarter of 2017 and 2016, respectively, and a $1.01 and $0.94 per share dividend declared in third quarter and paid in fourth quarter of 2017 and 2016, respectively.*

The number of shareholders of record and beneficial owners of the Company's common stock as of January 31, 2018 was estimated to be 1,781,818.

Given the Company's returns on incremental invested capital and assets, management believes it is prudent to reinvest in the business in markets with acceptable returns and/or opportunity for long-term growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 42 consecutive years through 2017 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company's Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2017*:

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs*[(1)]	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs*[(1)]
October 1-31, 2017	3,803,997	162.45	3,803,997	$ 12,304,717,273
November 1-30, 2017	254,210	167.64	254,210	12,262,100,551
December 1-31, 2017	800	173.25	800	12,261,961,951
Total	4,059,007	162.78	4,059,007	

* *Subject to applicable law, the Company may repurchase shares directly in the open market, in privately negotiated transactions, or pursuant to derivative instruments and plans complying with Rule 10b5-1, among other types of transactions and arrangements.*

(1) On July 27, 2017, the Company's Board of Directors approved a share repurchase program, effective July 28, 2017, that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date.

Stock Performance Graph

At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in more than 100 countries and a substantial portion of our revenues and income is generated outside the U.S. In addition, because of our size, McDonald's inclusion in those indices tends to skew the results. Therefore, we believe that such a comparison is not meaningful.

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate meaningful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2017. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2012. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

mcd10kchart.jpg

Company/Index	**12/31/2012**	**12/31/2013**	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**
McDonald's Corporation	$100	$114	$113	$148	$157	$228
S&P 500 Index	100	132	151	153	171	208
Dow Jones Industrials	100	130	143	143	167	213

Source: S&P Capital IQ

ITEM 6. Selected Financial Data

6-Year Summary

In millions, except per share and unit amounts	Years ended December 31, **2017**	2016	2015	2014	2013	2012
Consolidated Statement of Income Data						
Revenues						
Sales by Company-operated restaurants	**$ 12,719**	$ 15,295	$ 16,488	$ 18,169	$ 18,875	$ 18,603
Revenues from franchised restaurants	**10,101**	9,327	8,925	9,272	9,231	8,964
Total revenues	**22,820**	24,622	25,413	27,441	28,106	27,567
Operating income	**9,553**	7,745	7,146	7,949	8,764	8,605
Net income	**5,192**	4,687	4,529	4,758	5,586	5,465
Consolidated Statement of Cash Flows Data						
Cash provided by operations	**$ 5,551**	$ 6,060	$ 6,539	$ 6,730	$ 7,121	$ 6,966
Cash used for (provided by) investing activities	**(562)**	982	1,420	2,305	2,674	3,167
Capital expenditures	**1,854**	1,821	1,814	2,583	2,825	3,049
Cash used for (provided by) financing activities	**5,311**	11,262	(735)	4,618	4,043	3,850
Treasury stock purchases[(1)]	**4,651**	11,142	6,182	3,175	1,810	2,605
Common stock dividends	**3,089**	3,058	3,230	3,216	3,115	2,897
Financial Position						
Total assets	**$ 33,804**	$ 31,024	$ 37,939	$ 34,227	$ 36,626	$ 35,386
Total debt	**29,536**	25,956	24,122	14,936	14,130	13,633
Total shareholders' equity (deficit)	**(3,268)**	(2,204)	7,088	12,853	16,010	15,294
Shares outstanding	**794**	819	907	963	990	1,003
Per Common Share Data						
Earnings-diluted	**$ 6.37**	$ 5.44	$ 4.80	$ 4.82	$ 5.55	$ 5.36
Dividends declared	**3.83**	3.61	3.44	3.28	3.12	2.87
Market price at year end	**172.12**	121.72	118.44	93.70	97.03	88.21
Restaurant Information and Other Data						
Restaurants at year end						
Company-operated restaurants	**3,133**	5,669	6,444	6,714	6,738	6,598
Franchised restaurants	**34,108**	31,230	30,081	29,544	28,691	27,882
Total Systemwide restaurants	**37,241**	36,899	36,525	36,258	35,429	34,480
Franchised sales[(2)]	**$ 78,191**	$ 69,707	$ 66,226	$ 69,617	$ 70,251	$ 69,687

(1) Represents treasury stock purchases as reflected in Shareholders' equity.

(2) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent more than 90% of McDonald's restaurants worldwide at December 31, 2017.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

DESCRIPTION OF THE BUSINESS

The Company franchises and operates McDonald's restaurants. Of the 37,241 restaurants in 120 countries at year-end 2017, 34,108 were franchised (reflects 21,366 franchised to conventional franchisees, 6,945 licensed to developmental licensees and 5,797 licensed to foreign affiliates ("affiliates")—primarily in Japan and China) and 3,133 were operated by the Company.

Under McDonald's conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant business, and by reinvesting in the business over time. The Company generally owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees enabling restaurant performance levels that are among the highest in the industry. In certain circumstances, the Company participates in the reinvestment for conventional franchised restaurants in an effort to accelerate implementation of certain initiatives.

Under McDonald's developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company generally has no capital invested. In addition, the Company has an equity investment in a number of affiliates (primarily in Japan and China) that invest in real estate and operate or franchise restaurants within a market.

McDonald's is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally-relevant customer experiences and driving profitability. Franchising enables an individual to be his or her own employer and maintain control over all employment-related matters, marketing and pricing decisions, while also benefiting from the financial strength and global experience of McDonald's. However, directly operating restaurants is important to being a credible franchisor and provides Company personnel with restaurant operations experience. In Company-operated restaurants, and in collaboration with franchisees, McDonald's further develops and refines operating standards, marketing concepts and product and pricing strategies, so that only those that the Company believes are most beneficial are introduced in the restaurants. McDonald's continually reviews its mix of Company-operated and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term.

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments, and initial fees. Revenues from restaurants licensed to affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

- U.S. - the Company's largest segment.
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.
- High Growth Markets - markets that the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, the Netherlands, Poland, Russia, Spain, Switzerland and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model. Corporate activities are also reported within this segment.

For the year ended December 31, 2017, the U.S., International Lead Markets and High Growth Markets accounted for 35%, 32% and 24% of total revenues, respectively.

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance and financial measures which are considered to be non-GAAP, including comparable sales and comparable guest count growth, Systemwide sales growth, return on incremental invested capital ("ROIIC"), free cash flow and free cash flow conversion rate, as described below.

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases most incentive compensation plans on these results because the Company believes this better represents its underlying business trends.
- Comparable sales and comparable guest counts are key performance indicators used within the retail industry and are indicative of the impact of the Company's initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales and comparable guest counts represent the percent change in sales and transactions, respectively, from the same period in the prior year for all restaurants, whether operated by the Company or franchisees, in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation, and, beginning in 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.

- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company's ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value.

STRATEGIC DIRECTION AND FINANCIAL PERFORMANCE

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the "System") is key to McDonald's long-term success. By leveraging the System, McDonald's is able to identify, implement and scale ideas that meet customers' changing needs and preferences. McDonald's continually builds on its competitive advantages of System alignment and geographic diversification to deliver consistent, yet locally-relevant restaurant experiences to customers as an integral part of their communities.

CUSTOMER-CENTRIC GROWTH STRATEGY

Beginning in 2015, the Company made purposeful changes to execute against key elements of its turnaround plan including a renewed focus on running better restaurants, driving operational growth, returning excitement to the brand and enhancing financial value. The Company's current momentum is broad-based throughout the System and its recent performance demonstrates that McDonald's has completed the transition from turnaround to growth.

In 2017, the Company shifted its focus to delivering long-term growth through accelerated execution of its customer-centric strategy - the Velocity Growth Plan. This plan outlines actions to drive sustainable guest count growth, a reliable long-term measure of the Company's strength, that is vital to growing sales and shareholder value.

The Velocity Growth Plan is rooted in extensive customer research and insights, along with a deep understanding of the key drivers of the business. The Company is targeting the tremendous opportunity at the core of its business - its food, value and customer experience. The strategy is built on the following three pillars, all focusing on building a better McDonald's:

- Retaining existing customers - focusing on areas where it already has a strong foothold in the IEO category, including family occasions and food-led breakfast.

- Regaining lost customers - recommitting to areas of historic strength, namely food taste and quality, convenience and value.

- Converting casual to committed customers - building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack

ever-improving convenience for customers on their terms. The Company met aggressive deployment targets for each one of these accelerators in 2017 and continues further implementation in 2018 and beyond.

- Experience of the Future. The Company continues to build upon its investments in EOTF, focusing on restaurant modernization and technology, in order to transform the restaurant service experience and enhance the brand in the eyes of the customer. The modernization efforts are designed to drive incremental customer visits and higher average check. McDonald's currently has EOTF deployed in about one-third of the restaurants globally, with half of the U.S. restaurants expected to be deployed by the end of 2018.

- Digital. As the Company accelerates its pace of converting restaurants to EOTF, it is placing renewed emphasis on improving its existing service model (i.e., eat in, take out, or drive-thru) and strengthening its relationships with customers through technology. By evolving the technology platform, the Company is expanding choices for how customers order, pay and are served through additional functionality on its global mobile app, self-order kiosks and technology-driven models that enable table service and curb-side pick-up. In the U.S. alone, McDonald's now has over 20 million registered users of the McDonald's application.

- Delivery. The Company continues to further scale its delivery platform as a way of expanding the convenience customers receive from McDonald's. In 2017, McDonald's added delivery to 7,000 restaurants in 21 different countries. Including previously offering delivery in Asia and the Middle East, McDonald's is now delivering meals from over 10,000 restaurants. In addition to added convenience, delivery transactions tend to realize a higher average check and a high customer satisfaction rating. In 2018, while the Company expects to continue to expand the number of restaurants offering delivery, the focus will shift to growing awareness and demand in the areas where delivery is already offered.

In 2018, McDonald's has plans to raise consumer awareness of the enhanced convenience available with delivery and mobile order and pay through thoughtful marketing campaigns that aim to increase the number of customers enjoying these expanded options to engage with the brand. The Company is optimistic that this will contribute to the continued momentum of the business.

In addition to the customer-relevant changes in the restaurants, the Company has enhanced financial value through its refranchising efforts, G&A cost savings initiatives and cash return to shareholders. In 2017, the Company achieved its target to refranchise 4,000 restaurants, a full year ahead of the original target date. McDonald's is currently 92% franchised, with a long-term goal of approximately 95%. The transition to a more heavily franchised business model is benefiting the

Our Velocity Growth Plan also includes the Company doing its part to further embed certain social and environmental issues into the core of our business, which we refer to as our Scale for Good. As one of the world's largest restaurant companies, our Scale for Good highlights our commitment to global priorities that are consistent with our strategic priorities and provides an opportunity to collaborate with our franchisees and suppliers to drive meaningful progress. We believe it is important for customers to feel good about visiting McDonald's restaurants and eating our food in order to continue to drive each of the pillars within our strategy.

While we're committed to addressing many challenges facing society today, we're elevating a few global priorities that reflect analysis of major social and environmental impacts of our food and our business and the material environmental and social issues that matter most to our customers, employees, franchisees, suppliers and stakeholders. Our four global priorities are: beef sustainability, packaging and recycling, commitment to families and our investment in people. Beyond these global priorities, we will continue to drive progress on our goals and commitments across key social and environmental topics such as climate change, diversity, animal health and welfare, and supporting families and farmers.

2017 FINANCIAL PERFORMANCE

The Company's 2017 financial performance demonstrates that the Velocity Growth Plan is working. By focusing on the aforementioned three pillars, and the identified growth accelerators, the Company achieved its best comparable sales performance in six years. In 2017, global comparable sales increased 5.3% and global comparable guest counts increased 1.9%, with positive results achieved in all segments.

- Comparable sales in the U.S. increased 3.6% and comparable guest counts increased 1.0%. The growth in comparable sales and guest counts was supported by the full breadth of our menu, including national beverage value offerings, strong performance of core menu items featured under the McPick 2 platform as well as Signature Crafted premium sandwiches and other menu innovations.

- Comparable sales in the International Lead segment increased 5.3% and comparable guest counts increased 2.3%, reflecting positive performance across all of the segment, led by the U.K. and Canada.

- In the High Growth segment, comparable sales increased 5.3% and comparable guest counts increased 1.8%. This performance reflects positive results across most of the segment, led by China.

- Comparable sales in the Foundational Markets increased 9.0% and comparable guest counts increased 3.3%, led by strong performance in Japan and Latin America, as well as solid results across the remainder of the segment.

In addition to improved comparable sales and guest count performance, the Company achieved the following financial results in 2017:

- Consolidated revenues decreased 7% (8% in constant currencies) as positive comparable

- Operating margin, defined as operating income as a percent of total revenues, increased from 31.5% in 2016 to 41.9% in 2017.

- Diluted earnings per share of $6.37 increased 17% (17% in constant currencies).

- Cash provided by operations was $5.6 billion.

- Capital expenditures of $1.9 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.

- Across the System, about 900 restaurants (including those in our developmental licensee and affiliated markets) were opened.

- Free cash flow was $3.7 billion (see reconciliation in Exhibit 12).

- One-year ROIIC was 1,671.8% and three-year ROIIC was 93.1% for the period ended December 31, 2017. Excluding the gain from the sale of businesses in China and Hong Kong, as well as significant investing cash inflows from strategic refranchising initiatives, one year and three year ROIIC were 48.3% and 43.6%, respectively (see reconciliation in Exhibit 12).

- The Company increased its quarterly cash dividend per share by 7% to $1.01 for the fourth quarter, equivalent to an annual dividend of $4.04 per share.

- The Company returned $7.7 billion to shareholders through share repurchases and dividends for the year.

AREAS OF FOCUS BY SEGMENT

U.S.

The U.S. remains diligent in driving guest count growth momentum in 2018 by continuing to focus on actions that collectively transform the customer experience.

With the launch of the $1 $2 $3 Dollar Menu in January 2018, the Company is offering a compelling, national value program that resonates with customers. Additionally, an emphasis on food taste and quality will remain a key priority. In 2018, the U.S. is planning to introduce fresh beef across the majority of its restaurants, cooked right when ordered and served hot off the grill for all Quarter Pounder burgers. The U.S. will also offer new seasonal flavors to further expand the McCafé espresso line in 2018, following its successful relaunch of McCafé in 2017.

The pace of activity in the U.S. remains accelerated with a focus on increasing customer awareness of its global mobile application, mobile order and pay functionality as well as its delivery platform. Further, the Company is accelerating its investment in EOTF as it expects to complete nearly 4,000 U.S. restaurants in 2018. A majority of traditional restaurants in the U.S. are expected to be substantially complete with EOTF by the end of 2019, offering a holistic, modern experience for customers.

International Lead Markets

International Lead markets continue to deepen their connection with customers and meet their changing needs with meaningful enhancements in menu, accessibility and experience.

The segment is focused on providing quality, great taste, value and choice across the entire menu. Programs across the segment are energizing the core menu, and every market has successfully extended into premium chicken and beef, in addition to locally relevant offerings. All of this is supported by modernized cooking and service platforms that expand capacity and enable hotter, fresher products. Entry-level value programs appeal to teens and young adults, while other platforms provide budget-conscious customers affordable meal bundles.

International Lead markets remain focused on enhancing and expanding the McCafé coffee brand and the ongoing deployment of EOTF restaurants across the segment. In addition to EOTF, the continued roll out of delivery provides customers with the high levels of convenience they are seeking.

High Growth Markets

McDonald's High Growth markets have leveraged ideas around design, digital, people, menu innovation and value from other markets to enhance the customer experience.

Driving operational growth in existing restaurants and targeted new restaurant development are top priorities. In 2017, the Company sold its businesses in China and Hong Kong to a licensee. Continued successful integration of the segment's new licensee into the System will further enable restaurant growth, menu innovation and convenience strategies suited to each market's customers.

Foundational Markets

Foundational markets are a diverse group that share the

OUTLOOK

2018 Outlook

The following information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion, and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1 percentage point to 2018 Systemwide sales growth (in constant currencies).

- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point change in comparable sales for either the U.S. or the International Lead segment would change annual diluted earnings per share by about 5 to 6 cents.

- Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers". This standard changed the way initial fees from franchisees for new restaurant openings or new franchise terms are recognized. Under the new guidance, initial franchise fees will be recognized evenly over the franchise term. The Company expects the adoption of this guidance to negatively impact 2018 consolidated franchised revenues and franchised margins by approximately $50 million.

- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2018, costs for the total basket of goods are expected to increase about 1% to 2% in the U.S. and increase about 2% in the International Lead segment.

- The Company expects full-year 2018 selling, general and administrative expenses to decrease about 1% in constant currencies.

- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2018 to increase about 5% to 7% compared with 2017 due primarily to higher average debt balances.

- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these

resulting in about half of the total U.S. restaurants modernized by the end of 2018. Of the remaining capital, about half will be dedicated to new restaurant openings and the remainder will be allocated to reinvestment in continued expansion of EOTF around the world. The Company's capital will contribute towards about 250 restaurant openings, while developmental licensees and affiliates will contribute capital towards the opening of approximately 750 restaurants, for a total of about 1,000 expected restaurant openings in 2018. The Company expects net additions of about 600 restaurants in 2018.

Long-Term Outlook

- The Company expects to realize net annual G&A savings of about $500 million from its G&A base of $2.6 billion at the beginning of 2015. Through the end of 2017, the Company realized cumulative savings of about $300 million and expects to fully realize its targeted $500 million of net savings in 2019.

- The Company expects an incremental cash flow benefit of $400 to $500 million annually as a result of the Tax Act, prior to any reinvestment.

- The Company expects to return about $24 billion to shareholders over the three-year period ending 2019. As the business grows, the Company also expects to modestly increase its debt levels, while maintaining its credit metrics within current ranges.

- Beginning in 2019, the Company expects to achieve the following long-term, average annual (constant currency) financial targets:

  - Systemwide sales growth of 3-5%;
  - Operating margin in the mid-40% range;
  - Earnings per share growth in the high-single digits; and
  - ROIIC in the mid-20% range.

Consolidated Operating Results

Operating results

Dollars and shares in millions, except per share data	2017 Amount	2017 Increase/ (decrease)	2016 Amount	2016 Increase/ (decrease)	2015 Amount
Revenues					
Sales by Company-operated restaurants	**$ 12,719**	**(17 %)**	$ 15,295	(7 %)	$ 16,488
Revenues from franchised restaurants	**10,101**	**8**	9,327	5	8,925
Total revenues	**22,820**	**(7)**	24,622	(3)	25,413
Operating costs and expenses					
Company-operated restaurant expenses	**10,410**	**(18)**	12,699	(9)	13,977
Franchised restaurants-occupancy expenses	**1,789**	**4**	1,718	4	1,647
Selling, general & administrative expenses	**2,231**	**(6)**	2,384	(2)	2,434
Other operating (income) expense, net	**(1,163)**	**n/m**	76	(64)	209
Total operating costs and expenses	**13,267**	**(21)**	16,877	(8)	18,267
Operating income	**9,553**	**23**	7,745	8	7,146
Interest expense	**922**	**4**	885	39	638
Nonoperating (income) expense, net	**58**	**n/m**	(6)	87	(48)
Income before provision for income taxes	**8,573**	**25**	6,866	5	6,556
Provision for income taxes	**3,381**	**55**	2,180	8	2,027
Net income	**$ 5,192**	**11 %**	$ 4,686	3 %	$ 4,529
Earnings per common share—diluted	**$ 6.37**	**17 %**	$ 5.44	13 %	$ 4.80
Weighted-average common shares outstanding—diluted	**815.5**	**(5 %)**	861.2	(9 %)	944.6

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows.

In 2017, results reflected the stronger Euro, offset by the weaker British Pound. In 2016 and 2015, results were negatively impacted by weaker foreign currencies.

Impact of foreign currency translation on reported results

	Reported amount			Currency translation benefit/(cost)		
In millions, except per share data	***2017***	*2016*	*2015*	***2017***	*2016*	*2015*
Revenues	**$ 22,820**	$ 24,622	$ 25,413	**$ 186**	$ (692)	$ (2,829)
Company-operated margins	**2,309**	2,596	2,511	**17**	(89)	(331)
Franchised margins	**8,312**	7,609	7,278	**25**	(118)	(626)
Selling, general & administrative expenses	**2,231**	2,384	2,434	**(10)**	28	158
Operating income	**9,553**	7,745	7,146	**28**	(173)	(771)
Net income	**5,192**	4,686	4,529	**2**	(97)	(473)
Earnings per common share—diluted	**6.37**	5.44	4.80	**—**	(0.11)	(0.50)

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2017, net income increased 11% (11% in constant currencies) to $5.2 billion and diluted earnings per common share increased 17% (17% in constant currencies) to $6.37. Foreign currency translation had no impact on diluted earnings per share.

In 2016, net income increased 3% (6% in constant currencies) to $4.7 billion and diluted earnings per common share increased 13% (16% in constant currencies) to $5.44. Foreign currency translation had a negative impact of $0.11 on diluted earnings per share.

Results in 2017 reflected stronger operating performance, G&A savings and improved performance in Japan, which enabled the reversal of a valuation allowance on a deferred tax asset in Japan. 2017 results included approximately $700 million of net tax cost associated with the Tax Act, reflecting provisional amounts related to the deemed repatriation charge of approximately $1.2 billion, partly offset by a benefit of approximately $500 million resulting from the revaluation of deferred tax assets and liabilities to the lower enacted U.S. corporate tax rate of 21%. In addition to the $0.82 per share of net tax cost associated with the Tax Act, 2017 results included a net benefit of $0.53 per share consisting of an approximate $850 million gain on the sale of the Company's businesses in China and Hong Kong, offset in part by $150 million of current year restructuring and non-cash impairment charges in connection with the Company's global G&A and refranchising initiatives. Excluding the above items, as well as $342 million of prior year strategic charges, net income was $5.4 billion, an increase of 10% (10% in constant currencies), and diluted earnings per share was $6.66, an increase of 16% (16% in constant currencies).

Results in 2016 benefited from stronger operating performance and higher gains on sales of restaurant businesses, mostly in the U.S. Results in 2016 included $342 million, or $0.28 per share, of strategic charges.

The Company repurchased 31.4 million shares of its stock for $4.6 billion in 2017 and 92.3 million shares of its stock for $11.1 billion in 2016, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales, minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to foreign affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees.

Between 2015 and 2017, the Company accelerated the pace of refranchising to optimize its restaurant ownership mix, generate more stable and predictable revenue and cash flow streams, and operate with a less resource-intensive structure. The shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales are replaced by franchised sales, where the Company receives rent and/or royalty revenue based on a percentage of sales.

In 2017, revenues decreased 7% (8% in constant currencies) and in 2016, revenues decreased 3% (flat in constant currencies). For both periods, the decreases in revenues were due to the impact of refranchising, partly offset by positive comparable sales.

Revenues

			Amount	*Increase/ (decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2017***	*2016*	*2015*	***2017***	*2016*	***2017***	*2016*
Company-operated sales:							
U.S.	**$ 3,260**	$ 3,743	$ 4,198	**(13%)**	(11%)	**(13%)**	(11%)
International Lead Markets	**4,080**	4,278	4,798	**(5)**	(11)	**(4)**	(6)
High Growth Markets	**4,592**	5,378	5,442	**(15)**	(1)	**(17)**	4
Foundational Markets & Corporate	**787**	1,896	2,050	**(58)**	(8)	**(59)**	(5)
Total	**$ 12,719**	$ 15,295	$ 16,488	**(17%)**	(7%)	**(18%)**	(4%)
Franchised revenues:							
U.S.	**$ 4,746**	$ 4,510	$ 4,361	**5%**	3%	**5%**	3%
International Lead Markets	**3,260**	2,945	2,817	**11**	5	**10**	8
High Growth Markets	**942**	783	731	**20**	7	**18**	9
Foundational Markets & Corporate	**1,154**	1,089	1,016	**6**	7	**7**	11
Total	**$ 10,102**	$ 9,327	$ 8,925	**8%**	5%	**8%**	6%
Total revenues:							
U.S.	**$ 8,006**	$ 8,253	$ 8,559	**(3%)**	(4%)	**(3%)**	(4%)
International Lead Markets	**7,340**	7,223	7,615	**2**	(5)	**1**	(1)
High Growth Markets	**5,533**	6,161	6,173	**(10)**	—	**(13)**	4
Foundational Markets & Corporate	**1,941**	2,985	3,066	**(35)**	(3)	**(35)**	1
Total	**$ 22,820**	$ 24,622	$ 25,413	**(7%)**	(3%)	**(8%)**	—%

- ***US:*** In 2017 and 2016, the decrease in revenues reflected the impact of refranchising, partly offset by positive comparable sales.

- ***International Lead Markets:*** In 2017, the increase in revenues was due to strong performance in the U.K. and Canada as well as positive comparable sales across all markets, partly offset by the impact of refranchising. In 2016, the decrease in revenues was due to the impact of refranchising, partly offset by strong comparable sales growth across most of the segment.

- ***High Growth Markets:*** In 2017, the decrease in revenues reflected the impact of refranchising the Company's businesses in China and Hong Kong, partly offset by positive comparable sales across most markets. In 2016, revenue growth was negatively impacted by foreign currency translation. In constant currencies, 2016 revenues increased due to positive comparable sales growth in China and most other markets, and expansion in Russia.

The following tables present comparable sales, comparable guest counts and Systemwide sales increases/(decreases):

Comparable sales and guest count increases/(decreases)

	2017		2016		2015	
	Sales	**Guest Counts**	Sales	Guest Counts	Sales	Guest Counts
U.S.	**3.6 %**	**1.0 %**	1.7 %	(2.1 %)	0.5 %	(3.0 %)
International Lead Markets	**5.3**	**2.3**	3.4	1.5	3.4	1.0
High Growth Markets	**5.3**	**1.8**	2.8	(0.8)	1.8	(2.2)
Foundational Markets & Corporate	**9.0** *	**3.3**	10.0	1.9	0.7	(3.7)
Total	**5.3 %** *	**1.9 %**	3.8 %	(0.3 %)	1.5 %	(2.3 %)

* Beginning in 2017, the Company excluded sales from markets identified as hyper-inflationary (currently only Venezuela) from the comparable sales calculation as the Company believes this more accurately reflects the underlying business trends. There was no significant impact related to 2016 or 2015.

*Systemwide sales increases/(decreases)**

			Increase/(decrease) excluding currency translation	
	2017	2016	**2017**	2016
U.S.	**3 %**	2 %	**3 %**	2 %
International Lead Markets	**7**	1	**7**	5
High Growth Markets	**12**	3	**10**	6
Foundational Markets & Corporate	**11**	8	**14**	11
Total	**7 %**	3 %	**7 %**	5 %

* Unlike comparable sales, the Company has not excluded hyper-inflationary market results from Systemwide sales as these sales are the basis on which the Company calculates and records revenues. The difference between comparable sales growth rates and Systemwide sales growth rates are due to both restaurant expansion and the hyper-inflationary impact.

Franchised sales are not recorded as revenues by the Company, but are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):

Franchised sales

			Amount	Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	**2017**	2016	2015	**2017**	2016	**2017**	2016
U.S.	**$ 34,379**	$ 32,646	$ 31,639	**5 %**	3 %	**5 %**	3 %
International Lead Markets	**18,820**	17,049	16,313	**10**	5	**9**	8
High Growth Markets	**6,888**	4,858	4,525	**42**	7	**39**	10
Foundational Markets & Corporate	**18,104**	15,154	13,749	**19**	10	**24**	14
Total	**$ 78,191**	$ 69,707	$ 66,226	**12 %**	5 %	**13 %**	7 %
Ownership type							
Conventional franchised	**$ 59,151**	$ 56,035	$ 54,045	**6 %**	4 %	**5 %**	5 %
Developmental licensed	**12,546**	9,082	8,539	**38**	6	**44**	17
Foreign affiliated	**6,494**	4,590	3,642	**41**	26	**44**	15
Total	**$ 78,191**	$ 69,707	$ 66,226	**12 %**	5 %	**13 %**	7 %

FRANCHISED MARGINS

Franchised margin dollars represent revenues from franchised restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented about 80% of the combined restaurant margins in 2017 and about 75% of the combined restaurant margins in 2016 and 2015.

In 2017, franchised margin dollars increased $703 million or 9% (9% in constant currencies). In 2016, franchised margin dollars increased $331 million or 5% (6% in constant currencies). For both 2017 and 2016, the constant currency increases were due to positive comparable sales performance, refranchising and expansion.

Franchised margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	***2017***		*2016*		*2015*		***2017***	*2016*	***2017***	*2016*
U.S.	**$ 3,913**	**82.4 %**	$ 3,726	82.6 %	$ 3,606	82.7 %	**5 %**	3 %	**5 %**	3 %
International Lead Markets	**2,634**	**80.8**	2,363	80.2	2,254	80.0	**11**	5	**10**	8
High Growth Markets	**693**	**73.6**	550	70.2	520	71.1	**26**	6	**24**	8
Foundational Markets & Corporate	**1,072**	**92.9**	970	89.1	898	88.3	**10**	8	**12**	12
Total	**$ 8,312**	**82.3 %**	$ 7,609	81.6 %	$ 7,278	81.5 %	**9 %**	5 %	**9 %**	6 %

- ***U.S.:*** In 2017 and 2016, the decrease in the franchised margin percent was primarily due to higher depreciation costs related to EOTF and restaurant modernization, partly offset by positive comparable sales.

- ***International Lead Markets:*** In 2017 and 2016, the increases in the franchised margin percent reflected the benefit from positive comparable sales performance, partly offset by the impact of refranchising and higher occupancy costs.

- ***High Growth Markets:*** In 2017, the increase in the franchised margin percent was due to the impact of refranchising, largely related to the China and Hong Kong transaction, and strong comparable sales performance. In 2016, the decrease was primarily due to the impact of refranchising and higher occupancy costs, partly offset by the benefit of positive comparable sales performance.

The franchised margin percent in Foundational Markets & Corporate is higher relative to the other segments due to a larger proportion of developmental licensed and affiliated restaurants where the Company receives royalty income with no corresponding occupancy costs.

COMPANY-OPERATED MARGINS

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. In 2017, Company-operated margin dollars decreased $287 million or 11% (12% in constant currencies). In 2016, Company-operated margin dollars increased $85 million or 3% (7% in constant currencies).

Company-operated margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/ (decrease) excluding currency translation	
Dollars in millions	***2017***		*2016*		*2015*		***2017***	*2016*	***2017***	*2016*
U.S.	**$ 523**	**16.0 %**	$ 618	16.5 %	$ 632	15.1 %	**(15 %)**	(2 %)	**(15 %)**	(2 %)
International Lead Markets	**861**	**21.1**	886	20.7	961	20.0	**(3)**	(8)	**(3)**	(3)
High Growth Markets	**781**	**17.0**	796	14.8	659	12.1	**(2)**	21	**(4)**	26
	144	**18.3**	296	15.6	259	12.7	**(51)**	14	**(53)**	17

Foundational Markets & Corporate										
Total	**$ 2,309**	**18.2 %**	$ 2,596	17.0 %	$ 2,511	15.2 %	**(11 %)**	3 %	**(12 %)**	7 %

- ***U.S.:*** In 2017, the Company-operated margin percent decreased as strong comparable sales were offset by higher commodity and labor costs as well as additional depreciation costs related to EOTF. In 2016, the increase was due to a higher average check and lower commodity costs, partly offset by the impact of negative guest counts and higher labor costs.

- ***International Lead Markets:*** In 2017 and 2016, the increases in the Company-operated margin percent were primarily due to positive comparable sales, partly offset by higher labor and occupancy costs. 2017 was also negatively impacted by higher commodity costs.

- ***High Growth Markets:*** In 2017, the increase in the Company-operated margin percent was primarily due to strong comparable sales and the benefit of lower depreciation in China and Hong Kong. This increase was partly offset by negative comparable sales in South Korea and the impact of refranchising. In 2016, the increase was primarily due to positive comparable sales and improved restaurant profitability in China, which benefited from value-added tax ("VAT") reform, partly offset by higher labor costs across the segment.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses decreased 6% (7% in constant currencies) in 2017 and decreased 2% (1% in constant currencies) in 2016. The decrease in 2017 was due to lower employee-related costs, partly offset by higher restaurant technology spending. The decrease in 2016 was primarily due to lower employee-related costs, mostly offset by higher incentive-based compensation expenses.

Selling, general & administrative expenses

			Amount	Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	**2017**	2016	2015	**2017**	2016	**2017**	2016
U.S.	**$ 624**	$ 741	$ 766	**(16%)**	(3%)	**(16%)**	(3%)
International Lead Markets	**451**	464	534	**(3)**	(13)	**(4)**	(10)
High Growth Markets	**248**	294	326	**(16)**	(10)	**(17)**	(6)
Foundational Markets & Corporate(1)	**908**	885	808	**3**	10	**2**	10
Total (Selling, General & Administrative Expenses)	**$ 2,231**	$ 2,384	$ 2,434	**(6%)**	(2%)	**(7%)**	(1%)
Less: Incentive-Based Compensation(2)	**336**	418	317	**(20%)**	32%	**(20%)**	33%
Total (Excluding Incentive-Based Compensation)	**$ 1,895**	$ 1,966	$ 2,117	**(4%)**	(7%)	**(4%)** (3)	(6%) (4)

(1) Included in Foundational Markets & Corporate are home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training.

(2) Includes all cash incentives and share-based compensation expense.

(3) Excludes $9.4 million of foreign currency cost.

(4) Excludes $24.8 million of foreign currency benefit.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.5% in 2017, 2.8% in 2016 and 2.9% in 2015. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

In connection with our turnaround plan, the Company established a net selling, general and administrative savings target of $500 million from its G&A base of $2.6 billion at the beginning of 2015. The Company expects to fully realize its targeted $500 million of net savings in 2019.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	2017	2016	2015
Gains on sales of restaurant businesses	**$ (295)**	$ (283)	$ (146)
Equity in (earnings) losses of unconsolidated affiliates	**(184)**	(55)	147
Asset dispositions and other (income) expense, net	**19**	72	(27)
Impairment and other charges (gains), net	**(703)**	342	235
Total	**$ (1,163)**	$ 76	$ 209

- ***Gains on sales of restaurant businesses***

In 2017, gains on sales of restaurant businesses remained relatively flat. In 2016, the Company realized higher gains on sales of restaurant businesses, primarily in the U.S.

- ***Equity in (earnings) losses of unconsolidated affiliates***

Equity in earnings of unconsolidated affiliates improved in 2017 and 2016 mainly due to improved performance in Japan. 2017 results also benefited from the reversal of a valuation allowance on a deferred tax asset in Japan.

- ***Asset dispositions and other (income) expense, net***

In 2017, results benefited due to a property disposition gain in Australia. In 2015, results included a gain of $135 million on the strategic sale of a unique restaurant property in the U.S., mostly offset by asset write-offs of $72 million resulting from the decision to close under-performing restaurants, primarily in the U.S. and China.

- ***Impairment and other charges (gains), net***

In 2017, results reflected the gain on the Company's sale of its businesses in China and Hong Kong of approximately $850 million, partly offset by $111 million of unrelated non-cash impairment charges. The results for all three years included restructuring and impairment charges related to the Company's global refranchising and G&A initiatives.

OPERATING INCOME

Operating income

	Amount			Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	***2017***	*2016*	*2015*	***2017***	*2016*	***2017***	*2016*
U.S.	**$ 4,023**	$ 3,769	$ 3,612	**7 %**	4 %	**7 %**	4 %
International Lead Markets	**3,167**	2,838	2,713	**12**	5	**11**	9
High Growth Markets	**2,001**	1,049	841	**91**	25	**89**	29
Foundational Markets & Corporate	**362**	89	(20)	**n/m**	n/m	**n/m**	n/m
Total	**$ 9,553**	$ 7,745	$ 7,146	**23 %**	8 %	**23 %**	11 %

- ***U.S.:*** In 2017, the increase in operating income reflected higher franchised margin dollars and G&A savings, partly offset by lower Company-operated margin dollars. In 2016, the increase reflected higher franchised margin dollars and higher gains from sales of restaurant businesses, partly offset by the negative impact from lapping the 2015 gain on the strategic sale of a unique restaurant property.

- ***International Lead Markets:*** In 2017 and 2016, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars. In addition, 2017 benefited from a property disposition gain in Australia.

- ***High Growth Markets:*** In 2017, the constant currency operating income increase reflected higher franchise margin dollars due to sales-driven performance, the impact of refranchising and G&A savings. In addition, results benefited from lower depreciation expense in China and Hong Kong, and also includes the gain on the sale of the Company's businesses in China and Hong Kong as well as unrelated non-cash impairment charges. Excluding these items, operating income increased 17% (15% in constant currencies). In 2016, the increase was driven primarily by improved restaurant profitability in China.

- ***Foundational Markets and Corporate:*** In 2017, the constant currency operating income increase reflected the Company's refranchising initiatives, higher G&A costs at the Corporate level due to restaurant technology expenditures, and improved performance in Japan, which enabled the reversal of a valuation allowance on a deferred tax asset in Japan. Results also reflected the benefit from comparison to the prior year's strategic charges. In 2016, the increase reflected Japan's strong performance, partly offset by the net impact of the current and prior year impairment and restructuring charges from the Company's global refranchising and restructuring initiatives.

- ***Operating margin***

Operating margin was 41.9% in 2017, 31.5% in 2016 and 28.1% in 2015. Excluding the previously described current year gain and current and prior years strategic charges, operating margin was 38.8%, 32.8% and 28.8% for the years ended 2017, 2016 and 2015, respectively.

INTEREST EXPENSE

Interest expense increased 4% and 39% in 2017 and 2016, respectively, reflecting higher average debt balances, partly offset by lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2017***	*2016*	*2015*
Interest income	**$ (7)**	$ (4)	$ (9)
Foreign currency and hedging activity	**26**	(24)	(56)
Other expense	**39**	22	17
Total	**$ 58**	$ (6)	$ (48)

Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2017, 2016 and 2015, the reported effective income tax rates were 39.4%, 31.7% and 30.9%, respectively.

The increase in the tax rate for 2017 reflects provisional amounts related to the deemed repatriation charge of approximately $1.2 billion, partly offset by a benefit of approximately $500 million resulting from the revaluation of deferred tax assets and liabilities to the lower enacted U.S. corporate tax rate of 21% under the Tax Act. Excluding the impact of the Tax Act, the effective income tax rate would have been 31.6%.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $1.5 billion in 2017 and $2.0 billion in 2016. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included in Part II, Item 8, page 36 of this Form 10-K.

Cash Flows

The Company generates significant cash from its operations and has substantial credit availability and capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $5.6 billion and free cash flow was $3.7 billion in 2017, while cash provided by operations totaled $6.1 billion and free cash flow was $4.2 billion in 2016. The Company's free cash flow conversion rate was 71% in 2017, and 90% in 2016 (see reconciliation in Exhibit 12). In 2017, cash provided by operations decreased by $508 million or 8% compared with 2016, as improved operating results were more than offset by higher income tax payments in the U.S. and other working capital changes. In 2016, cash provided by operations decreased $480 million or 7% compared with 2015, primarily due to higher income tax payments primarily outside the U.S. and other working capital changes, partly offset by higher net income.

Cash provided by investing activities totaled $562 million in 2017, an increase of $1.5 billion compared with 2016. The increase is primarily due to proceeds associated with the sale of the Company's businesses in China and Hong Kong. Cash used for investing activities totaled $982 million in 2016, a decrease of $438 million compared with 2015. The decrease primarily reflected higher proceeds from sales of restaurant businesses.

Cash used for financing activities totaled $5.3 billion in 2017, a decrease of $6 billion compared with 2016, primarily due to lower treasury stock purchases, partly offset by a decrease in net borrowings. Cash used for financing activities totaled $11.3 billion in 2016, an increase of $12.0 billion compared with 2015, primarily due to a decrease in net borrowings and higher treasury stock purchases.

The Company's cash and equivalents balance was $2.5 billion and $1.2 billion at year end 2017 and 2016, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2017, the Company opened 929 restaurants and closed 587 restaurants. In 2016, the Company opened 896 restaurants and closed 522 restaurants. The Company closes restaurants for a variety of reasons, such as existing sales and profit performance or loss of real estate tenure.

Systemwide restaurants at year end

	2017	*2016*	*2015*
U.S.	**14,036**	14,155	14,259
International Lead Markets	**6,921**	6,851	6,802
High Growth Markets	**5,884**	5,552	5,266
Foundational Markets & Corporate	**10,400**	10,341	10,198
Total	**37,241**	36,899	36,525

More than 90% of the restaurants at year-end 2017 were franchised, including 94% in the U.S., 87% in International Lead Markets, 81% in High Growth Markets and 98% in Foundational Markets.

Capital expenditures were relatively flat in 2017 as reinvestment related to reimages, offset by fewer new restaurant openings.

Capital expenditures invested in the U.S., International Lead markets and High Growth markets represented over 90% of the total in 2017, 2016 and 2015.

Capital expenditures

In millions	***2017***	*2016*	*2015*
New restaurants	**$ 537**	$ 674	$ 892
Existing restaurants	**1,236**	1,108	842
Other(1)	**81**	39	80
Total capital expenditures	**$ 1,854**	$ 1,821	$ 1,814
Total assets	**$ 33,804**	$ 31,024	$ 37,939

(1) Primarily corporate equipment and other office-related expenditures

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, and leveraging best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs (consisting of land, buildings and equipment) for new traditional McDonald's restaurants in the U.S. averaged approximately $3.9 million in 2017.

The Company owned 45% to 50% of the land and 70% to 75% of the buildings for restaurants in its consolidated markets at year-end 2017 and 2016.

SHARE REPURCHASES AND DIVIDENDS

For 2017 through 2019, the Company expects to return about $24 billion to shareholders through a combination of share repurchases and dividends, subject to business and market conditions. In 2017, the Company returned approximately $7.7 billion to shareholders through a combination of shares repurchased and dividends paid.

Shares repurchased and dividends

In millions, except per share data	***2017***	*2016*	*2015*
Number of shares repurchased	**31.4**	92.3	61.8
Shares outstanding at year end	**794**	819	907
Dividends declared per share	**$ 3.83**	$ 3.61	$ 3.44
Treasury stock purchases *(in Shareholders' equity)*	**$ 4,651**	$ 11,142	$ 6,182
Dividends paid	**3,089**	3,058	3,230
Total returned to shareholders	**$ 7,740**	$ 14,200	$ 9,412

In December 2015, the Company's Board of Directors approved a $15 billion share repurchase program with no specified expiration date ("2016 Program"). In July 2017, the Company's Board of Directors terminated the 2016 Program and replaced it with a new share repurchase program, effective July 28, 2017, that authorizes the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date. In 2017, approximately 31.4

$4.04 per share annual dividend and reflects the Company’s confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

Financial Position and Capital Resources

TOTAL ASSETS AND RETURNS

Total assets increased $2.8 billion or 9% in 2017 primarily due to the impact of foreign exchange rates and an increase in cash and equivalents, partly offset by the impact of refranchising. Approximately 85% of total assets were in the U.S., International Lead markets and High Growth markets at year-end 2017. Net property and equipment increased $1.2 billion in 2017, primarily due to capital expenditures and the impact of foreign exchange rates, partly offset by depreciation and the impact of refranchising. Net property and equipment represented about 65% of total assets at year-end.

Operating income and month-end asset balances are used to compute return on average assets. For the years ended 2017, 2016 and 2015, return on average assets was 29.0%, 23.0% and 20.9%, respectively.

In 2017, return on average assets increased primarily due to higher operating income, which included the gain on the sale of the Company's businesses in China and Hong Kong. In 2016, return on average assets increased due to higher operating income and lower average assets. Operating income does not include interest income; however, cash balances are included in average assets. The inclusion of cash balances in average assets reduced return on average assets by about three percentage points for all years presented.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2017 totaled $29.5 billion, compared with $26.0 billion at December 31, 2016. The net increase in 2017 was primarily due to net long-term issuances of $3.1 billion.

Debt highlights[(1)]

	2017	*2016*	*2015*
Fixed-rate debt as a percent of total debt[(2,3)]	**89 %**	82 %	81 %
Weighted-average annual interest rate of total debt[(3)]	**3.3**	3.5	3.8
Foreign currency-denominated debt as a percent of total debt[(2)]	**42**	34	29
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)[(2)]	**112**	109	77
Cash provided by operations as a percent of total debt[(2)]	**19**	23	27

(1) *All percentages are as of December 31, except for the weighted-average annual interest rate, which is for the year.*

(2) *Based on debt obligations before the effects of fair value hedging adjustments and deferred debt costs. These effects are excluded as they have no impact on the obligation at maturity. See Debt financing note to the consolidated financial statements.*

(3) *Includes the effect of interest rate swaps.*

Standard & Poor’s and Moody’s currently rate, with a stable outlook, the Company’s commercial paper A-2 and P-2, respectively; and its long-term debt BBB+ and Baa1, respectively. To access the debt capital markets, the Company relies on credit-rating agencies to assign short-term and long-term credit ratings.

Certain of the Company’s debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company’s debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company’s business. Under existing authorization from the Company’s Board of Directors, at December 31, 2017, the Company had $15.0 billion of authority remaining to borrow funds, including through (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the U.S. Securities and Exchange Commission ("SEC") and a Global Medium-Term Notes program, the Company has $2.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). Debt maturing in 2018 is $1.8 billion of long-term corporate debt. The Company plans to issue long-term debt to refinance this maturing debt. As of December 31, 2017, the Company's subsidiaries

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt was $12.4 billion and $8.9 billion for the years ended December 31, 2017 and 2016, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2017, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

The Company's net asset exposure is diversified among a broad basket of currencies. The Company's largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:

Foreign currency net asset exposures

In millions of U.S. Dollars	***2017***	*2016*
British Pounds Sterling	**$ 1,877**	$ 1,340
Australian Dollars	**1,519**	1,393
Canadian Dollars	**733**	1,190
Japanese Yen	**589**	490
Russian Ruble	**563**	470

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2017 levels nor a 10% adverse change in foreign currency rates from 2017 levels would materially affect the Company's

of these historical earnings have been reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of our international operations.

The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $1.5 billion as of December 31, 2017.

Consistent with prior years, we expect existing domestic cash and equivalents, domestic cash flows from operations, annual repatriation of a portion of the current period's foreign earnings, and the issuance of domestic debt to continue to be sufficient to fund our domestic operating, investing, and financing activities. We also continue to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund our foreign operating, investing, and financing activities.

As a result of the Tax Act, the Company expects an incremental cash flow benefit of $400 to $500 million annually due to a reduction of the U.S. corporate tax rate from 35% to 21% partly offset by a $1.2 billion 2017 tax cost on deemed repatriation of foreign earnings that will be paid over the next 8 years.

In the future, should we require more capital to fund activities in the U.S. than is generated by our domestic operations and is available through the issuance of domestic debt, we could elect to repatriate a greater portion of future periods' earnings from foreign jurisdictions.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2017. See discussions of cash flows and financial position and capital resources as well as the Notes to the consolidated financial statements for further details.

	Contractual cash outflows		*Contractual cash inflows*
In millions	*Operating leases*	*Debt obligations (1)*	*Minimum rent under franchise arrangements*
2018	$1,152	$ 2,025	$ 2,893
2019	1,087	2,121	2,813
2020	997	2,432	2,707
2021	904	1,717	2,577
2022	805	2,311	2,441
Thereafter	6,912	19,057	20,330
Total	$11,857	$29,663	$ 33,761

(1) The maturities include reclassifications of short-term obligations to long-term obligations of $2.0 billion, as they are supported by a long-term line of credit agreement expiring in December 2019. Debt obligations do not include the impact of noncash fair value hedging adjustments, deferred debt costs, and accrued interest.

Tax Act, which imposed a deemed repatriation tax on the Company's undistributed foreign earnings. This tax liability will be paid over eight years beginning in 2018.

There are certain purchase commitments that are not recognized in the consolidated financial statements and are primarily related to construction, inventory, energy, marketing and other service related arrangements that occur in the normal course of business. Such commitments are generally shorter term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

Other Matters

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The Company reviews its financial reporting and disclosure practices and accounting policies quarterly to ensure that they provide accurate and transparent information relative to the current economic and business environment. The Company believes that of its significant accounting policies, the following involve a higher degree of judgment and/or complexity:

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

- ***Businesses Held for Sale***

Assets and liabilities of businesses held for sale on the consolidated balance sheet at December 31, 2016 primarily consisted of balances related to businesses in China and Hong Kong. In December 2016, the Company's Board of Directors approved an agreement for the Company to sell its existing businesses in China and Hong Kong to a licensee. Based on this approval, the Company concluded that these markets were "held for sale" as of December 31, 2016 in accordance with the requirements of ASC 360 "Property, Plant and Equipment". The Company completed the sale of these businesses on July 31, 2017.

- ***Share-based compensation***

and generally amortized over their vesting period. The Company estimates forfeitures when determining the amount of compensation costs to be recognized in each period.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company's stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant less the present value of expected dividends over the vesting period. For performance-based RSUs granted beginning in 2016, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

- ***Long-lived assets impairment review***

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company's long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges. Based on the annual goodwill impairment test, conducted in the fourth quarter, approximately 5-10% of goodwill may be at risk of future impairment as the fair values of certain reporting units were not substantially in excess of their carrying amounts.

- ***Litigation accruals***

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after careful analysis of each matter. The required accrual may change in the future due to new developments in each matter or changes in approach such as a change in settlement strategy in dealing with these matters. The Company does not believe that any such matter currently being reviewed will have a material adverse effect on its financial condition or results of operations.

- ***Income taxes***

charge to, or an increase in, income in the period such determination is made.

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The most significant new developments in 2017 and 2016 are described below.

In 2017 and 2016, the Company increased the balance of unrecognized tax benefits related to tax positions taken in prior years by $144 million and $150 million, respectively. These increases primarily resulted from the evaluation of new information during the progression of tax audits in multiple foreign tax jurisdictions. As a result of this new information, the Company changed its judgment on the measurement of the related unrecognized tax benefits and recorded an increase in the gross unrecognized tax benefits. See the Income Taxes footnote in the Consolidated Financial Statements for the related tax reconciliations.

In 2015, the Internal Revenue Service (“IRS”) issued a Revenue Agent Report (“RAR”) that included certain disagreed transfer pricing adjustments related to the Company’s U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS Appeals Office related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest, and, as of December 31, 2017, is awaiting scheduling of an opening conference with IRS Appeals. The Company expects resolution on these issues in either 2018 or 2019.

In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. Although at December 31, 2017 the IRS had not yet issued its RAR for these years, when issued it is expected to result in the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Consequently, it is expected that the transfer pricing matters for 2011 and 2012 will be addressed along with the 2009 and 2010 matters as part of the 2009-2010 appeal, such that resolution is expected in either 2018 or 2019.

In December 2015, the European Commission opened a formal investigation directly with the Luxembourg government to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. If this matter is adversely resolved, Luxembourg may be required to assess, and the Company may be required to pay, additional amounts with respect to current and prior periods and our taxes in the future could increase. As of December 31, 2017, no decision has been published with respect to this investigation.

While the Company cannot predict the ultimate resolution of the aforementioned tax matters, we believe that the liabilities recorded are appropriate and adequate as determined in accordance with Topic 740 - Income Taxes of the Accounting Standards Codification (“ASC”).

The Tax Cuts and Jobs Act of 2017 (“Tax Act”) was enacted on December 22, 2017. The Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, the Company has not completed the accounting for the tax effects of enactment of the Tax Act. However, as described below, the Company has made a reasonable estimate of the effects on the existing deferred tax balances and the one-time transition tax. For these items, a provisional net tax cost of approximately $700

Provisional amounts

Deferred tax assets and liabilities: The Company remeasured certain U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company is still analyzing certain aspects of the Tax Act and refining the calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. A provisional amount was recorded related to the remeasurement of the deferred tax balance, resulting in a provision for income taxes benefit of approximately $500 million.

Foreign tax effects: The one-time transition tax is based on the total post-1986 earnings and profits ("E&P") that the Company had previously deferred from U.S. income taxes. A provisional amount was recorded for the one-time transition tax liability, resulting in a provision for income taxes cost of approximately $1.2 billion. The Company has not yet completed the calculation of the total post-1986 foreign E&P. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the calculation of post-1986 foreign E&P and the amounts held in cash or other specified assets are finalized. Additionally, the provisional amount includes an estimate of foreign withholding taxes related to the E&P subject to the transition tax. A provisional deferred tax liability has been recorded for temporary differences related to investments in certain foreign subsidiaries and corporate joint ventures. However, the Company is still evaluating how the Tax Act will affect the Company’s accounting position related to the indefinite reinvestment of unremitted foreign earnings. During the measurement period, the Company may reflect adjustments to this provisional amount upon obtaining, preparing, and analyzing the necessary information to complete the accounting under ASC 740.

EFFECTS OF CHANGING PRICES—INFLATION

The Company has demonstrated an ability to manage inflationary cost increases effectively. This ability is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

RISK FACTORS AND CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2018. Refer to the cautionary statement regarding forward-looking statements in Part 1, Item 1A, page 3, of this Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 26 of the Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	*Years ended December 31,* ***2017***	*2016*	*2015*
REVENUES			
Sales by Company-operated restaurants	**$ 12,718.9**	$ 15,295.0	$ 16,488.3
Revenues from franchised restaurants	**10,101.5**	9,326.9	8,924.7
Total revenues	**22,820.4**	24,621.9	25,413.0
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**4,033.5**	4,896.9	5,552.2
Payroll & employee benefits	**3,528.5**	4,134.2	4,400.0
Occupancy & other operating expenses	**2,847.6**	3,667.7	4,024.7
Franchised restaurants-occupancy expenses	**1,790.0**	1,718.4	1,646.9
Selling, general & administrative expenses	**2,231.3**	2,384.5	2,434.3
Other operating (income) expense, net	**(1,163.2)**	75.7	209.4
Total operating costs and expenses	**13,267.7**	16,877.4	18,267.5
Operating income	**9,552.7**	7,744.5	7,145.5
Interest expense-net of capitalized interest of $5.3, $7.1 and $9.4	**921.3**	884.8	638.3
Nonoperating (income) expense, net	**57.9**	(6.3)	(48.5)
Income before provision for income taxes	**8,573.5**	6,866.0	6,555.7
Provision for income taxes	**3,381.2**	2,179.5	2,026.4
Net income	**$ 5,192.3**	$ 4,686.5	$ 4,529.3
Earnings per common share–basic	**$ 6.43**	$ 5.49	$ 4.82
Earnings per common share–diluted	**$ 6.37**	$ 5.44	$ 4.80
Dividends declared per common share	**$ 3.83**	$ 3.61	$ 3.44
Weighted-average shares outstanding–basic	**807.4**	854.4	939.4
Weighted-average shares outstanding–diluted	**815.5**	861.2	944.6

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions Years ended December 31,	**2017**	2016	2015
Net income	**$ 5,192.3**	$ 4,686.5	$ 4,529.3
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**827.7**	(272.8)	(1,347.4)
Reclassification of (gain) loss to net income	**109.3**	94.0	1.3
Foreign currency translation adjustments-net of tax benefit (expense) of $453.1, $(264.4), and $(209.8)	**937.0**	(178.8)	(1,346.1)
Cash flow hedges:			
Gain (loss) recognized in AOCI	**(48.4)**	18.5	22.2
Reclassification of (gain) loss to net income	**9.0**	(15.6)	(33.2)
Cash flow hedges-net of tax benefit (expense) of $22.4, $(1.6), and $6.2	**(39.4)**	2.9	(11.0)
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**16.3**	(47.1)	(5.4)
Reclassification of (gain) loss to net income	**0.6**	9.9	2.4
Defined benefit pension plans-net of tax benefit (expense) of $(3.9), $(10.0), and $1.3	**16.9**	(37.2)	(3.0)
Total other comprehensive income (loss), net of tax	**914.5**	(213.1)	(1,360.1)
Comprehensive income	**$ 6,106.8**	$ 4,473.4	$ 3,169.2

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	December 31, **2017**	2016
ASSETS		
Current assets		
Cash and equivalents	**$ 2,463.8**	$ 1,223.4
Accounts and notes receivable	**1,976.2**	1,474.1
Inventories, at cost, not in excess of market	**58.8**	58.9
Prepaid expenses and other current assets	**828.4**	565.2
Assets of businesses held for sale	**—**	1,527.0
Total current assets	**5,327.2**	4,848.6
Other assets		
Investments in and advances to affiliates	**1,085.7**	725.9
Goodwill	**2,379.7**	2,336.5
Miscellaneous	**2,562.8**	1,855.3
Total other assets	**6,028.2**	4,917.7
Property and equipment		
Property and equipment, at cost	**36,626.4**	34,443.4
Accumulated depreciation and amortization	**(14,178.1)**	(13,185.8)
Net property and equipment	**22,448.3**	21,257.6
Total assets	**$ 33,803.7**	$ 31,023.9
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 924.8**	$ 756.0
Income taxes	**265.8**	267.2
Other taxes	**275.4**	266.3
Accrued interest	**278.4**	247.5
Accrued payroll and other liabilities	**1,146.2**	1,159.3
Current maturities of long-term debt	**—**	77.2
Liabilities of businesses held for sale	**—**	694.8
Total current liabilities	**2,890.6**	3,468.3
Long-term debt	**29,536.4**	25,878.5
Long-term income taxes	**2,370.9**	1,010.6
Other long-term liabilities	**1,154.4**	1,053.7
Deferred income taxes	**1,119.4**	1,817.1
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**7,072.4**	6,757.9
Retained earnings	**48,325.8**	46,222.7
Accumulated other comprehensive income	**(2,178.4)**	(3,092.9)
Common stock in treasury, at cost; 866.5 and 841.3 million shares	**(56,504.4)**	(52,108.6)
Total shareholders' equity (deficit)	**(3,268.0)**	(2,204.3)
Total liabilities and shareholders' equity (deficit)	**$ 33,803.7**	$ 31,023.9

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions Years ended December 31,	**2017**	2016	2015
Operating activities			
Net income	**$5,192.3**	$4,686.5	$4,529.3
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,363.4**	1,516.5	1,555.7
Deferred income taxes	**(36.4)**	(538.6)	(1.4)
Share-based compensation	**117.5**	131.3	110.0
Net gain on sale of restaurant businesses	**(1,155.8)**	(310.7)	(163.9)
Other	**1,050.7**	407.6	341.5
Changes in working capital items:			
Accounts receivable	**(340.7)**	(159.0)	(180.6)
Inventories, prepaid expenses and other current assets	**(37.3)**	28.1	44.9
Accounts payable	**(59.7)**	89.8	(15.0)
Income taxes	**(396.4)**	169.7	(64.4)
Other accrued liabilities	**(146.4)**	38.4	383.0
Cash provided by operations	**5,551.2**	6,059.6	6,539.1
Investing activities			
Capital expenditures	**(1,853.7)**	(1,821.1)	(1,813.9)
Purchases of restaurant businesses	**(77.0)**	(109.5)	(140.6)
Sales of restaurant businesses	**974.8**	975.6	341.1
Proceeds from sale of businesses in China and Hong Kong	**1,597.0**	—	—
Sales of property	**166.8**	82.9	213.1
Other	**(245.9)**	(109.5)	(19.7)
Cash provided by (used for) investing activities	**562.0**	(981.6)	(1,420.0)
Financing activities			
Net short-term borrowings	**(1,050.3)**	(286.2)	589.7
Long-term financing issuances	**4,727.5**	3,779.5	10,220.0
Long-term financing repayments	**(1,649.4)**	(822.9)	(1,054.5)
Treasury stock purchases	**(4,685.7)**	(11,171.0)	(6,099.2)
Common stock dividends	**(3,089.2)**	(3,058.2)	(3,230.3)
Proceeds from stock option exercises	**456.8**	299.4	317.2
Excess tax benefit on share-based compensation	**—**	—	51.1
Other	**(20.5)**	(3.0)	(58.7)
Cash provided by (used for) financing activities	**(5,310.8)**	(11,262.4)	735.3
Effect of exchange rates on cash and equivalents	**264.0**	(103.7)	(246.8)
Cash and equivalents increase (decrease)	**1,066.4**	(6,288.1)	5,607.6
Change in cash balances of businesses held for sale	**174.0**	(174.0)	—
Cash and equivalents at beginning of year	**1,223.4**	7,685.5	2,077.9
Cash and equivalents at end of year	**$2,463.8**	$1,223.4	$7,685.5
Supplemental cash flow disclosures			
Interest paid	**$ 885.2**	$ 873.5	$ 640.8
Income taxes paid	**2,786.3**	2,387.5	1,985.4

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

In millions, except per share data	*Common stock issued*		*Additional paid-in capital*	*Retained earnings*	*Accumulated other comprehensive income (loss)*			*Common stock in treasury*		*Total shareholders' equity*
	Shares	*Amount*			*Pensions*	*Cash flow hedges*	*Foreign currency translation*	*Shares*	*Amount*	
Balance at December 31, 2014	1,660.6	$16.6	$ 6,239.1	$ 43,294.5	$ (166.9)	$ 31.0	$ (1,383.8)	(697.7)	$ (35,177.1)	$ 12,853.4
Net income				4,529.3						4,529.3
Other comprehensive income (loss), net of tax					(3.0)	(11.0)	(1,346.1)			(1,360.1)
Comprehensive income										3,169.2
Common stock cash dividends ($3.44 per share)				(3,230.3)						(3,230.3)
Treasury stock purchases								(61.8)	(6,182.2)	(6,182.2)
Share-based compensation			110.0							110.0
Stock option exercises and other (including tax benefits of $44.8)			184.3	1.0				5.7	182.5	367.8
Balance at December 31, 2015	1,660.6	16.6	6,533.4	44,594.5	(169.9)	20.0	(2,729.9)	(753.8)	(41,176.8)	7,087.9
Net income				4,686.5						4,686.5
Other comprehensive income (loss), net of tax					(37.2)	2.9	(178.8)			(213.1)
Comprehensive income										4,473.4
Common stock cash dividends ($3.61 per share)				(3,058.2)						(3,058.2)
Treasury stock purchases								(92.3)	(11,141.5)	(11,141.5)
Share-based compensation			131.3							131.3
Stock option exercises and other (including tax benefits of $0.6)			93.2	(0.1)				4.8	209.7	302.8
Balance at December 31, 2016	1,660.6	16.6	6,757.9	46,222.7	(207.1)	22.9	(2,908.7)	(841.3)	(52,108.6)	(2,204.3)
Net income				**5,192.3**						**5,192.3**
Other comprehensive income (loss), net of tax					**16.9**	**(39.4)**	**937.0**			**914.5**
Comprehensive income										**6,106.8**
				(3,089.2)						**(3,089.2)**

Common stock cash dividends ($3.83 per share)										
Treasury stock purchases								**(31.4)**	**(4,650.5)**	**(4,650.5)**
Share-based compensation			**117.5**							**117.5**
Stock option exercises and other (including tax benefits of $0.0)			**197.0**	**—**				**6.2**	**254.7**	**451.7**
Balance at December 31, 2017	**1,660.6**	**$16.6**	**$ 7,072.4**	**$ 48,325.8**	**$ (190.2)**	**$ (16.5)**	**$ (1,971.7)**	**(866.5)**	**$ (56,504.4)**	**$ (3,268.0)**

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

NATURE OF BUSINESS

The Company franchises and operates McDonald's restaurants in the global restaurant industry. All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchise arrangements, and developmental licensees and foreign affiliates under license agreements.

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2017***	*2016*	*2015*
Conventional franchised	**21,366**	21,559	21,147
Developmental licensed	**6,945**	6,300	5,529
Foreign affiliated	**5,797**	3,371	3,405
Franchised	**34,108**	31,230	30,081
Company-operated	**3,133**	5,669	6,444
Systemwide restaurants	**37,241**	36,899	36,525

The results of operations of restaurant businesses purchased and sold in transactions with franchisees were not material either individually or in the aggregate to the consolidated financial statements for periods prior to purchase and sale.

CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less (primarily McDonald's Japan and China) are accounted for by the equity method.

On an ongoing basis, the Company evaluates its business relationships such as those with franchisees, joint venture partners, developmental licensees, suppliers, and advertising cooperatives to identify potential variable interest entities. Generally, these businesses qualify for a scope exception under the variable interest entity consolidation guidance. The Company has concluded that consolidation of any such entity is not appropriate for the periods presented.

ESTIMATES IN FINANCIAL STATEMENTS

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

RECENTLY ISSUED ACCOUNTING STANDARDS

Measurement Period - Tax Cuts and Jobs Act of 2017

On December 22, 2017, the Securities and Exchange Commission's Office of the Chief Accountant published Staff Accounting Bulletin No. 118 (SAB 118), which provides guidance on reporting for accounting impacts of the recently enacted tax reform legislation. SAB 118 permits the Company to provide reasonable estimates for the income tax effects of the Tax Cuts and Jobs Act of 2017 ("Tax Act") and to report the effects as provisional amounts in its financial statements during a limited measurement period. Under SAB 118, the measurement period may not extend beyond one year from the enactment of the Tax Act.

recognition and presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. The Company anticipates it will early adopt ASU 2017-12 in 2018 utilizing the modified retrospective transition method. The Company anticipates the adoption of this standard will not have a material impact on its financial statements.

Intangibles

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, an impairment charge will be recorded based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company has not made a determination on if it will early adopt ASU 2017-04, but it does not expect an impact to the consolidated financial statements from the adoption.

Income Taxes

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The goal of this update is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual reporting periods. ASU 2016-16 will impact the Company's consolidated balance sheet, resulting in a cumulative catch up adjustment within miscellaneous other assets. The adjustment is expected to be less than 1% of retained earnings as of December 31, 2017. The Company expects little to no impact on the consolidated statements of income and cash flows.

Lease Accounting

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)," to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company will adopt the new standard effective January 1, 2019.

At transition, the Company will recognize and measure leases using the required modified retrospective approach. The Company anticipates ASU 2016-02 will have a material impact to the consolidated balance sheet due to the significance of the Company's operating lease portfolio as described in Leasing Arrangements. The Company will elect an optional practical expedient to retain the current classification of leases, and, therefore, anticipates a minimal initial impact on the consolidated statement of income. The impact of ASU 2016-02 is non-cash in nature; as such, it will not affect the Company's cash flows.

REVENUE RECOGNITION

The Company's revenues consist of sales by Company-operated restaurants and fees from franchised

with minimum rent payments, and initial fees. Revenues from restaurants licensed to foreign affiliates and developmental licensees include a royalty based on a percent of sales, and may include initial fees. Continuing rent and royalties are recognized in the period earned. For the periods presented, initial fees are recognized upon opening of a restaurant or granting of a new franchise term.

In May 2014, the FASB issued guidance codified in Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former ASC 605, "Revenue Recognition." The core principle of the standard is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The standard also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company will adopt the standard effective January 1, 2018.

The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption ("modified retrospective method"). The Company has selected to apply the modified retrospective method.

The Company has determined that this standard will not impact its recognition of revenue from Company-operated restaurants or its recognition of royalties from restaurants operated by franchisees or licensed to affiliates and developmental licensees, which are based on a percent of sales. The standard will change the manner in which the Company recognizes initial fees from franchisees for new restaurant openings or from new franchise terms.

The Company's accounting policy through December 31, 2017 was to recognize initial franchise fees when a new restaurant opens or at the start of a new franchise term. In accordance with the new guidance, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore be treated as a single performance obligation. As such, beginning in January 2018, initial fees received will be recognized over the franchise term, which is generally 20 years.

The cumulative catch-up adjustment to be recorded upon adoption is expected to consist of deferred revenue of approximately $600 million within long-term liabilities and approximately $150 million of additional deferred tax assets within miscellaneous other assets on the consolidated balance sheet. The Company expects the adoption of this standard to negatively impact 2018 consolidated franchised revenues and franchised margins by approximately $50 million. No impact to the Company's consolidated statement of cash flows is expected as the initial fees will continue to be collected upon store opening date or the beginning of a new franchise term.

FOREIGN CURRENCY TRANSLATION

Generally, the functional currency of operations outside the U.S. is the respective local currency.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2017–$532.9; 2016–$645.8; 2015–$718.7. Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses included in Selling, to advertising cooperatives in individual markets. The costs incurred by these advertising cooperatives are approved and managed jointly by vote of both Company-operated restaurants and franchisees.

SHARE-BASED COMPENSATION

Share-based compensation includes the portion vesting of all share-based awards granted based on the grant date fair value.

Share-based compensation expense and the effect on diluted earnings per common share were as follows:

In millions, except per share data	***2017***	*2016*	*2015*
Share-based compensation expense	**$ 117.5**	$ 131.3	$ 110.0
After tax	**$ 82.0**	$ 89.6	$ 76.0
Earnings per common share-diluted	**$ 0.10**	$ 0.11	$ 0.08

Compensation expense related to share-based awards is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses. As of December 31, 2017, there was $106.0 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.0 years.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The following table presents the weighted-average assumptions used in the option pricing model for the 2017, 2016 and 2015 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2017	*2016*	*2015*
Expected dividend yield	**3.1 %**	3.0 %	3.6 %
Expected stock price volatility	**18.4 %**	19.2 %	18.8 %
Risk-free interest rate	**2.2 %**	1.2 %	1.7 %
Expected life of options *(in years)*	**5.9**	5.9	6.0
Fair value per option granted	**$ 16.10**	$ 13.65	$ 10.43

The fair value of RSUs is based on the closing price of the Company's common stock on the grant date, less the present value of expected dividends over the vesting period. For performance-based RSUs granted beginning in 2016, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

PROPERTY AND EQUIPMENT

Property and equipment are stated at cost, with depreciation and amortization provided using the straight-line method over the following estimated useful lives: buildings–up to 40 years; leasehold improvements–the lesser of useful lives of assets or lease terms, which generally include certain option periods; and equipment–3 to 12 years.

LONG-LIVED ASSETS

Long-lived assets are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of annually reviewing McDonald's restaurant assets for potential impairment, assets are initially grouped together in the U.S. at a television market level, and internationally, at a country level. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, an individual restaurant's cash flows are not generally independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value as determined by an estimate of discounted future cash flows.

Losses on assets held for disposal are recognized when management and the Board of Directors, as required, have approved and committed to a plan to dispose of the assets, the assets are available for disposal and the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than its net book value, among other factors. Generally, such losses related to restaurants that have closed and ceased operations as well as other assets that meet the criteria to be considered "available for sale."

GOODWILL

Goodwill represents the excess of cost over the net tangible assets and identifiable intangible assets of acquired restaurant businesses. The Company's goodwill primarily results from purchases of McDonald's restaurants from franchisees and ownership increases in subsidiaries or affiliates, and it is generally assigned to the reporting unit (defined as each individual country) expected to benefit from the synergies of the combination. If a Company-operated restaurant is sold within 24 months of acquisition, the goodwill associated with the acquisition is written off in its entirety. If a restaurant is sold beyond 24 months from the acquisition, the amount of goodwill written off is based on the relative fair value of the business sold compared to the reporting unit.

The following table presents the 2017 activity in goodwill by segment:

In millions	*U.S.*	*International Lead Markets*	*High Growth Markets*	*Foundational Markets & Corporate*	*Consolidated*
Balance at December 31, 2016	$ 1,283.3	$681.2	$ 280.1	$91.9	$2,336.5
Net restaurant purchases (sales)	(9.3)	2.5	0.7	(58.2)	(64.3)
Currency translation		66.8	35.9	4.8	107.5
Balance at December 31, 2017	**$ 1,274.0**	**$750.5**	**$ 316.7**	**$38.5**	**$2,379.7**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever an indicator of impairment exists. If an indicator of impairment exists (e.g., estimated earnings multiple value of a reporting unit is less than its carrying value), the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Accumulated impairment losses on the consolidated balance sheet at December 31, 2017 and 2016 were $14.5 million and $96.6 million, respectively.

FAIR VALUE MEASUREMENTS

The Company measures certain financial assets and liabilities at fair value on a recurring basis, and certain non-financial assets and liabilities on a nonrecurring basis. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants on the measurement date. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs.

The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability on the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for an identical asset or liability in an active market.
- Level 2 – inputs to the valuation methodology include quoted prices for a similar asset or liability in an active market or model-derived valuations in which all significant inputs are observable for substantially the full term of the asset or liability.
- Level 3 – inputs to the valuation methodology are unobservable and significant to the fair value measurement of the asset or liability.

Certain of the Company's derivatives are valued using various pricing models or discounted cash flow analyses that incorporate observable market parameters, such as interest rate yield curves, option volatilities and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by the counterparty or the Company.

- ***Certain Financial Assets and Liabilities Measured at Fair Value***

The following tables present financial assets and liabilities measured at fair value on a recurring basis by the valuation hierarchy as defined in the fair value guidance:

December 31, 2017

In millions	*Level 1**	*Level 2*	*Carrying Value*
Derivative assets	$ 167.3	$ 0.6	$ 167.9
Derivative liabilities		$ (45.4)	$ (45.4)

December 31, 2016

In millions	*Level 1**	*Level 2*	*Carrying Value*
Derivative assets	$ 134.3	$ 47.0	$ 181.3
Derivative liabilities		$ (5.6)	$ (5.6)

* *Level 1 is comprised of derivatives that hedge market driven changes in liabilities associated with the Company's supplemental benefit plans.*

- ***Non-Financial Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis***

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2017, the Company recorded fair value adjustments to its long-lived assets, primarily to property and equipment, based on Level 3 inputs which includes the use of a discounted cash flow valuation approach.

- ***Certain Financial Assets and Liabilities not Measured at Fair Value***

At December 31, 2017, the fair value of the Company's debt obligations was estimated at $31.8 billion, compared to a carrying amount of $29.5 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company is exposed to global market risks, including the effect of changes in interest rates and foreign currency fluctuations. The Company uses foreign currency denominated debt and derivative instruments to mitigate the impact of these changes. The Company does not hold or issue derivatives for trading purposes.

The Company documents its risk management objective and strategy for undertaking hedging transactions, as well as all relationships between hedging instruments and hedged items. The Company's derivatives that are designated for hedge accounting consist mainly of interest rate swaps, foreign currency forwards, and cross-currency swaps, and are classified as either fair value, cash flow or net investment hedges. Further details are explained in the "Fair Value," "Cash Flow" and "Net Investment" hedge sections.

The Company also enters into certain derivatives that are not designated for hedge accounting. The Company has entered into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. Further details are explained in the "Undesignated Derivatives" section.

All derivatives (including those not designated for hedge accounting) are recognized on the consolidated balance sheet at fair value and classified based on the instruments' maturity dates. Changes in the fair value measurements of the derivative instruments are reflected as adjustments to accumulated other comprehensive income ("AOCI") and/or current earnings.

The following table presents the fair values of derivative instruments included on the consolidated balance sheet as of December 31, 2017 and 2016:

	Derivative Assets			Derivative Liabilities		
In millions	*Balance Sheet Classification*	***2017***	*2016*	*Balance Sheet Classification*	***2017***	*2016*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	**$ 0.5**	$ 31.7	Accrued payroll and other liabilities	**$ (31.0)**	$ (2.0)
Interest rate	Prepaid expenses and other current assets	**—**	1.0	Prepaid expenses and other current liabilities	**(0.3)**	—
Foreign currency	Miscellaneous other assets	**0.1**	2.5	Other long-term liabilities	**(1.4)**	(0.1)
Interest rate	Miscellaneous other assets	**—**	1.7	Other long-term liabilities	**(5.9)**	(1.6)
Total derivatives designated as hedging instruments		**$ 0.6**	$ 36.9		**$ (38.6)**	$ (3.7)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$ —**	$ 134.3	Accrued payroll and other liabilities	**$ (6.8)**	$ (1.9)
Foreign currency	Prepaid expenses and other current assets	**—**	10.1			
Equity	Miscellaneous other assets	**167.3**	—			
Total derivatives not designated as hedging instruments		**$ 167.3**	$ 144.4		**$ (6.8)**	$ (1.9)
Total derivatives		**$ 167.9**	$ 181.3		**$ (45.4)**	$ (5.6)

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in the fair values of certain liabilities. The Company's fair value hedges convert a portion of its fixed-rate debt into floating-rate debt by use of interest rate swaps. At December 31, 2017, $1.8 billion of the Company's outstanding fixed-rate debt was effectively converted. All of the Company's interest rate swaps meet the shortcut method requirements. Accordingly, changes in the fair value of the interest rate swaps are exactly offset by changes in the fair value of the underlying debt. No ineffectiveness has been recorded to net income related to interest rate swaps designated as fair value hedges for the year ended December 31, 2017.

Derivatives in Hedging Relationships	*Gain (Loss) Recognized In Earnings on Hedging Derivative*		*Gain (Loss) Recognized In Earnings on Hedged Items*	
In millions	***2017***	*2016*	***2017***	*2016*
Interest rate	**$ (6.2)**	$ (1.8)	**$ 6.2**	$ 1.8

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. The types of cash flow hedges the Company enters into include interest rate swaps, foreign currency forwards, and cross currency swaps. The effective portion of the change in fair value of the derivatives are reported as a component of AOCI and reclassified into earnings in the same period in which the hedged transaction affects earnings. Ineffectiveness of hedges is recognized immediately in earnings.

Derivatives in Hedging Relationships	*Gain (Loss) Recognized in AOCI (Effective Portion)*	*Gain (Loss) Reclassified From AOCI Into Earnings (Effective Portion)*	*Gain (Loss) Recognized in Earnings (Amount Excluded from Effectiveness Testing and Ineffective Portion)*

In millions	2017	2016	2017	2016	2017	2016
Foreign currency	**$ (76.0)**	$ 28.6	**$ (13.7)**	$ 24.6		
Interest rate[1]	**—**	—	**(0.5)**	(0.5)		
	$ (76.0)	$ 28.6	**$ (14.2)**	$ 24.1	**$ —**	$ —

[1] The amount of gain (loss) reclassified from AOCI into earnings is recorded in interest expense.

The Company periodically uses interest rate swaps to effectively convert a portion of floating-rate debt, including forecasted debt issuances, into fixed-rate debt. The agreements are intended to reduce the impact of interest rate changes on future interest expense.

To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. When the U.S. dollar strengthens against foreign currencies, the decline in value of future foreign denominated royalties is offset by gains in the fair value of the foreign currency forwards. Conversely, when the U.S. dollar weakens, the increase in the value of future foreign denominated royalties is offset by losses in the fair value of the foreign currency forwards. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2017, the Company had derivatives outstanding with an equivalent notional amount of $761.7 million that were used to hedge a portion of forecasted foreign currency denominated royalties.

The Company recorded after tax adjustments to the cash flow hedging component of AOCI in shareholders' equity. The Company recorded a decrease of $39.4 million for the year ended December 31, 2017 and an increase of $2.9 million for the year ended December 31, 2016. Based on interest rates and foreign exchange rates at December 31, 2017, there is $16.5 million in after-tax cumulative cash flow hedging losses, which is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in the foreign currency translation component of AOCI, as well as the offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates. The cumulative translation gains or losses will remain in AOCI until the foreign subsidiaries and affiliates are liquidated or sold. As of December 31, 2017, $11.9 billion of third party foreign currency denominated debt and $3.6 billion of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Derivatives in Hedging Relationships	*Gain (Loss) Recognized in AOCI (Effective Portion)*	
In millions	***2017***	*2016*
Foreign currency denominated debt	**$ (1,599.7)**	$ 654.9
Foreign currency derivatives	**(8.9)**	9.9
	$ (1,608.6)	$ 664.8

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives along with the currency gain or loss from the hedged balance sheet position.

Derivatives Not Designated for Hedge Accounting	*Gain (Loss) Recognized in Earnings*	
In millions	***2017***	*2016*
Foreign currency	**$ (24.2)**	$ 4.3
Equity	**92.7**	26.0
	$ 68.5	$ 30.3

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by the counterparties to its hedging instruments. The counterparties to these agreements consist of a diverse group of financial institutions and market participants. The Company continually monitors its positions and the credit ratings of its counterparties and adjusts positions as appropriate. The Company did not have significant exposure to any individual counterparty at December 31, 2017, and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, even for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2017, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

INCOME TAXES

Income Tax Uncertainties

The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled.

The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

Accounting for Global Intangible Low-Taxed Income ("GILTI")

The Tax Act requires a U.S. shareholder of a foreign corporation to include GILTI in taxable income. The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2017–8.1; 2016–6.8; 2015–5.2. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2017–0.1; 2016–1.2; 2015–1.0.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

SUBSEQUENT EVENTS

The Company evaluated subsequent events through the date the
financial statements were issued and filed with the U.S. Securities
and Exchange Commission ("SEC"). There were no subsequent
events that required recognition or disclosure.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, ***2017***	*2016*
Land	**$ 5,662.2**	$ 5,465.0
Buildings and improvements on owned land	**14,776.9**	13,695.2
Buildings and improvements on leased land	**12,509.2**	11,511.9
Equipment, signs and seating	**3,165.7**	3,270.9
Other	**512.4**	500.4
Property and equipment, at cost	**36,626.4**	34,443.4
Accumulated depreciation and amortization	**(14,178.1)**	(13,185.8)
Net property and equipment	**$ 22,448.3**	$ 21,257.6

Depreciation and amortization expense for property and equipment was (in millions): 2017–$1,227.5; 2016–$1,390.7; 2015–$1,438.0.

Other Operating (Income) Expense, Net

In millions	***2017***	*2016*	*2015*
Gains on sales of restaurant businesses	**$ (295.4)**	$ (283.4)	$ (145.9)
Equity in (earnings) losses of unconsolidated affiliates	**(183.7)**	(54.8)	146.8
Asset dispositions and other (income) expense, net	**18.7**	72.3	(26.6)
Impairment and other charges (gains), net	**(702.8)**	341.6	235.1
Total	**$ (1,163.2)**	$ 75.7	$ 209.4

- ***Gains on sales of restaurant businesses***

The Company’s purchases and sales of businesses with its franchisees are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of our business.

- ***Equity in (earnings) losses of unconsolidated affiliates***

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates but does not control. The Company records equity in (earnings) losses from these entities representing McDonald’s share of results. For foreign affiliated markets—primarily Japan and China—results are reported after interest expense and income taxes.

- ***Asset dispositions and other (income) expense, net***

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings and uncollectible receivables, asset write-offs due to restaurant reinvestment, and other miscellaneous income and expenses.

- ***Impairment and other charges (gains), net***

Impairment and other charges (gains), net includes the losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value. Charges associated with strategic initiatives, such as refranchising and restructuring activities are also included. In addition, as the Company continues to make progress towards its long-term global refranchising goals, the realized gains/losses from the sale of McDonald's businesses in certain markets are reflected in this category. In July 2017, the Company completed the sale of its businesses in China and Hong Kong, resulting in a gain of approximately $850 million.

Contingencies

In the ordinary course of business, the Company is subject to proceedings, lawsuits and other claims primarily related to competitors, customers, employees, franchisees, government agencies, intellectual property, shareholders and suppliers. The Company is required to

Franchise Arrangements

Conventional franchise arrangements generally include a lease and a license and provide for payment of initial fees, as well as continuing rent and royalties to the Company based upon a percent of sales with minimum rent payments that parallel the Company's underlying leases and escalations (on properties that are leased). Under this arrangement, franchisees are granted the right to operate a restaurant using the McDonald's System and, in most cases, the use of a restaurant facility, generally for a period of 20 years. These franchisees pay related occupancy costs including property taxes, insurance and maintenance. Developmental licensees and affiliates operating under license agreements pay a royalty to the Company based upon a percent of sales, and may pay initial fees.

Revenues from franchised restaurants consisted of:

In millions	***2017***	*2016*	*2015*
Rents	**$ 6,496.3**	$ 6,107.6	$ 5,860.6
Royalties	**3,518.7**	3,129.9	2,980.7
Initial fees	**86.5**	89.4	83.4
Revenues from franchised restaurants	**$ 10,101.5**	$ 9,326.9	$ 8,924.7

Future gross minimum rent payments due to the Company under existing franchise arrangements are:

In millions	*Owned sites*	*Leased sites*	*Total*
2018	$ 1,420.1	$ 1,473.4	$ 2,893.5
2019	1,389.9	1,423.3	2,813.2
2020	1,353.8	1,352.8	2,706.6
2021	1,306.1	1,271.3	2,577.4
2022	1,253.9	1,187.0	2,440.9
Thereafter	10,841.3	9,488.4	20,329.7
Total minimum payments	$ 17,565.1	$ 16,196.2	$ 33,761.3

At December 31, 2017, net property and equipment under franchise arrangements totaled $16.5 billion (including land of $4.8 billion) after deducting accumulated depreciation and amortization of $9.8 billion.

Leasing Arrangements

At December 31, 2017, the Company was the lessee at 12,262 restaurant locations through ground leases (the Company leases the land and the Company generally owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalation terms vary by market with examples including fixed-rent escalations, escalations based on an inflation index, and fair-value market adjustments. The timing of these escalations generally ranges from annually to every five years. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance; however, for franchised sites, the Company requires the franchisees to pay these costs. In addition, the Company is the lessee under non-restaurant related leases such as offices, vehicles and office equipment.

The following table provides detail of rent expense:

In millions	***2017***	*2016*	*2015*
Company-operated restaurants:			
U.S.	**$ 37.4**	$ 48.6	$ 59.2
Outside the U.S.	**427.2**	613.3	652.7
Total	**464.6**	661.9	711.9
Franchised restaurants:			
U.S.	**488.6**	471.2	463.7
Outside the U.S.	**609.3**	589.8	565.0
Total	**1,097.9**	1,061.0	1,028.7
Other	**82.0**	91.3	98.4
Total rent expense	**$ 1,644.5**	$ 1,814.2	$ 1,839.0

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2017–$115.6; 2016–$135.0; 2015–$146.6. Franchised restaurants: 2017–$204.9; 2016–$186.4; 2015–$178.8.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

In millions	*Restaurant*	*Other*	*Total*
2018	$ 1,096.8	$ 55.1	$ 1,151.9
2019	1,037.0	50.0	1,087.0
2020	954.0	42.7	996.7
2021	867.0	36.5	903.5
2022	778.7	26.8	805.5
Thereafter	6,829.1	83.2	6,912.3
Total minimum payments	$ 11,562.6	$ 294.3	$ 11,856.9

Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	2017	2016	2015
U.S.	**$ 2,242.0**	$ 2,059.4	$ 2,597.8
Outside the U.S.	**6,331.5**	4,806.6	3,957.9
Income before provision for income taxes	**$ 8,573.5**	$ 6,866.0	$ 6,555.7

Enacted on December 22, 2017, the Tax Act reduces the U.S. federal corporate tax rate from 35% to 21%, requires companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred and creates new taxes on certain foreign sourced earnings. At December 31, 2017, the Company has not completed the accounting for the tax effects of enactment of the Tax Act. However, as described below, the Company has made a reasonable estimate of the effects on the existing deferred tax balances and the one-time transition tax. For these items, a net provisional tax cost of approximately $700 million is recognized and is included as a component of provision for income taxes from continuing operations.

Provisional amounts

Deferred tax assets and liabilities: The Company remeasured certain U.S. deferred tax assets and liabilities based on the rates at which they are expected to reverse in the future, which is generally 21%. However, the Company is still analyzing certain aspects of the Tax Act and refining the calculations, which could potentially affect the measurement of these balances or potentially give rise to new deferred tax amounts. A provisional amount was recorded related to the remeasurement of the deferred tax balance, resulting in a provision for income taxes benefit of approximately $500 million.

Foreign tax effects: The one-time transition tax is based on the total post-1986 earnings and profits ("E&P") for which the Company had previously deferred from U.S. income taxes. A provisional amount was recorded for the one-time transition tax liability, resulting in a provision for income taxes cost of approximately $1.2 billion. The Company has not yet completed the calculation of the total post-1986 foreign E&P. Further, the transition tax is based in part on the amount of those earnings held in cash and other specified assets. This amount may change when the calculation of post-1986 foreign E&P and the amounts held in cash or other specified assets are finalized.

The provision for income taxes, classified by the timing and location of payment, was as follows:

In millions	2017	2016	2015
U.S. federal	**$ 2,030.8**	$ 1,046.6	$ 1,072.3
U.S. state	**169.8**	121.3	139.5
Outside the U.S.	**1,217.0**	1,550.2	816.0

Net deferred tax liabilities consisted of:

In millions	December 31, 2017	2016
Property and equipment	**$ 1,211.5**	$ 1,459.8
Unrealized foreign exchange gains	**—**	630.9
Intangible liabilities	**296.2**	445.2
Other	**242.0**	287.6
Total deferred tax liabilities	**1,749.7**	2,823.5
Property and equipment	**(633.8)**	(650.2)
Employee benefit plans	**(253.1)**	(395.0)
Intangible assets	**(228.8)**	(170.7)
Deferred foreign tax credits	**(208.6)**	(316.8)
Operating loss carryforwards	**(71.1)**	(292.7)
Other	**(266.0)**	(338.6)
Total deferred tax assets before valuation allowance	**(1,661.4)**	(2,164.0)
Valuation allowance	**163.2**	168.0
Net deferred tax liabilities	**$ 251.5**	$ 827.5
Balance sheet presentation:		
Deferred income taxes	**$ 1,119.4**	$ 1,817.1
Other assets-miscellaneous	**(867.9)**	(804.0)
Liabilities of businesses held for sale	**—**	(185.6)
Net deferred tax liabilities	**$ 251.5**	$ 827.5

At December 31, 2017, the Company had net operating loss carryforwards of $0.3 billion, of which $0.2 billion has an indefinite carryforward. The remainder will expire at various dates from 2018 to 2031.

The Company's effective income tax rate has been generally lower than the U.S. statutory tax rate primarily because non-U.S. income is generally subject to local statutory country tax rates that are below the 35% U.S. statutory tax rate and reflect the impact of global transfer pricing. Beginning in 2018, the Tax Act reduces the U.S. statutory tax rate to 21%.

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

	2017	2016	2015
Statutory U.S. federal income tax rate	**35.0 %**	35.0 %	35.0 %
State income taxes, net of related federal income tax benefit	**1.2**	1.5	1.6
Foreign income taxed at different rates	**(4.6)**	(6.5)	(4.9)
Transition tax	**13.7**	—	—
US net deferred tax liability remeasurement	**(6.0)**	—	—
Cash repatriation	**0.3**	—	(2.3)
Other, net	**(0.2)**	1.7	1.5

The following table presents a reconciliation of the beginning and ending amounts of unrecognized tax benefits:

In millions	***2017***	*2016*
Balance at January 1	**$ 924.1**	$ 781.2
Decreases for positions taken in prior years	**(13.7)**	(37.1)
Increases for positions taken in prior years	**143.9**	150.1
Increases for positions related to the current year	**140.2**	116.6
Settlements with taxing authorities	**(6.5)**	(17.7)
Lapsing of statutes of limitations	**(7.6)**	(69.0)
Balance at December 31*(1)*	**$ 1,180.4**	$ 924.1

(1) Of this amount, $1,132.3 million and $890.0 million are included in Other long-term liabilities for 2017 and 2016, respectively, and $30.8 million and $9.0 million are included in Current liabilities - income taxes for 2017 and 2016, respectively, on the consolidated balance sheet. The remainder is included in Deferred income taxes on the consolidated balance sheet.

In 2015, the Internal Revenue Service (“IRS”) issued a Revenue Agent Report (“RAR”) that included certain disagreed transfer pricing adjustments related to the Company’s U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS Appeals Office related to these disagreed transfer pricing matters. During 2017 the Company received a response to its protest, and, as of December 31, 2017, is awaiting scheduling of an opening conference with IRS Appeals. In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. Although at December 31, 2017 the IRS had not yet issued its RAR for these years, when issued it is expected to result in the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Consequently, it is expected that the transfer pricing matters for 2011 and 2012 will be addressed along with the 2009 and 2010 matters as part of the 2009-2010 appeal. The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. It is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $710 million within the next 12 months, of which up to $20 million could favorably affect the effective tax rate. This would be due to the possible settlement of the 2009-2012 IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In addition, it is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate as determined under ASC 740.

The Company operates within multiple tax jurisdictions and is subject to audit in these jurisdictions. With few exceptions, the Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations for years before 2009.

The Company had $155.3 million and $117.0 million

subsidiaries and corporate joint ventures. Although the Company has accrued certain amounts, the Company is still evaluating how the Tax Act will affect the Company’s accounting position related to the indefinite reinvestment of unremitted foreign earnings. During the measurement period, the Company may reflect adjustments to this provisional amount upon obtaining, preparing, and analyzing the necessary information to complete the accounting under ASC 740.

Employee Benefit Plans

The Company's 401k Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows participants to make pre-tax contributions that are matched each pay period (with an annual true-up) from shares released under the leveraged Employee Stock Ownership Plan ("ESOP") and employer cash contributions.

All current account balances, future contributions and related earnings can be invested in eight investment alternatives as well as McDonald’s stock in accordance with each participant’s investment elections. Future participant contributions are limited to 20% investment in McDonald’s stock. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the 401k Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401k Plan. Total liabilities were $484.3 million at December 31, 2017, and $464.9 million at December 31, 2016, and were primarily included in other long-term liabilities on the consolidated balance sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2017, derivatives with a fair value of $167.3 million indexed to the Company's stock and a total return swap with a notional amount of $202.8 million indexed to certain market indices were included at their fair value in Miscellaneous other assets and Accrued payroll and other liabilities, respectively, on the consolidated balance sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company’s stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401k Plan, including nonqualified benefits and related hedging activities, were (in millions): 2017–$19.3; 2016–$24.8; 2015–$24.0. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2017–$43.3; 2016–$46.0; 2015–$53.4.

The total combined liabilities for international retirement plans were $44.6 million and $65.6 million at December 31, 2017 and 2016, respectively. Other post-retirement benefits and post- employment benefits were immaterial.

Segment and Geographic Information

The Company franchises and operates McDonald's restaurants in the global restaurant industry. The following reporting segments reflect how management reviews and evaluates operating performance:

- U.S. - the Company's largest segment.
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets.
- High Growth Markets - markets the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model. Corporate activities are also reported within this segment.

All intercompany revenues and expenses are eliminated in computing revenues and operating income. Corporate general and administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets include corporate cash and equivalents, asset portions of financial instruments and home office facilities.

In millions	***2017***	*2016*	*2015*
U.S.	**$ 8,006.4**	$ 8,252.7	$ 8,558.9
International Lead Markets	**7,340.3**	7,223.4	7,614.9
High Growth Markets	**5,533.2**	6,160.7	6,172.8
Foundational Markets & Corporate	**1,940.5**	2,985.1	3,066.4
Total revenues	**$ 22,820.4**	$ 24,621.9	$ 25,413.0
U.S.	**$ 4,022.4**	$ 3,768.7	$ 3,612.0
International Lead Markets	**3,166.5**	2,838.4	2,712.6
High Growth Markets	**2,001.4**	1,048.8	841.1
Foundational Markets & Corporate	**362.4**	88.6	(20.2)
Total operating income	**$ 9,552.7**	$ 7,744.5	$ 7,145.5
U.S.	**$ 12,648.6**	$ 11,960.6	$ 11,806.1
International Lead Markets	**11,844.3**	9,112.5	11,136.3
High Growth Markets	**4,480.7**	5,208.6	5,248.6
Foundational Markets & Corporate	**4,830.1**	4,742.2	9,747.7
Total assets	**$ 33,803.7**	$ 31,023.9	$ 37,938.7
U.S.	**$ 861.2**	$ 586.7	$ 533.2
International Lead Markets	**515.3**	635.6	596.1
High Growth Markets	**378.5**	493.2	540.5
Foundational Markets & Corporate	**98.7**	105.6	144.1
Total capital expenditures	**$ 1,853.7**	$ 1,821.1	$ 1,813.9
U.S.	**$ 524.1**	$ 510.3	$ 515.2
International Lead Markets	**461.1**	451.6	460.9
High Growth Markets	**231.7**	362.0	363.9
Foundational Markets & Corporate	**146.5**	192.6	215.7
Total depreciation and amortization	**$ 1,363.4**	$ 1,516.5	$ 1,555.7

Total long-lived assets, primarily property and equipment, were (in millions)–Consolidated: 2017–$27,164.2; 2016– $25,200.4; 2015–$27,607.8; U.S. based: 2017–$12,308.7; 2016–$11,689.7; 2015–$11,940.4.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2017, the Company had a $2.5 billion line of credit agreement expiring in December 2019 with fees of 0.070% per annum on the total commitment, which remained unused. Fees and interest rates on this line are based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 2.5% at December 31, 2017 (based on $268.0 million of foreign currency bank line borrowings) and 2.2% at December 31, 2016 (based on $192.0 million of foreign currency bank line borrowings and $799.8 million of commercial paper).

DEBT OBLIGATIONS

The Company has incurred debt obligations principally through public and private offerings and bank loans. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. Certain of the Company's debt obligations contain cross-acceleration provisions, and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The Company has no current plans to retire a significant amount of its debt prior to maturity.

The following table summarizes the Company's debt obligations (interest rates and debt amounts reflected in the table include the effects of interest rate swaps).

		Interest rates(1) December 31		*Amounts outstanding December 31*	
In millions of U.S. Dollars	*Maturity dates*	***2017***	*2016*	***2017***	*2016*
Fixed		**4.0%**	4.0%	**$ 15,533.3**	$ 13,889.7
Floating		**4.3**	3.4	**1,750.0**	3,249.8
Total U.S. Dollars	2018-2047			**17,283.3**	17,139.5
Fixed		**1.6**	1.7	**8,446.6**	6,127.5
Floating		**0.0**	0.3	**1,323.4**	1,170.9
Total Euro	2018-2029			**9,770.0**	7,298.4
Total British Pounds Sterling - Fixed	2020-2054	**5.3**	5.3	**1,008.9**	921.3
Total Canadian Dollar - Fixed	2021-2025	**3.1**	—	**793.8**	—
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**110.9**	106.9
Fixed		**0.8**	0.5	**451.5**	416.9
Floating		**2.3**	2.2	**244.7**	182.7
Total other currencies(2)	2018-2056			**696.2**	599.6
Debt obligations before fair value adjustments and deferred debt costs(3)				**29,663.1**	26,065.7
Fair value adjustments(4)				**(6.2)**	—
Deferred debt costs				**(120.5)**	(110.0)
Total debt obligations				**$ 29,536.4**	$ 25,955.7

(1) *Weighted-average effective rate, computed on a semi-annual basis.*

(2) *Primarily consists of Swiss Francs and Korean Won.*

(3) *Aggregate maturities for 2017 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2018–$2,024.6; 2019–$2,121.2; 2020–$2,432.3; 2021–$1,717.0; 2022–$2,311.2; Thereafter–$19,056.8. These amounts include a reclassification of short-term obligations totaling $2.0 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2019.*

(4) *The carrying value of underlying items in fair value hedges, in this case debt obligations, are adjusted for fair value changes to the extent they are attributable to the risk designated as being hedged. The related hedging instrument is also recorded at fair value in prepaid expenses and other current assets, miscellaneous other assets or other long-term liabilities.*

Share-based Compensation

The Company maintains a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units ("RSUs") to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plans was 51.5 million at December 31, 2017, including 31.0 million available for future grants.

STOCK OPTIONS

Stock options to purchase common stock are granted with an exercise price equal to the closing market price of the Company's stock on the date of grant. Substantially all of the options become exercisable in four equal installments, beginning a year from the date of the grant, and generally expire 10 years from the grant date.

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2017, 2016 and 2015, the total intrinsic value of stock options exercised was $353.6 million, $184.9 million and $202.9 million, respectively. Cash received from stock options exercised during 2017 was $456.8 million and the tax benefit realized from stock options exercised totaled $111.0 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2017, 2016 and 2015, and changes during the years then ended, is presented in the following table:

	2017				2016		2015	
Options	*Shares in millions*	*Weighted-average exercise price*	*Weighted-average remaining contractual life in years*	*Aggregate intrinsic value in millions*	*Shares in millions*	*Weighted-average exercise price*	*Shares in millions*	*Weighted-average exercise price*
Outstanding at beginning of year	**21.5**	**$ 92.25**			21.9	$84.76	23.4	$77.99
Granted	**4.0**	**128.74**			4.3	117.10	4.3	97.33
Exercised	**(5.6)**	**81.77**			(4.0)	75.30	(5.1)	62.59
Forfeited/expired	**(1.0)**	**118.38**			(0.7)	106.50	(0.7)	96.76
Outstanding at end of year	**18.9**	**$ 101.55**	**6.3**	**$ 1,331.4**	21.5	$92.25	21.9	$84.76
Exercisable at end of year	**11.3**	**$ 90.73**	**4.9**	**$ 917.8**	13.4		13.4	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. The fair value of RSUs granted is equal to the market price of the Company's stock at date of grant less the present value of expected dividends over the vesting period. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs granted beginning in 2016, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2017, 2016 and 2015 is presented in the following table:

	2017		2016		2015	
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.9**	**$ 94.13**	2.4	$83.50	2.2	$83.49
Granted	**0.6**	**123.98**	0.7	109.86	0.9	87.03
Vested	**(0.7)**	**87.18**	(0.8)	79.54	(0.5)	88.78
Forfeited	**(0.2)**	**117.24**	(0.4)	88.45	(0.2)	85.82
Nonvested at end of year	**1.6**	**$ 107.34**	1.9	$94.13	2.4	$83.50

The total fair value of RSUs vested during 2017, 2016 and 2015 was $87.6 million, $99.3 million and $49.4 million, respectively. The tax benefit realized from RSUs vested during 2017 was $23.9 million.

Quarterly Results (Unaudited)

In millions, except per share data	Quarters ended December 31 2017	Quarters ended December 31 2016	Quarters ended September 30 2017	Quarters ended September 30 2016	Quarters ended June 30 2017	Quarters ended June 30 2016	Quarters ended March 31 2017	Quarters ended March 31 2016
Revenues								
Sales by Company-operated restaurants	**$ 2,673.1**	$ 3,652.8	**$ 3,064.3**	$ 3,972.1	**$ 3,569.6**	$ 3,916.6	**$ 3,411.9**	$ 3,753.5
Revenues from franchised restaurants	**2,667.1**	2,376.1	**2,690.3**	2,452.0	**2,480.1**	2,348.4	**2,264.0**	2,150.4
Total revenues	**5,340.2**	6,028.9	**5,754.6**	6,424.1	**6,049.7**	6,265.0	**5,675.9**	5,903.9
Company-operated margin	**463.0**	616.9	**584.5**	732.6	**666.3**	668.5	**595.5**	578.2
Franchised margin	**2,202.5**	1,941.3	**2,233.0**	2,014.4	**2,042.1**	1,917.5	**1,833.9**	1,735.3
Operating income	**2,144.2**	1,969.0	**3,079.4**	2,137.3	**2,295.1**	1,857.9	**2,034.0**	1,780.3
Net income	**$ 698.7**	$ 1,193.4	**$ 1,883.7**	$ 1,275.4	**$ 1,395.1**	$ 1,092.9	**$ 1,214.8**	$ 1,124.8
Earnings per common share—basic	**$ 0.88**	$ 1.45	**$ 2.34**	$ 1.52	**$ 1.72**	$ 1.27	**$ 1.48**	$ 1.27
Earnings per common share—diluted	**$ 0.87**	$ 1.44	**$ 2.32**	$ 1.50	**$ 1.70**	$ 1.25	**$ 1.47**	$ 1.25
Dividends declared per common share	**$ —**	$ —	**$ 1.95** (1)	$ 1.83 (1)	**$ 0.94**	$ 0.89	**$ 0.94**	$ 0.89
Weighted-average common shares—basic	**794.3**	823.7	**805.3**	841.4	**811.6**	864.0	**818.8**	888.9
Weighted-average common shares—diluted	**803.0**	829.7	**813.5**	847.7	**819.2**	871.2	**825.2**	896.3
Market price per common share:								
High	**$ 175.78**	$ 124.00	**$ 161.72**	$ 128.60	**$ 155.46**	$ 131.96	**$ 130.19**	$ 126.96
Low	**155.80**	110.33	**151.77**	113.96	**128.65**	116.08	**118.18**	112.71
Close	**172.12**	121.72	**156.68**	115.36	**153.16**	120.34	**129.61**	125.68

(1) Includes a $0.94 and $0.89 per share dividend declared and paid in third quarter of 2017 and 2016, respectively, and a $1.01 and $0.94 per share dividend declared in the third quarter and paid in fourth quarter of 2017 and 2016, respectively.

Management's Assessment of Internal Control Over Financial Reporting

The financial statements were prepared by management, which is responsible for their integrity and objectivity and for establishing and maintaining adequate internal controls over financial reporting.

The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company's internal control over financial reporting includes those policies and procedures that:

I. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;

II. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and

III. provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal controls can provide only reasonable assurances with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal controls may vary over time.

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2017. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013 Framework).

Based on management's assessment using those criteria, as of December 31, 2017, management believes that the Company's internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2017, 2016 and 2015 and the Company's internal control over financial reporting as of December 31, 2017. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD'S CORPORATION

February 23, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald’s Corporation (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 23, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

ERNST & YOUNG LLP

We have served as the Company’s auditor since 1964.

Chicago, Illinois
February 23, 2018

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald’s Corporation’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald’s Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald’s Corporation as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, shareholders’ equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and our report dated February 23, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management’s Assessment of Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company’s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ERNST & YOUNG LLP

Chicago, Illinois
February 23, 2018

ITEM 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), over the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2017. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2017 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT

Management's Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in Part II, Item 8 of this Form 10-K.

ITEM 9B. Other Information

None.

PART III

ITEM 10. Directors, Executive Officers and Corporate Governance

Information is incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2017. We will post any amendments to or any waivers for directors and executive officers from provisions of the Company's Standards of Business Conduct or Code of Conduct for the Board of Directors on the Company's website at www.aboutmcdonalds.com.

Information regarding all of the Company's executive officers is included in Part I, page 10 of this Form 10-K.

ITEM 11. Executive Compensation

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2017.

ITEM 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The following table summarizes information about the Company's equity compensation plans as of December 31, 2017. All outstanding awards relate to the Company's common stock. Shares issued under all of the following plans may be from the Company's treasury, newly issued or both.

Equity compensation plan information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights	*Weighted-average exercise price of outstanding options, warrants and rights*	*Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))*
Plan category	*(a)*	*(b)*	*(c)*
Equity compensation plans approved by security holders	20,487,833 (1)	$102.01	31,022,097
Equity compensation plans not approved by security holders	—	—	—
Total	20,487,833	$102.01	31,022,097

(1) Includes 5,066,092 stock options granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan and 13,801,744 stock options and 1,619,997 restricted stock units granted under the McDonald's Corporation 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2017.

ITEM 13. Certain Relationships and Related Transactions, and Director Independence

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2017.

ITEM 14. Principal Accounting Fees and Services

Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2017.

PART IV

ITEM 15. Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements filed as part of this report are listed under Part II, Item 8, pages 30 through 49 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

b. Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

McDonald's Corporation Exhibit Index (Item 15)

Exhibit Number	Description
(3)	(a) Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2012.
	(b) By-Laws, as amended and restated with effect as of October 26, 2015, incorporated herein by reference from Exhibit 3(b) of Form 8-K (File No. 001-05231), filed October 28, 2015.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(i) 6 3/8% Debentures due 2028. Supplemental Indenture No. 1, dated January 8, 1998, incorporated herein by reference from Exhibit (4)(a) of Form 8-K (File No. 001-05231), filed January 13, 1998.
	(ii) Medium-Term Notes, Series F, Due from 1 Year to 60 Years from Date of Issue. Supplemental Indenture No. 4, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-59145), filed July 15, 1998.
	(iii) Medium-Term Notes, Series I, Due from 1 Year to 60 Years from Date of Issue. Supplemental Indenture No. 8, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-139431), filed December 15, 2006.
	(iv) Medium-Term Notes, Due from One Year to 60 Years from Date of Issue. Supplemental Indenture No. 9, incorporated herein by reference from Exhibit (4)(c) of Form S-3 Registration Statement (File No. 333-162182), filed September 28, 2009.
	(b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.

(10) Material Contracts

(a) Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(b) McDonald's Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**

(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**

(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**

(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**

(d) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

  (i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**

  (ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**

(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**

(f) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(g) McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(h) McDonald's Corporation Cash Performance Unit Plan, effective February 13, 2013, incorporated herein by reference from Exhibit 10(k) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(i) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**

(j) Form of Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

(k) McDonald's Corporation Severance Plan, as Amended and Restated, effective September 30, 2015, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**

  (i) First Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

  (ii) Second Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(ii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

  (iii) Third Amendment to the McDonald's Corporation Severance Plan, effective as of July 15, 2016, incorporated herein by reference from Exhibit 10(l)(iii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

  (iv) Fourth Amendment to the McDonald's Corporation Severance Plan, effective as of July 1, 2017, incorporated herein by reference from Exhibit 10(k)(iv) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2017.**

(l) Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**

(m) Form of 2015 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(aa) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2015.**

(n) Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

(o)

Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**

(p) Offer Letter between Silvia Lagnado and the Company, dated June 8, 2015, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2017.**

(12) Computation of Ratios.

(21) Subsidiaries of the Registrant.

(23) Consent of Independent Registered Public Accounting Firm.

(24) Power of Attorney.

(31.1) Rule 13a-14(a) Certification of Chief Executive Officer.

(31.2) Rule 13a-14(a) Certification of Chief Financial Officer.

(32.1) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(101.INS) XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.

(101.SCH) XBRL Taxonomy Extension Schema Document.

(101.CAL) XBRL Taxonomy Extension Calculation Linkbase Document.

(101.DEF) XBRL Taxonomy Extension Definition Linkbase Document.

(101.LAB) XBRL Taxonomy Extension Label Linkbase Document.

(101.PRE) XBRL Taxonomy Extension Presentation Linkbase Document.

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* Other instruments defining the rights of holders of long-term debt of the registrant, and all of its subsidiaries for which consolidated financial statements are required to be filed and which are not required to be registered with the Commission, are not included herein as the securities authorized under these instruments, individually, do not exceed 10% of the total assets of the registrant and its subsidiaries on a consolidated basis. An agreement to furnish a copy of any such instruments to the Commission upon request has been filed with the Commission.

** Denotes compensatory plan.

ITEM 16. Form 10-K Summary

None.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

McDonald's Corporation
(Registrant)

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and
Chief Financial Officer

February 23, 2018
Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 23rd day of February, 2018:

Signature, Title

By /s/ Lloyd H. Dean
Lloyd H. Dean
Director

By /s/ Stephen J. Easterbrook
Stephen J. Easterbrook
President, Chief Executive Officer and Director
(Principal Executive Officer)

By /s/ Robert A. Eckert
Robert A. Eckert
Director

By /s/ Margaret H. Georgiadis
Margaret H. Georgiadis
Director

By /s/ Enrique Hernandez, Jr.
Enrique Hernandez, Jr.
Chairman of the Board and Director

By /s/ Catherine Hoovel
Catherine Hoovel
Corporate Vice President – Chief Accounting Officer
(Principal Accounting Officer)

By /s/ Jeanne P. Jackson
Jeanne P. Jackson
Director

By /s/ Richard H. Lenny
Richard H. Lenny
Director

Signature, Title

By /s/ John J. Mulligan
John J. Mulligan
Director

By /s/ Kevin M. Ozan
Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer
(Principal Financial Officer)

By /s/ Sheila A. Penrose
Sheila A. Penrose
Director

By /s/ John W. Rogers, Jr.
John W. Rogers, Jr.
Director

By /s/ Miles D. White
Miles D. White
Director