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 subsidiaries, 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 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.

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, assure best practices 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 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.

- ***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 $1.2 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 the environment, including the implementation of more energy efficient equipment and management of energy use and more sustainable sourcing practices in many of its markets.

- ***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 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, 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 ability 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. In order to deliver a relevant experience for our customers amidst a highly competitive, value-driven operating environment, we must implement initiatives to adapt at an aggressive pace. There is no assurance 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 such adverse commentary or portrayals, 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 System-wide coordination and alignment. If we are not 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 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 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 our refranchising strategy, which involves a significant percentage of franchised restaurants, including an increased number of restaurants run by developmental licensees and affiliates, depends on various factors. Those factors include whether we have effectively selected 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 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. 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 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, 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 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, 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.

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. 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 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 Company. 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 ensures 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. 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 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, 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, 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 Corporate Senior Vice President of Supply Chain and Development through January 2011. Mr. Goare has served the Company for 39 years.

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.

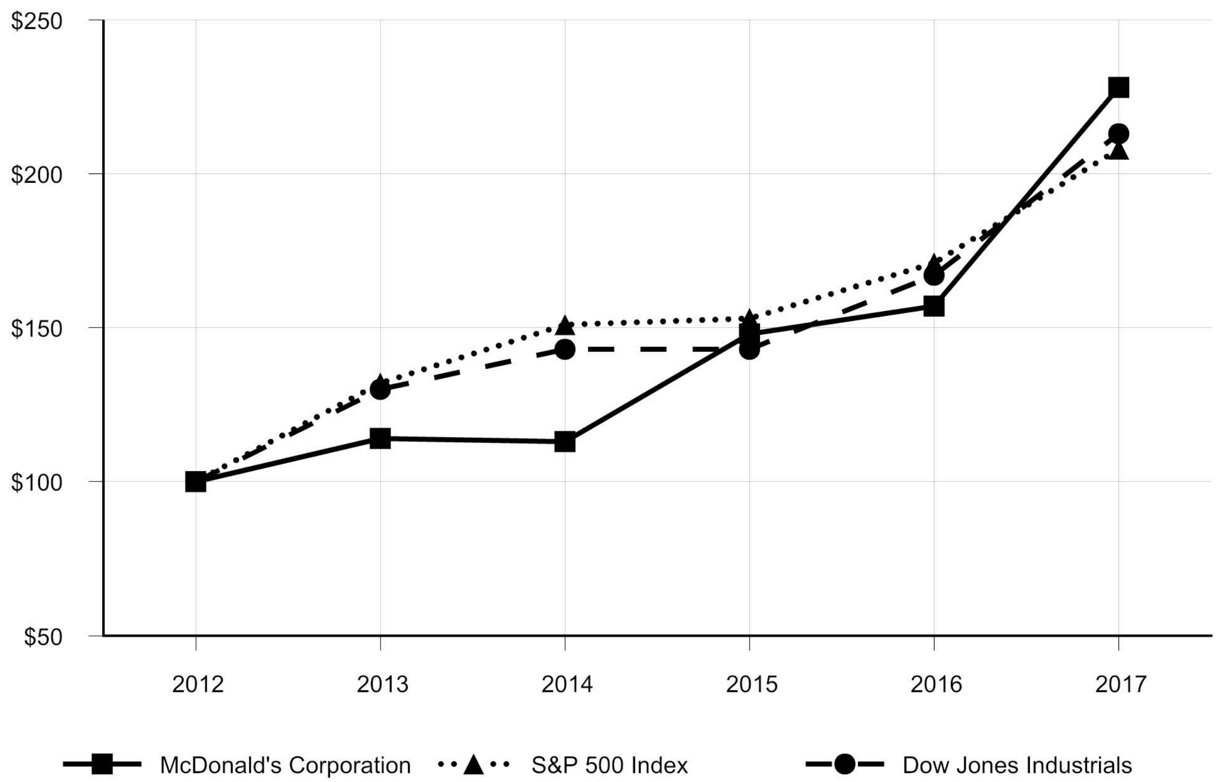
Stock Performance Graph

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.

Comparison of Cumulative Five-Year Total Return



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

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.

The business is structured into the following segments that combine markets with similar characteristics and opportunities for growth, and 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 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.
- 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.

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 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 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 Company's performance, as the rent and royalty income received from franchisees provides a more predictable and stable revenue stream with significantly lower operating costs and risks. This includes a less G&A and capital intensive structure as franchisees are responsible for supporting and reinvesting in their businesses. Under this more heavily franchised structure, growing comparable sales will be the strongest driver of operating income growth and returns.

Through execution of the Velocity Growth Plan, McDonald's is serving more customers more often. In 2018, the Company remains aggressively focused on executing its ambitious plan to unlock more of its potential and drive long-term sustainable growth.

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 sales were more than offset by the impact of refranchising.
- Systemwide sales increased 7% (7% in constant currencies).
- Consolidated operating income increased 23% (23% in constant currencies), which benefited from a gain on the sale of the Company's businesses in China and Hong Kong.
- 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 common goal of enhancing critical elements that differentiate McDonald's - the menu and the customer experience. The segment is committed to running great restaurants and increasing convenience to customers, including drive-thru and delivery.

OUTLOOK

<u>2018 Outlook</u>

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 currencies represent approximately 70% 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 30 cents.
- The Company expects the effective income tax rate for the full-year 2018 to be in the 25-27% range, with volatility between the quarters. Certain aspects of the Tax Act are expected to be clarified, and as such, could impact the Company's tax rate.
- The Company expects capital expenditures for 2018 to be approximately $2.4 billion. About $1.5 billion will be dedicated to our U.S. business, primarily focused on accelerating the pace of EOTF. We expect to complete EOTF at nearly 4,000 additional U.S. restaurants in 2018,

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
Foundational Markets & Corporate	**144**	**18.3**	296	15.6	259	12.7	**(51)**	14	**(53)**	17
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

Dollars in millions	Amount 2017	2016	2015	Increase/(decrease) 2017	2016	Increase/(decrease) excluding currency translation 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 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 in 2016 were essentially flat with 2015, primarily due to higher 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 million shares were repurchased for $4.7 billion, of which approximately 17.3 million shares or $2.7 billion were repurchased under the new program.

The Company has paid dividends on its common stock for 42 consecutive years and has increased the dividend amount every year. The 2017 full-year dividend of $3.83 per share reflects the quarterly dividend paid for each of the first three quarters of $0.94 per share, with an increase to $1.01 per share paid in the fourth quarter. This 7% increase in the quarterly dividend equates to a

$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 also had $268 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 and reduce interest expense. 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 $12.4 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 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 60% 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 $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.

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, 2017, total liabilities for the supplemental plans were $484 million.

At December 31, 2017, total liabilities for gross unrecognized tax benefits were $1.2 billion. In addition, a liability of approximately $1.2 billion was recorded in 2017 resulting from the

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***

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 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***

The Company records a valuation allowance to reduce its deferred tax assets if it is 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 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 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") 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* 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, 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**
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)**

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 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.

Derivatives and Hedging

In August 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". ASU 2017-12 expands components of fair value hedging, specifies the 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 restaurants operated by conventional franchisees, developmental licensees and foreign affiliates.

Sales by Company-operated restaurants are recognized on a cash basis. The Company presents sales net of sales tax and other sales-related taxes. 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. 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, general & administrative expenses were (in millions): 2017–$100.2; 2016–$88.8; 2015–$113.8. Costs related to the Olympics sponsorship are included in the expenses for 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	***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 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.

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 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 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
Current tax provision	**3,417.6**	2,718.1	2,027.8
U.S. federal	**(120.1)**	(122.1)	6.8
U.S. state	**12.8**	14.1	(3.9)
Outside the U.S.	**70.9**	(430.6)	(4.3)
Deferred tax provision	**(36.4)**	(538.6)	(1.4)
Provision for income taxes	**$3,381.2**	$2,179.5	$2,026.4

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
Effective income tax rates	**39.4%**	31.7%	30.9%

As of December 31, 2017 and 2016, the Company's gross unrecognized tax benefits totaled $1.2 billion and $924.1 million, respectively. After considering the deferred tax accounting impact, it is expected that about $700 million of the total as of December 31, 2017 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	***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 accrued for interest and penalties at December 31, 2017 and 2016, respectively. The Company recognized interest and penalties related to tax matters of $34.9 million in 2017, $41.7 million in 2016, and $21.1 million in 2015, which are included in the provision for income taxes.

As a result of the Tax Act, the Company has re-evaluated its assertion related to the indefinite reinvestment of unremitted foreign earnings and recorded a provisional deferred tax liability for temporary differences related to investments in certain foreign 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.

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).

In millions of U.S. Dollars	*Maturity dates*	*Interest rates[(1)] December 31*		*Amounts outstanding December 31*	
		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

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	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.

* 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

Exhibit 12. Computation of Ratios

Ratio of Earnings to Fixed Charges

Dollars in millions	Years ended December 31, **2017**	2016	2015	2014	2013
Earnings available for fixed charges					
Income before provision for income taxes	**$8,573.5**	$6,866.0	$6,555.7	$7,372.0	$8,204.5
Noncontrolling interest expense in operating results of majority-owned subsidiaries less equity in undistributed operating results of less than 50%-owned affiliates	**5.3**	12.5	7.3	6.3	9.0
Income tax provision (benefit) of 50%-owned affiliates included in income from continuing operations before provision for income taxes	**(36.5)**	3.3	3.7	(0.1)	23.8
Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	**244.8**	342.6	365.1	374.6	374.6
Interest expense, amortization of debt discount and issuance costs, and depreciation of capitalized interest*	**938.3**	904.8	660.4	596.1	548.9
	$9,725.4	$8,129.2	$7,592.2	$8,348.9	$9,160.8
Fixed charges					
Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	**$ 244.8**	$ 342.6	$ 365.1	$ 374.6	$ 374.6
Interest expense, amortization of debt discount and issuance costs*	**924.0**	888.2	643.7	579.8	532.1
Capitalized interest*	**5.3**	7.1	9.4	14.8	15.6
	$1,174.1	$1,237.9	$1,018.2	$ 969.2	$ 922.3
Ratio of earnings to fixed charges	**8.28**	6.57	7.46	8.61	9.93

* *Includes amounts of the Company and its majority-owned subsidiaries, and one-half of the amounts of 50%-owned affiliates. The Company records interest expense on unrecognized tax benefits in the provision for income taxes. This interest is not included in the computation of fixed charges.*

Return on Average Assets

Dollars in millions	Years ended December 31, **2017**	2016	2015
Operating income	**$ 9,552.7**	$ 7,744.5	$ 7,145.5
Average assets(1)	**$32,978.0**	$33,686.2	$34,137.6
Return on average assets	**29.0%**	23.0%	20.9%

(1) Represents the average of the month-end balances of total assets for the past 13 months.

Fixed-Rate Debt as a Percent of Total Debt(1)(2)

Dollars in millions	Years ended December 31, **2017**	2016	2015
Total debt obligations	**$29,536.4**	$25,955.7	$24,122.1
Fair value adjustments	**6.2**	—	(1.8)
Deferred debt costs	**120.5**	110.0	106.0
Debt obligations before fair value adjustments and deferred debt costs	**$29,663.1**	$26,065.7	$24,226.3
Fixed-rate debt	**$26,345.0**	$21,462.3	$19,611.3
Fixed-rate debt as a percent of total debt	**89%**	82%	81%

(1) 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.

(2) Includes the effect of interest rate swaps.

Foreign Currency-Denominated Debt as a Percent of Total Debt[1]

Dollars in millions	*Years ended December 31,* ***2017***	*2016*	*2015*
Total debt obligations	**$29,536.4**	$25,955.7	$24,122.1
Fair value adjustments	**6.2**	—	(1.8)
Deferred debt costs	**120.5**	110.0	106.0
Debt obligations before fair value adjustments and deferred debt costs	**$29,663.1**	$26,065.7	$24,226.3
Foreign currency-denominated debt	**$12,379.8**	$ 8,926.2	$ 7,016.1
Foreign currency-denominated debt as a percent of total debt	**42%**	34%	29%

(1) 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.

Total Debt as a Percent of Total Capitalization[1][2]

Dollars in millions	*Years ended December 31,* ***2017***	*2016*	*2015*
Total debt obligations	**$29,536.4**	$25,955.7	$24,122.1
Fair value adjustments	**6.2**	—	(1.8)
Deferred debt costs	**120.5**	110.0	106.0
Debt obligations before fair value adjustments and deferred debt costs	**$29,663.1**	$26,065.7	$24,226.3
Total capitalization	**$26,395.1**	$23,861.4	$31,314.2
Total debt as a percent of total capitalization	**112%**	109%	77%

(1) 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.

(2) Total capitalization represents debt obligations before fair value adjustments and deferred debt costs, and total shareholders' equity.

Cash Provided by Operations as a Percent of Total Debt[1]

Dollars in millions	*Years ended December 31,* ***2017***	*2016*	*2015*
Total debt obligations	**$29,536.4**	$25,955.7	$24,122.1
Fair value adjustments	**6.2**	—	(1.8)
Deferred debt costs	**120.5**	110.0	106.0
Debt obligations before fair value adjustments and deferred debt costs	**$29,663.1**	$26,065.7	$24,226.3
Cash provided by operations	**$ 5,551.2**	$ 6,059.6	$ 6,539.1
Cash provided by operations as a percent of total debt	**19%**	23%	27%

(1) 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.

Free Cash Flow and Free Cash Flow Conversion Rate

Dollars in millions	*Years ended December 31,* ***2017***	*2016*	*2015*
Cash provided by operations	**$ 5,551.2**	$ 6,059.6	$ 6,539.1
Less: Capital expenditures	**1,853.7**	1,821.1	1,813.9
Free cash flow	**$ 3,697.5**	$ 4,238.5	$ 4,725.2
Divided by: Net income	**5,192.3**	4,686.5	4,529.3
Free cash flow conversion rate	**71.2%**	90.4%	104.3%

Reconciliation of Returns on Incremental Invested Capital

ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of our markets, the effectiveness of capital deployed and the future allocation of capital. This measure is calculated using operating income and constant foreign exchange rates to exclude the impact of foreign currency translation. The numerator is the Company's incremental operating income plus depreciation and amortization from the base period.

The denominator is the weighted-average cash used for investing activities during the applicable one-or three-year period. The weighted-average cash used for investing activities is based on a weighting applied on a quarterly basis. These weightings are used to reflect the estimated contribution of each quarter's investing activities to incremental operating income. For example, fourth quarter 2017 investing activities are weighted less because the assets purchased have only recently been deployed and would have generated little incremental operating income (12.5% of fourth quarter 2017 investing activities are included in the one-year and three-year calculations). In contrast, fourth quarter 2016 is heavily weighted because the assets purchased were deployed more than 12 months ago, and therefore have a full-year impact on 2017 operating income, with little or no impact to the base period (87.5% and 100.0% of fourth quarter 2016 investing activities are included in the one-year and three-year calculations, respectively). Cash used for investing activities can vary significantly by quarter, resulting in a weighted-average that may be higher or lower than the simple average of the periods presented. Management believes that weighting cash used for investing activities provides a more accurate reflection of the relationship between its investments and returns than a simple average.

The reconciliations to the most comparable measurements, in accordance with accounting principles generally accepted in the U.S., for the numerator and denominator of the one-year and three-year ROIIC are as follows:

One-year ROIIC calculation (dollars in millions):

Years ended December 31,	***2017***	*2016*	*Increase/ (decrease)*
NUMERATOR:			
Operating income	**$ 9,552.7**	$7,744.5	$1,808.2
Depreciation and amortization	**1,363.4**	1,516.5	(153.1)
Currency translation[1]			(56.9)
Change in operating income plus depreciation and amortization (at constant foreign exchange rates)			**$1,598.2**
DENOMINATOR:			
Weighted-average cash used for investing activities[2]			$ 83.2
Currency translation[1]			12.4
Weighted-average cash used for investing activities (at constant foreign exchange rates)			**$ 95.6**
One-year ROIIC[3]			**1,671.8%**

Three-year ROIIC calculation (dollars in millions):

Years ended December 31,	***2017***	*2014*	*Increase/ (decrease)*
NUMERATOR:			
Operating income	**$ 9,552.7**	$7,949.2	$ 1,603.5
Depreciation and amortization	**1,363.4**	1,644.5	(281.1)
Currency translation[1]			1,567.5
Change in operating income plus depreciation and amortization (at constant foreign exchange rates)			**$ 2,889.9**
DENOMINATOR:			
Weighted-average cash used for investing activities[2]			$ 3,064.9
Currency translation[1]			39.5
Weighted-average cash used for investing activities (at constant foreign exchange rates)			**$ 3,104.4**
Three-year ROIIC[3]			**93.1%**

(1) Represents the effect of foreign currency translation by translating results at an average exchange rate for the periods measured.

(2) Represents one-year and three-year, respectively, weighted-average cash used for investing activities, determined by applying the weightings below to the cash (provided by) used for investing activities for each quarter in the two-year and four-year periods ended December 31, 2017.

	Years ended December 31,	
	2017	*2016*
Cash (provided by) used for investing activities	***$ (562.0)***	*$ 981.6*
AS A PERCENT		
Quarters ended:		
March 31	***87.5%***	*12.5%*
June 30	***62.5***	*37.5*
September 30	***37.5***	*62.5*
December 31	***12.5***	*87.5*

	Years ended December 31,			
	2017	*2016*	*2015*	*2014*
Cash (provided by) used for investing activities	***$ (562.0)***	*$ 981.6*	*$ 1,420.0*	*$ 2,304.9*
AS A PERCENT				
Quarters ended:				
March 31	***87.5%***	*100.0%*	*100.0%*	*12.5%*
June 30	***62.5***	*100.0*	*100.0*	*37.5*
September 30	***37.5***	*100.0*	*100.0*	*62.5*
December 31	***12.5***	*100.0*	*100.0*	*87.5*

(3) Significant investing cash inflows resulting from the Company's strategic refranchising initiatives and the gain from the sale of businesses in China and Hong Kong benefited the one-year and three-year ROIIC calculation by 1623.5% and 49.5%, respectively. Excluding these items, one-year and three-year ROIIC were 48.3% and 43.6%, respectively.

Exhibit 21. Subsidiaries of the Registrant

Name of Subsidiary [State or Country of Incorporation]

Domestic Subsidiaries
McD Europe Franchising LLC [Delaware]
McDonald's APMEA, LLC [Delaware]
McDonald's Deutschland LLC [Delaware]
McDonald's Development Italy LLC [Delaware]
McDonald's Global Markets LLC [Delaware]
McDonald's International Property Company, Ltd. [Delaware]
McDonald's Real Estate Company [Delaware]
McDonald's Restaurant Operations Inc. [Delaware]
McDonald's USA, LLC [Delaware]

Foreign Subsidiaries
3267114 Nova Scotia Company [Canada]
Asia Pacific McD Franchising [United Kingdom]
Moscow-McDonalds [Russia]
HanGook McDonald's Co. Ltd. [South Korea]
McDonald's LLC [Russia]
McD APMEA Holdings Pte. Ltd. [Singapore]
McD APMEA Singapore Investments Pte. Ltd. [Singapore]
McD Europe Holdings S.a.r.l [Luxembourg]
MCD Europe Limited [United Kingdom]
MCD Global Franchising Limited [United Kingdom]
MCDI Holdings Limited [United Kingdom]
MCD Investments Limited [United Kingdom]
McDonald's Australia Limited [Australia]
McDonald's France S.A.S. [France]
McDonald's GmbH [Germany]
McDonald's Grundstucks GmbH & Co. KG [Germany]
McDonald's Immobilien Gesellschaft mit beschrankter Haftung [Germany]
McDonald's Nederland B.V. [Netherlands]
McDonald's Polska Sp. z o.o [Poland]
McDonald's Real Estate LLP [United Kingdom]
McDonald's Restaurants Limited [United Kingdom]
McDonald's Restaurants of Canada Limited [Canada]
McDonald's Suisse Development Sàrl [Switzerland]
McDonald's Suisse Restaurants Sàrl [Switzerland]
Restaurantes McDonald's, S.A. [Spain]

The names of certain subsidiaries have been omitted because they do not constitute significant subsidiaries. These include, but are not limited to: McDonald's International, LLC [Delaware]; McDonald's Latin America, LLC [Delaware]; and other domestic and foreign, direct and indirect subsidiaries of the registrant, including 49 wholly-owned subsidiaries of McDonald's USA, LLC, many of which operate one or more McDonald's restaurants within the United States and the District of Columbia.

[ ] Brackets indicate state or country of incorporation and do not form part of corporate name.

Exhibit 23. Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements of McDonald's Corporation (listed below) and in the related prospectuses of our reports dated February 23, 2018 with respect to the consolidated financial statements of McDonald's Corporation and the effectiveness of internal control over financial reporting of McDonald's Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2017.

Commission File No. for Registration Statements

Form S-8	Form S-3
333-71656	333-205731
333-115770	
333-149990	
333-177314	
333-193015	

ERNST & YOUNG LLP

Chicago, Illinois
February 23, 2018

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer, or both, of McDonald's Corporation, a Delaware corporation (the “Company”), hereby constitutes and appoints Denise A. Horne, Catherine Hoovel, Kevin M. Ozan and Jerome N. Krulewitch, and each one of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities to execute any and all amendments to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2017, to be filed with the U.S. Securities and Exchange Commission by the Company under the Securities Exchange Act of 1934, as amended, with all exhibits thereto, and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each one of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any one of them, or their or his or her substitutes, may lawfully do or cause to be done by virtue hereof.

This Power of Attorney may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney on and as of the 23rd day of February, 2018.

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

/s/ Stephen J. Easterbrook
Stephen J. Easterbrook
President, Chief Executive Officer and Director
(Principal Executive Officer)

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

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

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

/s/ Catherine Hoovel
Catherine Hoovel
Corporate Vice President – Chief Accounting Officer
(Principal Accounting Officer)

/s/ Jeanne P. Jackson
Jeanne P. Jackson
Director

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

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

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

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

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

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

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

I, Stephen J. Easterbrook, certify that:

(1) I have reviewed this annual report on Form 10-K of McDonald's Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

(5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2018

/s/ Stephen J. Easterbrook

Stephen J. Easterbrook

President and Chief Executive Officer

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

I, Kevin M. Ozan, certify that:

(1) I have reviewed this annual report on Form 10-K of McDonald’s Corporation;

(2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

(3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

(4) The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

- (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
- (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;
- (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
- (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and

(5) The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):

- (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
- (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

Date: February 23, 2018

/s/ Kevin M. Ozan

Kevin M. Ozan

Corporate Executive Vice President and
Chief Financial Officer

Exhibit 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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2017 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2018

/s/ Stephen J. Easterbrook

Stephen J. Easterbrook

President and Chief Executive Officer

Exhibit 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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2017 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 23, 2018

/s/ Kevin M. Ozan

Kevin M. Ozan

Corporate Executive Vice President and
Chief Financial Officer

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