

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, 2016

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

(Title of class)

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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

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, 2016 was \$102,676,655,213.

The number of shares outstanding of the registrant's common stock as of January 31, 2017 was 818,993,182.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2017 definitive proxy statement, which will be filed no later than 120 days after December 31, 2016.

McDONALD'S CORPORATION

INDEX

| | Page reference |
|---|-----------------------|
| Part I. | |
| Item 1 Business | 1 |
| Item 1A Risk Factors and Cautionary Statement Regarding Forward-Looking Statements | 3 |
| Item 1B Unresolved Staff Comments | 8 |
| Item 2 Properties | 8 |
| Item 3 Legal Proceedings | 8 |
| Item 4 Mine Safety Disclosures | 8 |
| Additional Item Executive Officers of the Registrant | 9 |
| Part II. | |
| Item 5 Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities | 10 |
| Item 6 Selected Financial Data | 12 |
| Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations | 13 |
| Item 7A Quantitative and Qualitative Disclosures About Market Risk | 28 |
| Item 8 Financial Statements and Supplementary Data | 28 |
| Item 9 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure | 51 |
| Item 9A Controls and Procedures | 51 |
| Item 9B Other Information | 51 |
| Part III. | |
| Item 10 Directors, Executive Officers and Corporate Governance | 51 |
| Item 11 Executive Compensation | 51 |
| Item 12 Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters | 51 |
| Item 13 Certain Relationships and Related Transactions, and Director Independence | 52 |
| Item 14 Principal Accounting Fees and Services | 52 |
| Part IV. | |
| Item 15 Exhibits and Financial Statement Schedules | 52 |
| Item 16 Form 10-K Summary | 54 |
| Signatures | 55 |
| Exhibits | |

All trademarks used herein are the property of their respective owners.

PART I

ITEM 1. Business

McDonald's Corporation, the registrant, together with its subsidiaries, is referred to herein as the "Company."

a. General

During 2016, 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, 2016, 2015, and 2014 are included in Part II, Item 8, page 44 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 approximately 85% 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 relevant 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 assure 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 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 6,300 restaurants. The largest developmental licensee operates approximately 2,200 restaurants in 19 countries in Latin America and the Caribbean. In early 2017, the Company announced the sale of its businesses in China and Hong Kong, including more than 1,750 company-operated restaurants, to a developmental licensee. Under the terms of the agreement, the Company will retain a 20% ownership in the business. The Company expects to complete the sale and licensing transaction mid-year 2017.

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. The largest of these affiliates is Japan, where there are nearly 3,000 restaurants.

▪ 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, 2016, 2015, and 2014 in Part II, Item 7, pages 13 through 27, and the consolidated statement of cash flows for the years ended December 31, 2016, 2015, and 2014 in Part II, Item 8, page 32 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 8 million outlets and generated \$1.2 trillion in annual sales in 2015, the most recent year for which data is available. McDonald's Systemwide 2015 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 18 million outlets and generated \$2.3 trillion in annual sales in 2015. McDonald's Systemwide restaurant business accounted for 0.2% of those outlets and 3.5% of the sales.

▪ **Research and development**

The Company operates research and development facilities 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 375,000 as of year-end 2016.

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 13 through 27 and Segment and geographic information in Part II, Item 8, page 44 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, One McDonald's Plaza, 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, One McDonald's Plaza, 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" and "plan" or similar expressions. In particular, statements regarding our plans, strategies, prospects and expectations regarding our business and industry 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 design and execute against our new business strategies within our new organization structure, we may not be able to increase operating income or market share.

To drive future results, we must design business strategies that are effective in delivering 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 in a way that balances value and convenience to our customers with profitability;
- Reinvest in our restaurants and identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;
- Provide clean and friendly environments that deliver a consistent McDonald's experience and demonstrate high service levels;
- Drive restaurant improvements that achieve optimal capacity, particularly during peak mealtime hours; and
- Manage the 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.

The implementation of our turnaround plan may intensify the risks we face and may not be successful in achieving improved performance.

Our turnaround plan includes an accelerated pace of refranchising, cost savings initiatives and global restructuring. As we continue to implement our plans, 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 ability to select qualified and capable franchisees and licensees. Our cost savings initiatives also depend upon our ability to achieve efficiencies through the consolidation of global, back-office functions. Therefore, if our turnaround-related 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.

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 Experience of the Future ("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 our improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives. We may not fully realize the intended benefits of these significant investments and therefore our business results may suffer.

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

We compete primarily in the “informal eating out” (IEO) segment, which is highly competitive. We are facing sluggish restaurant industry trends in several key markets, including the U.S. 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. Recognizing these dependencies, we have intensified our focus in recent periods on strategies to achieve these goals, including the turnaround plan described above, 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.

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 and consumer preferences in the 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.

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 a negative 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 that erode consumer trust or confidence, particularly if such incidents receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

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 or 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 evolves. 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, 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 effort will increase that dependence and the effect of those factors.

Our success also increasingly depends on the willingness and ability of our independent franchisees 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. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, the 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 shift to a greater percentage of franchised restaurants, in a timely manner or at all, will depend on various factors, including our ability to timely and effectively select franchisees and/or licensees that meet our rigorous standards and/or to complete transactions on favorable terms and to manage associated risks. It will also depend on the performance of our franchisees, and whether the resulting ownership mix supports our financial objectives.

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. Failure effectively to 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.

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, supply, fuel, utilities, distribution and other operating costs. Any volatility in certain commodity prices 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.

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, 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 United States 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 to the extent that corporate tax reform becomes a key component of budgetary initiatives in the United States or elsewhere. We are also impacted by settlements of pending or any future adjustments proposed by taxing authorities outside of the U.S. or the IRS 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.

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, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, or with independent third parties to conduct our business, including technology-enabled solutions provided to us by third parties. Any failure of these systems could significantly impact our operations and customer 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. The third party solutions also present the risks faced by the third party's business. If those systems or solutions 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 involving our systems, the systems of the parties we communicate or collaborate with, or those of third party providers may occur, such as unauthorized access, denial of service, computer viruses 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 and employees as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of confidential information. The occurrence of any of these incidents could result in adverse publicity, loss of consumer confidence, reduced sales and profits, and criminal penalties or civil liabilities.

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; and compliance efforts 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 United States and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the United States 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 United States 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 continuing unpredictable 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 United States, 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.

Our results and prospects can be adversely affected by events such as severe weather conditions, natural disasters, hostilities and social unrest, among others.

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 13 through 27 and in Financial statements and supplementary data in Part II, Item 8, pages 28 through 47 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, unless otherwise noted):

Ian F. Borden, 48, 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 22 years.

Stephen J. Easterbrook, 49, 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. Except for the period he was with PizzaExpress and Wagamama, Mr. Easterbrook has served the Company for 23 years.

Joseph Erlinger, 43, 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 15 years.

David O. Fairhurst, 48, 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 11 years.

Robert L. Gibbs, 45, is Corporate Executive Vice President - Corporate Relations and 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.

Douglas M. Goare, 64, is President, International Lead Markets and Chief Restaurant Officer, a position he has held since July 2015. 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 38 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 21 years.

Christopher Kempczinski, 48, is President, McDonald's USA, a position he has held since January 1, 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.

Jerome Krulewicz, 52, was promoted, effective March 4, 2017, to Corporate Executive Vice President, General Counsel and Secretary. Mr. Krulewicz is currently the Corporate Senior Vice President - Chief Counsel, Global Operations, a position he has held since 2011. Prior to that, Mr. Krulewicz was Corporate Senior Vice President - General Counsel, The Americas from 2010 to 2011. Mr. Krulewicz has served the Company for 15 years.

Silvia Lagnado, 53, 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 twenty years in positions of increased responsibility at Unilever.

Kevin M. Ozan, 53, 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 19 years.

Gloria Santona, 66, is Corporate Executive Vice President, General Counsel and Secretary, a position she has held since July 2003. Ms. Santona has been with the Company for 39 years and will retire effective March 3, 2017.

Jim R. Sappington, 58, is Corporate Executive Vice President, Operations, Digital 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 29 years.

PART II

ITEM 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION AND DIVIDEND POLICY

The Company's common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S. The following table sets forth the common stock price ranges on the New York Stock Exchange and dividends declared per common share:

| Dollars per share | 2016 | | | 2015 | | |
|-------------------|--------|--------|----------|--------|-------|----------|
| | High | Low | Dividend | High | Low | Dividend |
| Quarter: | | | | | | |
| First | 126.96 | 112.71 | 0.89 | 101.09 | 88.77 | 0.85 |
| Second | 131.96 | 116.08 | 0.89 | 101.08 | 94.02 | 0.85 |
| Third | 128.60 | 113.96 | 1.83 * | 101.88 | 87.50 | 0.85 |
| Fourth | 124.00 | 110.33 | — | 120.23 | 97.13 | 0.89 |
| Year | 131.96 | 110.33 | 3.61 | 120.23 | 87.50 | 3.44 |

* Includes an \$0.89 per share dividend declared and paid in third quarter, and a \$0.94 per share dividend declared in third quarter and paid in fourth quarter.

The number of shareholders of record and beneficial owners of the Company's common stock as of January 31, 2017 was estimated to be 1,658,000.

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 41 consecutive years through 2016 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, 2016*:

| 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, 2016 | 5,902,572 | 113.43 | 5,902,572 | \$4,571,138,206 |
| November 1-30, 2016 | 3,076,425 | 116.25 | 3,076,425 | 4,213,514,184 |
| December 1-31, 2016 | 2,915,083 | 121.76 | 2,915,083 | 3,858,569,963 |
| Total | 11,894,080 | 116.20 | 11,894,080 | |

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

(1) On December 3, 2015, the Company's Board of Directors approved a share repurchase program, effective January 1, 2016, that authorized the purchase of up to \$15 billion of the Company's outstanding common stock with no specified expiration date.

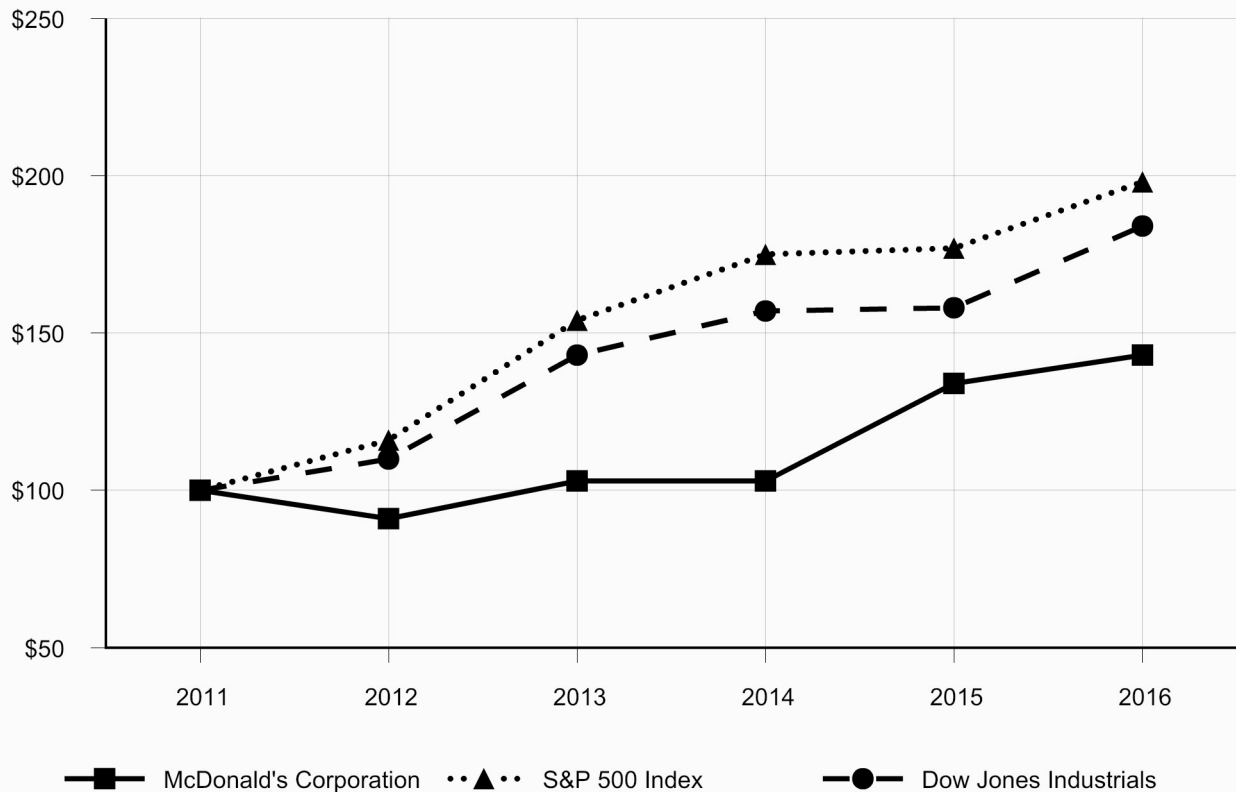
Stock Performance Graph

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, 2016. 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, 2011. 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 | 12/31/2011 | 12/31/2012 | 12/31/2013 | 12/31/2014 | 12/31/2015 | 12/31/2016 |
|------------------------|------------|------------|------------|------------|------------|------------|
| McDonald's Corporation | \$100 | \$91 | \$103 | \$103 | \$134 | \$143 |
| S&P 500 Index | 100 | 116 | 154 | 175 | 177 | 198 |
| Dow Jones Industrials | 100 | 110 | 143 | 157 | 158 | 184 |

Source: S&P Capital IQ

ITEM 6. Selected Financial Data

6-Year Summary

Years ended December 31,

In millions, except per share and unit amounts

| | 2016 | 2015 | 2014 | 2013 | 2012 | 2011 |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Consolidated Statement of Income Data | | | | | | |
| Revenues | | | | | | |
| Sales by Company-operated restaurants | \$ 15,295 | \$ 16,488 | \$ 18,169 | \$ 18,875 | \$ 18,603 | \$ 18,293 |
| Revenues from franchised restaurants | 9,327 | 8,925 | 9,272 | 9,231 | 8,964 | 8,713 |
| Total revenues | 24,622 | 25,413 | 27,441 | 28,106 | 27,567 | 27,006 |
| Operating income | 7,745 | 7,146 | 7,949 | 8,764 | 8,605 | 8,530 |
| Net income | 4,687 | 4,529 | 4,758 | 5,586 | 5,465 | 5,503 |
| Consolidated Statement of Cash Flows Data | | | | | | |
| Cash provided by operations | \$ 6,060 | \$ 6,539 | \$ 6,730 | \$ 7,121 | \$ 6,966 | \$ 7,150 |
| Cash used for investing activities | 982 | 1,420 | 2,305 | 2,674 | 3,167 | 2,571 |
| Capital expenditures | 1,821 | 1,814 | 2,583 | 2,825 | 3,049 | 2,730 |
| Cash used for (provided by) financing activities | 11,262 | (735) | 4,618 | 4,043 | 3,850 | 4,533 |
| Treasury stock purchases ⁽¹⁾ | 11,142 | 6,182 | 3,175 | 1,810 | 2,605 | 3,373 |
| Common stock dividends | 3,058 | 3,230 | 3,216 | 3,115 | 2,897 | 2,610 |
| Financial Position | | | | | | |
| Total assets | \$ 31,024 | \$ 37,939 | \$ 34,227 | \$ 36,626 | \$ 35,386 | \$ 32,990 |
| Total debt | 25,956 | 24,122 | 14,936 | 14,130 | 13,633 | 12,500 |
| Total shareholders' equity (deficit) | (2,204) | 7,088 | 12,853 | 16,010 | 15,294 | 14,390 |
| Shares outstanding | 819 | 907 | 963 | 990 | 1,003 | 1,021 |
| Per Common Share Data | | | | | | |
| Earnings-diluted | \$ 5.44 | \$ 4.80 | \$ 4.82 | \$ 5.55 | \$ 5.36 | \$ 5.27 |
| Dividends declared | 3.61 | 3.44 | 3.28 | 3.12 | 2.87 | 2.53 |
| Market price at year end | 121.72 | 118.44 | 93.70 | 97.03 | 88.21 | 100.33 |
| Restaurant Information and Other Data | | | | | | |
| Restaurants at year end | | | | | | |
| Company-operated restaurants | 5,669 | 6,444 | 6,714 | 6,738 | 6,598 | 6,435 |
| Franchised restaurants | 31,230 | 30,081 | 29,544 | 28,691 | 27,882 | 27,075 |
| Total Systemwide restaurants | 36,899 | 36,525 | 36,258 | 35,429 | 34,480 | 33,510 |
| Franchised sales ⁽²⁾ | \$ 69,707 | \$ 66,226 | \$ 69,617 | \$ 70,251 | \$ 69,687 | \$ 67,648 |

(1) Represents treasury stock purchases as reflected in Shareholders' equity.

(2) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent approximately 85% of McDonald's restaurants worldwide at December 31, 2016.

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 36,899 restaurants in 120 countries at year-end 2016, 31,230 were franchised (reflects 21,559 franchised to conventional franchisees, 6,300 licensed to developmental licensees and 3,371 licensed to foreign affiliates ("affiliates")—primarily Japan) and 5,669 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 limited number of affiliates 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, each of which the Company believes have the potential to operate under a largely franchised model. Corporate activities are also reported within this segment.

For the year ended December 31, 2016, the U.S., International Lead Markets and High Growth Markets accounted for 34%, 29% and 25% 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. 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.

PROGRESS ON THE COMPANY'S TURNAROUND

The turnaround plan, introduced in 2015, represented a significant step change in how McDonald's operates and a recommitment to putting customers first. With an aspiration of being recognized by customers as a modern and progressive burger company, the Company prioritized fewer, more strategic initiatives that focused on running better restaurants, driving operational growth, returning excitement to the brand and enhancing financial value.

Building on these initial steps, the Company made purposeful changes in 2016. The Company continued to right-size the organization and put the appropriate talent in place by blending executives with deep McDonald's experience with new executives to generate fresh energy and innovative ideas, while successfully executing against the key elements of its turnaround plan. As reflected by improved customer satisfaction measures across most of the major markets, customers have taken notice.

In addition to the customer-relevant changes in the restaurants, the Company has enhanced financial value through its refranchising efforts, cost savings initiatives and cash return to shareholders, as follows:

- **Refranchising** - the Company expects to achieve its refranchising target of 4,000 restaurants by the end of 2017, a full year ahead of the original target date, with a long-term goal to become approximately 95% franchised. Since 2015, the Company has pursued its refranchising goal through the expansion of its conventional franchisee base and the addition of new developmental licensees that bring strong strategic capabilities and financial resources that will enable accelerated expansion and innovation.

Moving to a more heavily franchised business model will benefit the Company's performance over the long term, as the rent and royalty income received from franchisees will provide a more predictable and stable revenue stream with significantly lower operating costs and risks. This model is less capital intensive as franchisees are responsible for reinvesting capital in their businesses.

- **Cost Savings** - the Company made meaningful progress towards its goal of reducing net G&A levels by \$500 million by the end of 2018 from the Company's G&A base of \$2.6 billion at the beginning of 2015. Actions taken in 2015 and 2016, including the redesign of the organization to eliminate layers and increase spans of control, more centralization of non-customer facing business processes and execution

against its refranchising targets, have resulted in savings of more than \$200 million.

- **Cash Return to Shareholders** - The strength and reliability of the Company's significant and growing free cash flow, strong investment grade credit rating and continued access to credit provide the flexibility to fund capital expenditures as well as return cash to shareholders. By the end of 2016, the Company achieved its three-year target of \$30 billion cash return to shareholders. Optimization of the Company's capital structure by adding a meaningful amount of additional debt was instrumental in meeting this target.

2016 FINANCIAL PERFORMANCE

The Company's progress in executing the turnaround plan is evident by its stronger business results, including the highest comparable sales growth since 2011. In McDonald's heavily franchised business model, growing comparable sales is key to increasing operating income and returns. In 2016, global comparable sales increased 3.8%, including positive comparable sales across all segments. Comparable guest counts were negative 0.3%, as positive guest traffic in the Foundational Markets and International Lead Markets was more than offset by negative guest traffic in the U.S. and High Growth Markets.

- Comparable sales in the U.S. increased 1.7%, due in part to a higher average check, while comparable guest counts declined 2.1% amidst continued industry softness. The growth in comparable sales was supported by All-Day Breakfast and everyday value under the McPick 2 platform.
- Comparable sales in the International Lead Markets increased 3.4% and comparable guest counts increased 1.5%, reflecting solid comparable sales performance across most of the segment, led by the U.K.
- In the High Growth Markets, comparable sales increased 2.8%, while comparable guest counts declined 0.8%. The increase in comparable sales reflected positive results across most of the segment, led by China.
- Comparable sales in the Foundational Markets increased 10.0% and comparable guest counts increased 1.9%, led by very strong performance in Japan and certain markets in Latin America, as well as solid results across the remainder of the segment.

In addition to improved comparable sales performance, the Company achieved the following financial results in 2016:

- Consolidated revenues decreased 3% (flat in constant currencies) due to the impact of refranchising, partly offset by positive comparable sales.
- Systemwide sales increased 3% (5% in constant currencies).
- Consolidated operating income increased 8% (11% in constant currencies).
- Operating margin, defined as operating income as a percent of total revenues, increased from 28.1% in 2015 to 31.5% in 2016.
- Diluted earnings per share of \$5.44 increased 13% (16% in constant currencies).
- Cash provided by operations was \$6.1 billion.
- Capital expenditures of \$1.8 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings. Across the System, about 900

restaurants were opened and over 1,700 existing locations were reimaged.

- Free cash flow was \$4.2 billion and the Company's free cash flow conversion rate was 90% (see reconciliation in Exhibit 12).
- One-year ROIIC was 62.7% and three-year ROIIC was 5.1% for the period ended December 31, 2016 (see reconciliation in Exhibit 12).
- The Company increased its quarterly cash dividend per share by 6% to \$0.94 for the fourth quarter, equivalent to an annual dividend of \$3.76 per share.
- The Company returned \$14.2 billion to shareholders through dividends and share repurchases for the year, achieving the Company's targeted return of \$30 billion for the three-year period ended 2016.

STRATEGIC DIRECTION

Building on the momentum established in 2016, the Company is beginning to shift focus from revitalizing the business to longer-term growth. The Company will move with increased velocity to drive sustainable guest count growth, a reliable long-term measure of the Company's strength that is vital to growing the Company's sales and shareholder value.

In order to drive guest count growth in an ever-changing customer environment, the Company developed a customer-centric growth strategy for 2017 and beyond, informed by deep customer research across multiple markets. The Company's greatest opportunities are at the heart of the brand - in its food, value and customer experience - and within defined customer groups. This strategy is built on the following three pillars, which will position McDonald's as a modern and progressive burger company that "makes delicious, feel good moments easy for everyone."

- **Retaining existing customers.** The Company will renew its focus on areas where the Company already has a strong foothold in the IEO, including family occasions and food-led breakfast.
- **Regaining lost customers.** The Company plans to regain customers by recommitting to areas of historic strength, namely quality, convenience and value.
- **Converting casual to committed customers.** The Company will focus on building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack and treat offerings.

The Company will continue to build upon its investments in Experience of the Future ("EOTF"), which focuses on restaurant modernization and technology, in order to transform the restaurant service experience. The Company is also accelerating its pursuit of the following two initiatives designed to further drive growth.

- **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 will simplify 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.
- **Delivery.** The Company is accelerating its focus and investment on its delivery platform as a way to expand the convenience customers expect from McDonald's. The

Company is conducting various pilot tests in the U.S., Europe and Asia and plans to scale quickly based on results of these pilots.

AREAS OF FOCUS BY SEGMENT

U.S.

While the U.S. has begun to build sales momentum, its greatest opportunity is guest count growth, by focusing on actions that collectively transform the customer experience.

A focus on food taste and quality will remain a key priority, including offering the Company's best tasting burger. In 2017, the U.S. is planning to introduce its Signature Crafted offering, a premium platform focused on authentic ingredients that allows customers to customize their sandwiches. In addition, the U.S. will remain focused on strengthening its customer-relevant value proposition.

The U.S. expects to launch its mobile order and pay functionality as well as curbside pick-up across all traditional restaurants in the fourth quarter 2017. Further, most of the System's traditional restaurants are expected to be converted to EOTF by 2020. In addition, the U.S. will continue to test its delivery platform.

International Lead Markets

The International Lead Markets are deepening their connection with customers and meeting 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. Entry-level value programs appeal to teens and young adults, while other platforms provide budget-conscious customers affordable meal bundles. Programs across the segment are energizing the core menu, and every market has successfully extended into premium chicken and beef with locally relevant offerings. All of this is supported by modernized cooking and service platforms that expand capacity and enable hotter, fresher products. The segment will also remain focused on enhancing and expanding the McCafé coffee brand and pastry offerings.

The International Lead Markets continues to lead the McDonald's System in the development and deployment of EOTF.

High Growth Markets

McDonald's High Growth Markets have leveraged learnings from the International Lead Markets to enhance the customer experience through design, digital, people, menu innovation and value.

In addition to driving operational growth in existing restaurants, targeted new restaurant development and refranchising initiatives are top priorities. In early 2017, the Company announced the planned sale of its businesses in China and Hong Kong to a developmental licensee.

Foundational Markets

The Foundational Markets is a diverse group of markets that share common goals of enhancing the 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 through drive-thru and delivery. The Foundational Markets continue to pursue refranchising opportunities, including the sale of certain markets to developmental licensees. In early 2017, the Company announced the planned sale of its businesses in the Nordic markets (Denmark, Finland, Norway and Sweden) to a developmental licensee.

OUTLOOK

2017 Outlook

The following global and certain segment-specific information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 1 percentage point to 2017 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 4 to 5 cents.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2017, costs for the total basket of goods are expected to increase about 0.5-1.5% in the U.S. and increase about 2.0% in the International Lead segment.
- The Company expects full-year 2017 selling, general and administrative expenses to decrease about 7-8%, in constant currencies with fluctuations expected between the quarters. This includes incentive-based compensation costs of less than \$300 million.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2017 to increase about 5-10% compared with 2016 due to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 35% 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 25 cents.
- The Company expects the effective income tax rate for the full-year 2017 to be in the 31-33% range. Some volatility may result in a quarterly tax rate outside of the annual range.
- The Company expects capital expenditures for 2017 to be approximately \$1.7 billion, about one-third of which will be used to open new restaurants. The Company expects to open about 900 restaurants, including about 500 restaurants in affiliated and developmental licensee markets where the Company generally does not fund any capital expenditures. The Company expects net additions of about 400 restaurants. The remaining two-thirds of capital will be used to reinvest in existing locations, including about 650 reimages in the U.S. When combined with previously modernized restaurants that will be updated with EOTF elements in 2017, we expect to have about 2,500 EOTF restaurants in the U.S. by the end of 2017.

Long-Term Outlook

- The Company expects to rebrand about 4,000 restaurants in the three-year period ending 2017, with a long-term goal to become approximately 95% franchised.
- 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 2016, the Company realized cumulative savings of more than \$200 million and expects to realize the majority of its savings target by the end of 2017. Beyond its \$500 million reduction, the Company expects to further reduce G&A by 5-10% from the remaining G&A base by the end of 2019. These targets exclude the impact of foreign currency changes.
- The Company expects capital expenditures to decline by approximately \$500 million from the 2017 level of \$1.7 billion, once the U.S. restaurant modernization work is substantially completed.
- The Company expects to return between \$22 and \$24 billion to shareholders for the three-year period ending 2019. This new target contemplates proceeds from future restaurant sales expected under its ongoing rebranding initiative. As the business grows, the Company also expects to modestly increase its debt levels, while maintaining its credit metrics within current ranges.

Long-Term Financial Targets

The Company has established the following long-term, average annual (constant currency) financial targets, beginning in 2019, with variability expected during 2017 and 2018 due to the impact of rebranding:

- Systemwide sales growth of 3-5%;
- Operating margin in the mid-40% range;
- Earnings per share growth in the high-single digits; and
- ROIC in the mid-20% range.

Consolidated Operating Results

Operating results

| <i>Dollars and shares in millions, except per share data</i> | 2016 | | 2015 | | 2014 |
|--|-----------------|-------------------------|-----------------|-------------------------|-----------------|
| | Amount | Increase/ (decrease) | Amount | Increase/ (decrease) | Amount |
| Revenues | | | | | |
| Sales by Company-operated restaurants | \$15,295 | (7%) | \$16,488 | (9%) | \$18,169 |
| Revenues from franchised restaurants | 9,327 | 5 | 8,925 | (4) | 9,272 |
| Total revenues | 24,622 | (3) | 25,413 | (7) | 27,441 |
| Operating costs and expenses | | | | | |
| Company-operated restaurant expenses | 12,699 | (9) | 13,977 | (9) | 15,288 |
| Franchised restaurants-occupancy expenses | 1,718 | 4 | 1,647 | (3) | 1,697 |
| Selling, general & administrative expenses | 2,384 | (2) | 2,434 | (2) | 2,488 |
| Other operating (income) expense, net | 76 | (64) | 209 | n/m | 19 |
| Total operating costs and expenses | 16,877 | (8) | 18,267 | (6) | 19,492 |
| Operating income | 7,745 | 8 | 7,146 | (10) | 7,949 |
| Interest expense | 885 | 39 | 638 | 11 | 576 |
| Nonoperating (income) expense, net | (6) | 87 | (48) | n/m | 1 |
| Income before provision for income taxes | 6,866 | 5 | 6,556 | (11) | 7,372 |
| Provision for income taxes | 2,180 | 8 | 2,027 | (22) | 2,614 |
| Net income | \$ 4,686 | 3% | \$ 4,529 | (5%) | \$ 4,758 |
| Earnings per common share—diluted | \$ 5.44 | 13% | \$ 4.80 | 0% | \$ 4.82 |
| Weighted-average common shares outstanding—diluted | 861.2 | (9%) | 944.6 | (4%) | 986.3 |

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.

Foreign currency translation had a negative impact on consolidated operating results in each of the last three years. In 2016, results were negatively impacted by the weaker British Pound as well as many other currencies. In 2015, results were negatively impacted by the weaker Euro, Australian Dollar, Russian Ruble and most other currencies. In 2014, results were negatively impacted by the weaker Russian Ruble, Australian Dollar and certain other currencies, partly offset by the stronger British Pound.

Impact of foreign currency translation on reported results

| <i>In millions, except per share data</i> | Reported amount | | | Currency translation benefit/(cost) | | |
|--|-----------------|-----------|-----------|-------------------------------------|------------|----------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2014 |
| Revenues | \$ 24,622 | \$ 25,413 | \$ 27,441 | \$ (692) | \$ (2,829) | \$ (570) |
| Company-operated margins | 2,596 | 2,511 | 2,881 | (89) | (331) | (60) |
| Franchised margins | 7,609 | 7,278 | 7,575 | (118) | (626) | (119) |
| Selling, general & administrative expenses | 2,384 | 2,434 | 2,488 | 28 | 158 | 21 |
| Operating income | 7,745 | 7,146 | 7,949 | (173) | (771) | (152) |
| Net income | 4,686 | 4,529 | 4,758 | (97) | (473) | (114) |
| Earnings per common share—diluted | 5.44 | 4.80 | 4.82 | (0.11) | (0.50) | (0.12) |

NET INCOME AND DILUTED EARNINGS PER COMMON 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.

In 2015, net income decreased 5% (increased 5% in constant currencies) to \$4.5 billion and diluted earnings per common share was relatively flat (increased 10% in constant currencies) at \$4.80. Foreign currency translation had a negative impact of \$0.50 on diluted earnings per share.

Results in 2016 benefited from stronger operating performance and higher gains on sales of restaurant businesses, mostly in the U.S., while results in 2015 benefited from higher franchised margins and a gain on the strategic sale of a unique restaurant property in the U.S.

Both 2016 and 2015 results were partly offset by net pre-tax impairment and other charges of \$342 million and \$307 million, respectively, primarily related to goodwill impairment and other asset write-offs in conjunction with the Company's refranchising initiatives, restructuring and incremental restaurant closings. The 2015 charges combined with the gain on the strategic sale of a unique restaurant property in the U.S. had a net negative impact on diluted earnings per share of \$0.18 in 2015, while the 2016 charges had a net negative impact on diluted earnings per share of \$0.28 in 2016.

The Company repurchased 92.3 million shares of its stock for \$11.1 billion in 2016 and 61.8 million shares of its stock for \$6.2 billion in 2015, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales, minimum rent payments and initial fees. Revenues from franchised restaurants that are licensed to foreign affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees.

The Company continues to accelerate 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 2016, revenues decreased 3% (flat in constant currencies) due to the impact of refranchising, partly offset by positive comparable sales. In 2015, revenues decreased 7% (increased 3% in constant currencies), partly due to foreign currency translation. In constant currencies, revenue growth was driven by positive comparable sales and the benefit from expansion.

Revenues

| Dollars in millions | Amount | | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|----------------------------------|----------|----------|----------|---------------------|------|--|------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2016 | 2015 |
| Company-operated sales: | | | | | | | |
| U.S. | \$ 3,743 | \$ 4,198 | \$ 4,351 | (11%) | (4%) | (11%) | (4%) |
| International Lead Markets | 4,278 | 4,798 | 5,443 | (11) | (12) | (6) | 1 |
| High Growth Markets | 5,378 | 5,442 | 6,071 | (1) | (10) | 4 | 6 |
| Foundational Markets & Corporate | 1,896 | 2,050 | 2,304 | (8) | (11) | (5) | 5 |
| Total | \$15,295 | \$16,488 | \$18,169 | (7%) | (9%) | (4%) | 2% |
| Franchised revenues: | | | | | | | |
| U.S. | \$ 4,510 | \$ 4,361 | \$ 4,300 | 3% | 1% | 3% | 1% |
| International Lead Markets | 2,945 | 2,817 | 3,101 | 5 | (9) | 8 | 6 |
| High Growth Markets | 783 | 731 | 774 | 7 | (5) | 9 | 9 |
| Foundational Markets & Corporate | 1,089 | 1,016 | 1,097 | 7 | (7) | 11 | 10 |
| Total | \$ 9,327 | \$ 8,925 | \$ 9,272 | 5% | (4%) | 6% | 5% |
| Total revenues: | | | | | | | |
| U.S. | \$ 8,253 | \$ 8,559 | \$ 8,651 | (4%) | (1%) | (4%) | (1%) |
| International Lead Markets | 7,223 | 7,615 | 8,544 | (5) | (11) | (1) | 3 |
| High Growth Markets | 6,161 | 6,173 | 6,845 | 0 | (10) | 4 | 6 |
| Foundational Markets & Corporate | 2,985 | 3,066 | 3,401 | (3) | (10) | 1 | 7 |
| Total | \$24,622 | \$25,413 | \$27,441 | (3%) | (7%) | 0% | 3% |

- US:** In 2016, the decrease in revenues reflected the impact of refranchising, partly offset by modestly positive comparable sales. In 2015, the decrease reflected the impact of refranchising.
- International Lead Markets:** 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. In 2015, revenues decreased due to foreign currency translation. In constant currencies, revenues increased due to positive comparable sales performance, primarily in the U.K., Australia and Canada, partly offset by the impact of refranchising.
- High Growth Markets:** In 2016 and 2015, 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 continued expansion in Russia. In constant currencies, 2015 revenues increased due to expansion and positive comparable sales, primarily driven by Russia and China.

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

Comparable sales and guest count increases/(decreases)

| | 2016 | | 2015 | | 2014 | |
|----------------------------------|-------|--------------|-------|--------------|--------|--------------|
| | Sales | Guest Counts | Sales | Guest Counts | Sales | Guest Counts |
| U.S. | 1.7% | (2.1%) | 0.5% | (3.0%) | (2.1%) | (4.1%) |
| International Lead Markets | 3.4 | 1.5 | 3.4 | 1.0 | 0.8 | (1.2) |
| High Growth Markets | 2.8 | (0.8) | 1.8 | (2.2) | (2.8) | (2.9) |
| Foundational Markets & Corporate | 10.0 | 1.9 | 0.7 | (3.7) | (0.1) | (4.8) |
| Total | 3.8% | (0.3%) | 1.5% | (2.3%) | (1.0%) | (3.6%) |

Systemwide sales increases/(decreases)

| | 2016 | | 2015 | | Increase/(decrease) excluding currency translation | |
|----------------------------------|------|------|------|------|--|------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| U.S. | 2% | 1% | 2% | 1% | 2% | 1% |
| International Lead Markets | 1 | (10) | 5 | 5 | 5 | 5 |
| High Growth Markets | 3 | (7) | 6 | 8 | 6 | 8 |
| Foundational Markets & Corporate | 8 | (13) | 11 | 3 | 11 | 3 |
| Total | 3% | (6%) | 5% | 3% | 5% | 3% |

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

| <i>Dollars in millions</i> | Amount | | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|----------------------------------|----------|----------|----------|---------------------|------|--|------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2016 | 2015 |
| U.S. | \$32,646 | \$31,639 | \$31,096 | 3% | 2% | 3% | 2% |
| International Lead Markets | 17,049 | 16,313 | 17,921 | 5 | (9) | 8 | 6 |
| High Growth Markets | 4,858 | 4,525 | 4,678 | 7 | (3) | 10 | 10 |
| Foundational Markets & Corporate | 15,154 | 13,749 | 15,922 | 10 | (14) | 14 | 3 |
| Total | \$69,707 | \$66,226 | \$69,617 | 5% | (5%) | 7% | 4% |

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 75% of the combined restaurant margins in 2016, 2015 and 2014.

In 2016, franchised margin dollars increased \$331 million or 5% (6% in constant currencies). In 2015, franchised margin dollars decreased \$297 million or 4% (increased 4% in constant currencies), due to foreign currency translation. For both 2016 and 2015, the constant currency increases were due to positive comparable sales performance, expansion and refranchising.

In connection with the Company's refranchising initiatives, the Company expects to refranchise about 4,000 restaurants for the three-year period ending 2017. While this refranchising activity may have a dilutive effect on the franchised margin percent, it typically results in higher franchised margin dollars.

Franchised margins

| Dollars in millions | 2016 | | 2015 | | 2014 | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|----------------------------------|---------|--------------|---------|--------------|---------|--------------|---------------------|------|--|------|
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | 2016 | 2015 | 2016 | 2015 |
| U.S. | \$3,726 | 82.6% | \$3,606 | 82.7% | \$3,572 | 83.1% | 3% | 1% | 3% | 1% |
| International Lead Markets | 2,363 | 80.2 | 2,254 | 80.0 | 2,486 | 80.1 | 5 | (9) | 8 | 6 |
| High Growth Markets | 550 | 70.2 | 520 | 71.1 | 555 | 71.7 | 6 | (6) | 8 | 7 |
| Foundational Markets & Corporate | 970 | 89.1 | 898 | 88.3 | 962 | 87.7 | 8 | (7) | 12 | 11 |
| Total | \$7,609 | 81.6% | \$7,278 | 81.5% | \$7,575 | 81.7% | 5% | (4%) | 6% | 4% |

- **U.S.:** In 2016 and 2015, the decreases in the franchised margin percent were due to higher occupancy costs, partly offset by positive comparable sales.
- **International Lead Markets:** In 2016, the increase in the franchised margin percent reflected the benefit from positive comparable sales performance, partly offset by higher occupancy costs and the impact of refranchising. In 2015, the slight decrease reflected the benefit from positive comparable sales performance and the negative impact from higher occupancy costs and refranchising.

- **High Growth Markets:** In 2016, the decrease in the franchised margin percent was primarily due to the impact of refranchising and higher occupancy costs, partly offset by the benefit of positive comparable sales performance. In 2015, the decrease was primarily due to the impact of refranchising.

The franchised margin percent in Foundational Markets & Corporate is higher relative to the other segments due to a larger proportion of developmental licensed and/or 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 2016, Company-operated margin dollars increased \$85 million or 3% (7% in constant currencies). In 2015, Company-operated margin dollars decreased \$370 million or 13% (1% in constant currencies).

Company-operated margins

| Dollars in millions | 2016 | | 2015 | | 2014 | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|----------------------------------|---------|--------------|---------|--------------|---------|--------------|---------------------|-------|--|-------|
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue | 2016 | 2015 | 2016 | 2015 |
| U.S. | \$ 618 | 16.5% | \$ 632 | 15.1% | \$ 756 | 17.4% | (2%) | (16%) | (2%) | (16%) |
| International Lead Markets | 886 | 20.7 | 961 | 20.0 | 1,080 | 19.8 | (8) | (11) | (3) | 2 |
| High Growth Markets | 796 | 14.8 | 659 | 12.1 | 780 | 12.9 | 21 | (16) | 26 | 3 |
| Foundational Markets & Corporate | 296 | 15.6 | 259 | 12.7 | 265 | 11.5 | 14 | (2) | 17 | 15 |
| Total | \$2,596 | 17.0% | \$2,511 | 15.2% | \$2,881 | 15.9% | 3% | (13%) | 7% | (1%) |

- **U.S.:** In 2016, the increase in the Company-operated margin percent was due to a higher average check and lower commodity costs, partly offset by the impact of negative guest counts and higher labor costs. In 2015, the decrease was primarily due to the incremental investment in wages and benefits for eligible Company-operated restaurant employees, effective July 1, 2015, designed to improve restaurant performance and enhance our employment proposition.
- **International Lead Markets:** In 2016 and 2015, the increases in the Company-operated margin percent were primarily due to positive comparable sales, partly offset by higher labor and occupancy costs. In 2015, the margin percent also benefited from refranchising efforts.

- **High Growth Markets:** In 2016, the increase in the Company-operated margin percent was primarily due to positive comparable sales and improved restaurant profitability in China, which benefited from recent value-added tax ("VAT") reform, partly offset by higher labor costs across the segment. In 2015, the decrease was primarily due to the negative impact from currency and inflationary pressures in Russia, and higher labor and occupancy costs across the segment. This was partly offset by the benefit from recovery in China from a 2014 supplier issue.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses decreased 2% (1% in constant currencies) in 2016 and decreased 2% (increased 4% in constant currencies) in 2015. The decrease in 2016 was due to lower employee-related costs resulting from the Company's recent restructuring and other cost-saving initiatives, mostly offset by higher incentive-based compensation expenses reflecting improved Company performance. The decrease in 2015 benefited from foreign currency translation. In constant currencies, selling, general and administrative expenses increased due to higher incentive-based compensation costs reflecting improved performance, partly offset by lower employee-related costs resulting from the Company's restructuring initiatives.

Selling, general & administrative expenses

| Dollars in millions | Amount | | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|--|---------|---------|---------|---------------------|------|--|---------------------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2016 | 2015 |
| U.S. | \$ 741 | \$ 766 | \$ 772 | (3%) | (1%) | (3%) | (1%) |
| International Lead Markets | 464 | 534 | 621 | (13) | (14) | (10) | (1) |
| High Growth Markets | 294 | 326 | 389 | (10) | (16) | (6) | (5) |
| Foundational Markets & Corporate ⁽¹⁾ | 885 | 808 | 706 | 10 | 15 | 10 | 20 |
| Total (Selling, General & Administrative Expenses) | \$2,384 | \$2,434 | \$2,488 | (2%) | (2%) | (1%) | 4% |
| Less: Incentive-Based Compensation ⁽²⁾ | 418 | 317 | 171 | 32% | 85% | 33% | 95% |
| Total (Excluding Incentive-Based Compensation) | \$1,966 | \$2,117 | \$2,317 | (7%) | (9%) | (6%) ⁽³⁾ | (2%) ⁽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 \$24.8 million of foreign currency benefit.

(4) Excludes \$142.1 million of foreign currency benefit.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.8% in 2016, 2.9% in 2015 and 2.8% in 2014. 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 to be achieved by the end of 2018, excluding the effects of any foreign currency changes. These savings represent a reduction of about 20% from our selling, general and administrative base of \$2.6 billion at the beginning of 2015. This base included incentive-based compensation of approximately \$330 million, which assumed achievement of planned operating performance. In 2014, the lower incentive-based compensation reflected nominal payouts for the Company's short-term cash bonus program.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

| In millions | 2016 | 2015 | 2014 |
|--|----------|----------|----------|
| Gains on sales of restaurant businesses | \$ (283) | \$ (146) | \$ (137) |
| Equity in (earnings) losses of unconsolidated affiliates | (55) | 147 | 9 |
| Asset dispositions and other (income) expense, net | 72 | (27) | 108 |
| Impairment and other charges (gains), net | 342 | 235 | 39 |
| Total | \$ 76 | \$ 209 | \$ 19 |

• Gains on sales of restaurant businesses

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 increased in 2016 mainly due to improved performance in Japan. In 2015, the decrease was primarily due to weaker results in Japan, including the decision to close under-performing restaurants.

• Asset dispositions and other (income) expense, net

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

Impairment and other charges (gains), net included pre-tax impairment charges incurred primarily in Foundational Markets and Corporate, and charges incurred in connection with global restructuring activities.

OPERATING INCOME

Operating income

| Dollars in millions | Amount | | | Increase/(decrease) | | Increase/(decrease) excluding currency translation | |
|----------------------------------|---------|---------|---------|---------------------|-------|--|------|
| | 2016 | 2015 | 2014 | 2016 | 2015 | 2016 | 2015 |
| U.S. | \$3,769 | \$3,612 | \$3,523 | 4% | 3% | 4% | 3% |
| International Lead Markets | 2,838 | 2,713 | 3,034 | 5 | (11) | 9 | 4 |
| High Growth Markets | 1,049 | 841 | 934 | 25 | (10) | 29 | 9 |
| Foundational Markets & Corporate | 89 | (20) | 458 | n/m | n/m | n/m | (74) |
| Total | \$7,745 | \$7,146 | \$7,949 | 8% | (10%) | 11% | 0% |

- U.S.:** In 2016, the increase in operating income reflected higher sales-driven 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. In 2015, the increase was primarily due to the aforementioned gain on sale of property and higher franchised margin dollars, partly offset by lower Company-operated margin dollars reflecting higher costs associated with the incremental investment in wages and benefits for eligible Company-operated restaurant employees, effective July 1, 2015. In addition, 2015 results were negatively impacted by restructuring and restaurant closing charges.
- International Lead Markets:** In 2016, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars across most markets. In 2015, the operating income decrease was due to foreign currency translation. In constant currencies, the operating income increase was primarily due to higher franchised margin dollars, benefiting from positive comparable sales performance.
- High Growth Markets:** In 2016, the constant currency operating income increase was driven primarily by improved restaurant profitability in China. In 2015, the operating income decrease was due to foreign currency translation. In constant currencies, the operating income increase reflected recovery from a 2014 supplier issue in China and higher franchised margin dollars, partly offset by restaurant closing charges.
- Foundational Markets and Corporate:** In 2016, the constant currency operating income 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. In 2015, the constant currency decrease was due to strategic charges across the segment and weaker results in Japan, as well as higher Corporate selling, general and administrative expenses, including the centralization of certain costs.
- Operating margin**
 Operating margin was 31.5% in 2016, 28.1% in 2015 and 29.0% in 2014.

INTEREST EXPENSE

Interest expense increased 39% and 11% in 2016 and 2015, respectively, primarily due to higher average debt balances in connection with the Company's strategy to optimize its capital structure, partly offset by lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

| In millions | 2016 | 2015 | 2014 |
|---------------------------------------|--------|---------|---------|
| Interest income | \$ (4) | \$ (9) | \$ (20) |
| Foreign currency and hedging activity | (24) | (56) | 20 |
| Other expense | 22 | 17 | 1 |
| Total | \$ (6) | \$ (48) | \$ 1 |

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 2016, 2015 and 2014, the reported effective income tax rates were 31.7%, 30.9% and 35.5%, respectively.

In 2014, the higher effective income tax rate was primarily due to a change in tax reserves for 2003-2010 resulting from an unfavorable lower tax court ruling in a foreign tax jurisdiction, as well as the impact of changes in tax reserves related to audit progression in multiple foreign tax jurisdictions. These items had a negative impact of 4.1% on the effective tax rate.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of \$2.0 billion in 2016 and \$1.8 billion in 2015. 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 34 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 \$6.1 billion and free cash flow was \$4.2 billion in 2016, while cash provided by operations totaled \$6.5 billion and free cash flow was \$4.7 billion in 2015. 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. In 2015, cash provided by operations decreased \$191 million or 3% compared with 2014 primarily due to lower operating results, including the impact from weaker foreign currencies, and other operating activity, partly offset by changes in working capital.

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 investing activities totaled \$1.4 billion in 2015, a decrease of \$885 million compared with 2014. The decrease primarily reflected lower capital expenditures.

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. Cash provided by financing activities totaled \$735 million in 2015, an increase of \$5.4 billion compared with 2014, primarily due to an increase in net borrowings, partly offset by higher treasury stock purchases.

The Company's cash and equivalents balance was \$1.2 billion and \$7.7 billion at year end 2016 and 2015, respectively. The decrease was mostly due to higher net borrowings in 2015 that were used for share repurchases in 2016. 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 2016, the Company opened 896 restaurants and closed 522 restaurants. In 2015, the Company opened 989 restaurants and closed 722 restaurants. The increase in restaurant closings in 2015 reflected a strategic review that resulted in additional closures of under-performing 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

| | 2016 | 2015 | 2014 |
|----------------------------------|--------|--------|--------|
| U.S. | 14,155 | 14,259 | 14,350 |
| International Lead Markets | 6,851 | 6,802 | 6,717 |
| High Growth Markets | 5,552 | 5,266 | 5,031 |
| Foundational Markets & Corporate | 10,341 | 10,198 | 10,160 |
| Total | 36,899 | 36,525 | 36,258 |

Approximately 85% of the restaurants at year-end 2016 were franchised, including 92% in the U.S., 84% in International Lead Markets, 48% in High Growth Markets and 94% in Foundational Markets.

Capital expenditures in 2016 were essentially flat with 2015, primarily due to higher reinvestment related to reimaging, offset by fewer new restaurant openings. Capital expenditures decreased \$769 million or 30% in 2015, primarily due to fewer new restaurant openings and lower reinvestment at existing restaurants.

Capital expenditures invested in the U.S., International Lead markets and High Growth markets represented over 90% of the total in 2016, 2015 and 2014.

Capital expenditures

| In millions | 2016 | 2015 | 2014 |
|----------------------------|----------|----------|----------|
| New restaurants | \$ 674 | \$ 892 | \$ 1,435 |
| Existing restaurants | 1,108 | 842 | 1,044 |
| Other ⁽¹⁾ | 39 | 80 | 104 |
| Total capital expenditures | \$ 1,821 | \$ 1,814 | \$ 2,583 |
| Total assets | \$31,024 | \$37,939 | \$34,227 |

(1) Primarily corporate equipment and other office-related expenditures

New restaurant investments in all years were concentrated in markets with strong returns 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 \$3.4 million in 2016.

The Company owned approximately 45% of the land and about 70% of the buildings for restaurants in its consolidated markets at year-end 2016 and 2015.

SHARE REPURCHASES AND DIVIDENDS

In 2016, the Company returned \$14.2 billion to shareholders through a combination of shares repurchased and dividends paid, marking the achievement of the Company's targeted return of \$30 billion for the three-year period ended 2016.

Shares repurchased and dividends

| In millions, except per share data | 2016 | 2015 | 2014 |
|--|----------|---------|---------|
| Number of shares repurchased | 92.3 | 61.8 | 33.1 |
| Shares outstanding at year end | 819 | 907 | 963 |
| Dividends declared per share | \$ 3.61 | \$ 3.44 | \$ 3.28 |
| Treasury stock purchases (in Shareholders' equity) | \$11,142 | \$6,182 | \$3,175 |
| Dividends paid | 3,058 | 3,230 | 3,216 |
| Total returned to shareholders | \$14,200 | \$9,412 | \$6,391 |

In December 2015, the Company's Board of Directors approved a \$15 billion share repurchase program, effective January 1, 2016, with no specified expiration date. In 2016, approximately 92.3 million shares were repurchased for \$11.1 billion under the program.

The Company has paid dividends on its common stock for 41 consecutive years and has increased the dividend amount every year. The 2016 full year dividend of \$3.61 per share reflects the quarterly dividend paid for each of the first three quarters of \$0.89 per share, with an increase to \$0.94 per share paid in the fourth quarter. This 6% increase in the quarterly dividend equates to a \$3.76 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 decreased \$6.9 billion or 18% in 2016 primarily due to lower cash and equivalents. Nearly 85% of total assets were in the U.S., International Lead markets and High Growth markets at year-end 2016. Net property and equipment decreased \$1.9 billion in 2016, primarily due to the impact of depreciation and the reclass of the assets of China, Hong Kong, and Taiwan markets to assets of businesses held for sale, partly offset by capital expenditures. Net property and equipment represented about 70% 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 2016, 2015 and 2014, return on average assets was 23.0%, 20.9% and 21.8%, respectively.

In 2016, return on average assets increased due to higher operating income and lower average assets. In 2015, return on average assets decreased primarily due to the negative impact of foreign currency translation on operating income, partly offset by 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, 2016 totaled \$26.0 billion, compared with \$24.1 billion at December 31, 2015. The net increase in 2016 was primarily due to net long-term issuances of \$2.7 billion.

Debt highlights⁽¹⁾

| | 2016 | 2015 | 2014 |
|--|------|------|------|
| Fixed-rate debt as a percent of total debt ^(2,3) | 82% | 81% | 74% |
| Weighted-average annual interest rate of total debt ⁽³⁾ | 3.5 | 3.8 | 4.0 |
| Foreign currency-denominated debt as a percent of total debt ⁽²⁾ | 34 | 29 | 40 |
| Total debt as a percent of total capitalization (total debt and total Shareholders' equity) ⁽²⁾ | 109 | 77 | 54 |
| Cash provided by operations as a percent of total debt ⁽²⁾ | 23 | 27 | 45 |

(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, 2016, 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 2017 is \$1.6 billion of long-term corporate debt. The Company plans to issue long-term debt to refinance this maturing debt. As of December 31, 2016, the Company's subsidiaries also had \$489 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements, of which \$297 million is classified in Liabilities of businesses held for sale on the consolidated balance sheet.

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 \$8.9 billion and \$7.0 billion for the years ended December 31, 2016 and 2015, 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, 2016, 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

| <i>In millions of U.S. Dollars</i> | 2016 | 2015 |
|------------------------------------|----------|----------|
| Euro | \$ 1,968 | \$ 3,974 |
| British Pounds Sterling | 1,340 | 1,333 |
| Australian Dollars | 1,393 | 1,316 |
| Canadian Dollars | 1,190 | 1,096 |
| Japanese Yen | 490 | 363 |

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 2016 levels nor a 10% adverse change in foreign currency rates from 2016 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 are considered to be indefinitely 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. Accordingly, no U.S. federal or state income taxes have been provided on these undistributed foreign earnings. The Company's cash and equivalents held by our foreign subsidiaries totaled approximately \$663 million as of December 31, 2016. We do not intend, nor do we foresee a need, to repatriate these funds.

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.

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. This could also result in a higher effective tax rate in the future.

While the likelihood is remote, to the extent foreign cash is available, the Company could also elect to repatriate earnings from foreign jurisdictions that have previously been considered to be indefinitely reinvested. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to additional U.S. income taxes (net of an adjustment for foreign tax credits), which could result in a use of cash. This could also result in a higher effective tax rate in the period in which such a determination is made to repatriate prior period foreign earnings. Refer to the Income Taxes note to the consolidated financial statements for further information related to our income taxes and the undistributed earnings of the Company's foreign subsidiaries.

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, 2016. See discussions of cash flows and financial position and capital resources as well as the Notes to the consolidated financial statements for further details.

| <i>In millions</i> | <i>Contractual cash outflows</i> | | <i>Contractual cash inflows</i> |
|--------------------|----------------------------------|-----------------------------|--|
| | <i>Operating leases (1)</i> | <i>Debt obligations (2)</i> | <i>Minimum rent under franchise arrangements (3)</i> |
| 2017 | \$ 1,303 | \$ 77 | \$ 2,690 |
| 2018 | 1,200 | 1,756 | 2,617 |
| 2019 | 1,103 | 3,933 | 2,540 |
| 2020 | 1,001 | 2,396 | 2,426 |
| 2021 | 892 | 1,555 | 2,295 |
| Thereafter | 6,754 | 16,349 | 18,764 |
| Total | \$12,253 | \$ 26,066 | \$ 31,332 |

(1) Includes future minimum lease payments for businesses in markets considered held for sale as of the date of the Company's filing of this report on Form 10-K. These lease payments per year (in millions) are as follows: 2017- \$251.1; 2018- \$206.7; 2019- \$178.6; 2020- \$157.3; 2021- \$136.4; Thereafter- \$593.3.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of \$2.5 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.

(3) Includes future gross minimum rent payments due to the Company from businesses in markets considered held for sale as of the date of the Company's filing of this report on Form 10-K. These rent payments per year (in millions) are as follows: 2017- \$91.8; 2018- \$90.6; 2019- \$87.2; 2020- \$84.5; 2021- \$81.3; Thereafter- \$589.2.

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, 2016, total liabilities for the supplemental plans were \$465 million.

In addition, total liabilities for gross unrecognized tax benefits were \$924 million at December 31, 2016.

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, and timing of such payments are not

estimable or determinable. The amounts related to these commitments are not significant to the Company's financial position. Such commitments are generally shorter term in nature and will be funded from operating cash flows.

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 primarily consist 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, which comprise over 2,600 restaurants, to a developmental licensee organization. Under the terms of the agreement, the Company will retain a 20% ownership in the business. The Company expects to complete the sale and licensing transaction mid-year 2017, subject to satisfaction of customary conditions, including receipt of any regulatory approvals.

Based on approval by the Board of Directors, 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". Accordingly, the Company has ceased recording depreciation expense with respect to the assets of the China and Hong Kong markets effective January 1, 2017. As of December 31, 2016, total assets relating to businesses in China and Hong Kong were \$1.3 billion, of which \$217 million was current, and total liabilities were \$592 million, most of which was current.

As a result of this sale, the Company expects to record a gain of approximately \$700-\$900 million reflecting the difference between the net book value of the businesses and an estimated \$1.5 billion of cash proceeds to be received at closing, subject to adjustments.

- **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.

- **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.

In 2016, the Company increased the balance of unrecognized tax benefits related to tax positions taken in prior years by \$150 million. In 2015, the Company decreased the balance of unrecognized tax benefits related to settlements with taxing authorities by \$258 million. See the Income Taxes footnote in the consolidated financial statements for the related tax reconciliations. The most significant new developments in 2015 and 2016 are described below.

In 2015, the Company received an unfavorable decision related to its procedural efforts to appeal a prior year unfavorable lower tax court ruling in a foreign tax jurisdiction related to exempt income matters. As a result of this new information, the Company agreed to settle the issue for 2003-2008 with the tax authorities and the unrecognized tax benefits were reduced by \$143 million. No cash payment was made related to this settlement in 2015 as the Company had previously made a payment to the taxing authority. The settlement did not have a material impact on the Company's cash flows, results of operations or financial position. In 2016, the unrecognized tax benefits related to this issue for 2009-2010 were reduced by \$57 million as a result of the lapsing of the statute of limitations.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report for certain agreed adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010 and the balance of unrecognized tax benefits was reduced by \$102 million. Also in 2015, the Company filed a protest with the IRS Appeals Office related to certain disagreed transfer pricing matters related to the Company's U.S. Federal income tax returns for 2009 and 2010. As of December 31, 2016, the Company had not yet received a response to this protest from the IRS. The Company expects resolution on these issues in either 2017 or 2018. In addition, the Company's 2011 and 2012 U.S. federal income tax returns are currently under examination and the completion of the field audit is expected in 2017.

In 2016, the Company received 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 of \$125 million.

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, 2016, 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").

Deferred U.S. income taxes have not been recorded for temporary differences totaling \$16.0 billion related to investments in certain foreign subsidiaries and corporate affiliates. The temporary differences consist primarily of undistributed earnings that are considered permanently invested in operations outside the U.S. If management's intentions change in the future, deferred taxes may need to be provided.

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 2017. 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 24 of the Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

| <i>Index to consolidated financial statements</i> | <i>Page reference</i> |
|--|-----------------------|
| Consolidated statement of income for each of the three years in the period ended December 31, 2016 | 29 |
| Consolidated statement of comprehensive income for each of the three years in the period ended December 31, 2016 | 30 |
| Consolidated balance sheet at December 31, 2016 and 2015 | 31 |
| Consolidated statement of cash flows for each of the three years in the period ended December 31, 2016 | 32 |
| Consolidated statement of shareholders' equity for each of the three years in the period ended December 31, 2016 | 33 |
| Notes to consolidated financial statements | 34 |
| Quarterly results (unaudited) | 47 |
| Management's assessment of internal control over financial reporting | 48 |
| Report of independent registered public accounting firm | 49 |
| Report of independent registered public accounting firm on internal control over financial reporting | 50 |

Consolidated Statement of Income

| <i>In millions, except per share data</i> | <i>Years ended December 31, 2016</i> | | | <i>2015</i> | <i>2014</i> |
|---|--------------------------------------|-------------|-------------|-------------|-------------|
| REVENUES | | | | | |
| Sales by Company-operated restaurants | \$ 15,295.0 | \$ 16,488.3 | \$ 18,169.3 | | |
| Revenues from franchised restaurants | 9,326.9 | 8,924.7 | 9,272.0 | | |
| Total revenues | 24,621.9 | 25,413.0 | 27,441.3 | | |
| OPERATING COSTS AND EXPENSES | | | | | |
| Company-operated restaurant expenses | | | | | |
| Food & paper | 4,896.9 | 5,552.2 | 6,129.7 | | |
| Payroll & employee benefits | 4,134.2 | 4,400.0 | 4,756.0 | | |
| Occupancy & other operating expenses | 3,667.7 | 4,024.7 | 4,402.6 | | |
| Franchised restaurants-occupancy expenses | 1,718.4 | 1,646.9 | 1,697.3 | | |
| Selling, general & administrative expenses | 2,384.5 | 2,434.3 | 2,487.9 | | |
| Other operating (income) expense, net | 75.7 | 209.4 | 18.6 | | |
| Total operating costs and expenses | 16,877.4 | 18,267.5 | 19,492.1 | | |
| Operating income | 7,744.5 | 7,145.5 | 7,949.2 | | |
| Interest expense-net of capitalized interest of \$7.1, \$9.4 and \$14.7 | 884.8 | 638.3 | 576.4 | | |
| Nonoperating (income) expense, net | (6.3) | (48.5) | 0.8 | | |
| Income before provision for income taxes | 6,866.0 | 6,555.7 | 7,372.0 | | |
| Provision for income taxes | 2,179.5 | 2,026.4 | 2,614.2 | | |
| Net income | \$ 4,686.5 | \$ 4,529.3 | \$ 4,757.8 | | |
| Earnings per common share—basic | \$ 5.49 | \$ 4.82 | \$ 4.85 | | |
| Earnings per common share—diluted | \$ 5.44 | \$ 4.80 | \$ 4.82 | | |
| Dividends declared per common share | \$ 3.61 | \$ 3.44 | \$ 3.28 | | |
| Weighted-average shares outstanding—basic | 854.4 | 939.4 | 980.5 | | |
| Weighted-average shares outstanding—diluted | 861.2 | 944.6 | 986.3 | | |

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

| <i>In millions</i> | <i>Years ended December 31, 2016</i> | | | <i>2015</i> | <i>2014</i> |
|---|--------------------------------------|-----------|-----------|-------------|-------------|
| Net income | \$4,686.5 | \$4,529.3 | \$4,757.8 | | |
| Other comprehensive income (loss), net of tax | | | | | |
| Foreign currency translation adjustments: | | | | | |
| Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges | (272.8) | (1,347.4) | (1,971.6) | | |
| Reclassification of (gain) loss to net income | 94.0 | 1.3 | 15.2 | | |
| Foreign currency translation adjustments-net of tax benefit (expense) of \$(264.4), \$(209.8), and \$(196.0) | (178.8) | (1,346.1) | (1,956.4) | | |
| Cash flow hedges: | | | | | |
| Gain (loss) recognized in AOCI | 18.5 | 22.2 | 40.1 | | |
| Reclassification of (gain) loss to net income | (15.6) | (33.2) | (6.8) | | |
| Cash flow hedges-net of tax benefit (expense) of \$(1.6), \$6.2, and \$(18.2) | 2.9 | (11.0) | 33.3 | | |
| Defined benefit pension plans: | | | | | |
| Gain (loss) recognized in AOCI | (47.1) | (5.4) | (26.6) | | |
| Reclassification of (gain) loss to net income | 9.9 | 2.4 | 2.4 | | |
| Defined benefit pension plans-net of tax benefit (expense) of \$(10.0), \$1.3, and \$7.7 | (37.2) | (3.0) | (24.2) | | |
| Total other comprehensive income (loss), net of tax | (213.1) | (1,360.1) | (1,947.3) | | |
| Comprehensive income | \$4,473.4 | \$3,169.2 | \$2,810.5 | | |

See Notes to consolidated financial statements.

Consolidated Balance Sheet

| <i>In millions, except per share data</i> | <i>December 31, 2016</i> | <i>2015</i> |
|---|--------------------------|--------------------|
| ASSETS | | |
| Current assets | | |
| Cash and equivalents | \$ 1,223.4 | \$ 7,685.5 |
| Accounts and notes receivable | 1,474.1 | 1,298.7 |
| Inventories, at cost, not in excess of market | 58.9 | 100.1 |
| Prepaid expenses and other current assets | 565.2 | 558.7 |
| Assets of businesses held for sale | 1,527.0 | — |
| Total current assets | 4,848.6 | 9,643.0 |
| Other assets | | |
| Investments in and advances to affiliates | 725.9 | 792.7 |
| Goodwill | 2,336.5 | 2,516.3 |
| Miscellaneous | 1,855.3 | 1,869.1 |
| Total other assets | 4,917.7 | 5,178.1 |
| Property and equipment | | |
| Property and equipment, at cost | 34,443.4 | 37,692.4 |
| Accumulated depreciation and amortization | (13,185.8) | (14,574.8) |
| Net property and equipment | 21,257.6 | 23,117.6 |
| Total assets | \$ 31,023.9 | \$ 37,938.7 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| Current liabilities | | |
| Accounts payable | \$ 756.0 | \$ 874.7 |
| Income taxes | 267.2 | 154.8 |
| Other taxes | 266.3 | 309.0 |
| Accrued interest | 247.5 | 233.1 |
| Accrued payroll and other liabilities | 1,159.3 | 1,378.8 |
| Current maturities of long-term debt | 77.2 | — |
| Liabilities of businesses held for sale | 694.8 | — |
| Total current liabilities | 3,468.3 | 2,950.4 |
| Long-term debt | 25,878.5 | 24,122.1 |
| Other long-term liabilities | 2,064.3 | 2,074.0 |
| Deferred income taxes | 1,817.1 | 1,704.3 |
| 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 | 6,757.9 | 6,533.4 |
| Retained earnings | 46,222.7 | 44,594.5 |
| Accumulated other comprehensive income | (3,092.9) | (2,879.8) |
| Common stock in treasury, at cost; 841.3 and 753.8 million shares | (52,108.6) | (41,176.8) |
| Total shareholders' equity (deficit) | (2,204.3) | 7,087.9 |
| Total liabilities and shareholders' equity (deficit) | \$ 31,023.9 | \$ 37,938.7 |

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

| <i>In millions</i> | <i>Years ended December 31, 2016</i> | | | <i>2015</i> | <i>2014</i> |
|---|--------------------------------------|-------------------|-----------|------------------|-------------------|
| Operating activities | | | | | |
| Net income | \$ | 4,686.5 | \$ | 4,529.3 | \$ 4,757.8 |
| Adjustments to reconcile to cash provided by operations | | | | | |
| Charges and credits: | | | | | |
| Depreciation and amortization | | 1,516.5 | | 1,555.7 | 1,644.5 |
| Deferred income taxes | | (538.6) | | (1.4) | (90.7) |
| Share-based compensation | | 131.3 | | 110.0 | 112.8 |
| Other | | 96.9 | | 177.6 | 369.5 |
| Changes in working capital items: | | | | | |
| Accounts receivable | | (159.0) | | (180.6) | 27.0 |
| Inventories, prepaid expenses and other current assets | | 28.1 | | 44.9 | (4.9) |
| Accounts payable | | 89.8 | | (15.0) | (74.7) |
| Income taxes | | 169.7 | | (64.4) | 3.3 |
| Other accrued liabilities | | 38.4 | | 383.0 | (14.3) |
| Cash provided by operations | | 6,059.6 | | 6,539.1 | 6,730.3 |
| Investing activities | | | | | |
| Capital expenditures | | (1,821.1) | | (1,813.9) | (2,583.4) |
| Purchases of restaurant businesses | | (109.5) | | (140.6) | (170.5) |
| Sales of restaurant businesses | | 975.6 | | 341.1 | 403.1 |
| Sales of property | | 82.9 | | 213.1 | 86.8 |
| Other | | (109.5) | | (19.7) | (40.9) |
| Cash used for investing activities | | (981.6) | | (1,420.0) | (2,304.9) |
| Financing activities | | | | | |
| Net short-term borrowings | | (286.2) | | 589.7 | 510.4 |
| Long-term financing issuances | | 3,779.5 | | 10,220.0 | 1,540.6 |
| Long-term financing repayments | | (822.9) | | (1,054.5) | (548.1) |
| Treasury stock purchases | | (11,171.0) | | (6,099.2) | (3,198.6) |
| Common stock dividends | | (3,058.2) | | (3,230.3) | (3,216.1) |
| Proceeds from stock option exercises | | 299.4 | | 317.2 | 235.4 |
| Excess tax benefit on share-based compensation | | — | | 51.1 | 70.9 |
| Other | | (3.0) | | (58.7) | (12.8) |
| Cash provided by (used for) financing activities | | (11,262.4) | | 735.3 | (4,618.3) |
| Effect of exchange rates on cash and equivalents | | (103.7) | | (246.8) | (527.9) |
| Cash and equivalents increase (decrease) | | (6,288.1) | | 5,607.6 | (720.8) |
| Cash balance of businesses held for sale at end of year | | (174.0) | | — | — |
| Cash and equivalents at beginning of year | | 7,685.5 | | 2,077.9 | 2,798.7 |
| Cash and equivalents at end of year | \$ | 1,223.4 | \$ | 7,685.5 | \$ 2,077.9 |
| Supplemental cash flow disclosures | | | | | |
| Interest paid | \$ | 873.5 | \$ | 640.8 | \$ 573.2 |
| Income taxes paid | | 2,387.5 | | 1,985.4 | 2,388.3 |

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

| In millions, except per share data | Common stock issued | | Additional paid-in capital | Retained earnings | Accumulated other comprehensive income (loss) | | | Common stock in treasury | | Total shareholders' equity |
|---|---------------------|--------|----------------------------|-------------------|---|------------------|------------------------------|--------------------------|--------------|----------------------------|
| | Shares | Amount | | | Pensions | Cash flow hedges | Foreign currency translation | Shares | Amount | |
| Balance at December 31, 2013 | 1,660.6 | \$16.6 | \$5,994.1 | \$41,751.2 | \$(142.7) | \$ (2.3) | \$ 572.6 | (670.2) | \$(32,179.8) | \$16,009.7 |
| Net income | | | | 4,757.8 | | | | | | 4,757.8 |
| Other comprehensive income (loss), net of tax | | | | | (24.2) | 33.3 | (1,956.4) | | | (1,947.3) |
| Comprehensive income | | | | | | | | | | 2,810.5 |
| Common stock cash dividends (\$3.28 per share) | | | | (3,216.1) | | | | | | (3,216.1) |
| Treasury stock purchases | | | | | | | | (33.1) | (3,175.3) | (3,175.3) |
| Share-based compensation | | | 112.8 | | | | | | | 112.8 |
| Stock option exercises and other (including tax benefits of \$70.2) | | | 132.2 | 1.6 | | | | 5.6 | 178.0 | 311.8 |
| 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) |

See Notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Summary of Significant Accounting Policies

NATURE OF BUSINESS

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

The following table presents restaurant information by ownership type:

| <i>Restaurants at December 31,</i> | 2016 | <i>2015</i> | <i>2014</i> |
|------------------------------------|---------------|-------------|-------------|
| Conventional franchised | 21,559 | 21,147 | 20,774 |
| Developmental licensed | 6,300 | 5,529 | 5,228 |
| Foreign affiliated | 3,371 | 3,405 | 3,542 |
| Franchised | 31,230 | 30,081 | 29,544 |
| Company-operated | 5,669 | 6,444 | 6,714 |
| Systemwide restaurants | 36,899 | 36,525 | 36,258 |

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) 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

Employee Share-Based Payment Accounting

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting". The goal of this update is to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities and classification on the statement of cash flows.

The Company elected to early adopt ASU 2016-09 in the second quarter 2016, which required reflecting any adjustments as of January 1, 2016. The primary impact of adoption was the recognition of excess tax benefits as a reduction to the provision for income taxes.

Additional amendments to ASU 2016-09 related to income taxes and minimum statutory withholding tax requirements had no impact to retained earnings, where the cumulative effect of these changes are required to be recorded. The Company also elected

to continue estimating forfeitures when determining the amount of compensation costs to be recognized in each period.

The presentation requirements for cash flows related to excess tax benefits were applied prospectively; as such, prior years have not been restated. The presentation requirements for cash flows related to employee taxes paid for withheld shares had no impact to any of the periods presented in the consolidated statement of cash flows, since such cash flows have historically been presented in financing activities.

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. 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 anticipates ASU 2016-02 to have a material impact on the consolidated balance sheet. Upon adoption, a portion of our franchise related revenue may be subject to the allocation provisions outlined in ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". We are currently evaluating the specific implementation requirements, if any, for allocating consideration within our lessor contracts in accordance with ASU 2014-09. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's cash flows.

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. The Company anticipates that ASU 2016-16 may have a material impact on the Company's consolidated balance sheet, but little to no impact on the consolidated statement of income or the Company's cash flows.

Business Combinations

In January 2017, the FASB issued ASU 2017-1, "Business Combinations (Topic 805): Clarifying the Definition of a Business," to clarify the definition of a business to assist organizations with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The Company elected to early adopt ASU 2017-1 in the fourth quarter 2016. The adoption of this standard did not have a material impact on the Company's financial statements.

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. Initial fees are recognized upon opening of a restaurant or granting of a new franchise term, which is when the Company has performed substantially all initial services required by the franchise arrangement.

In May 2014, the FASB issued guidance codified in the Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers," which amends the guidance in former ASC 605, "Revenue Recognition". The core principal 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 standard will be effective for the Company beginning January 1, 2018, with early adoption permitted.

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 currently expects to apply the modified retrospective transition method upon adoption.

The Company does not believe the standard will 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. While we continue to assess the potential impacts to other less significant revenue transactions, we currently believe the standard will change the way initial fees from franchisees for new restaurant openings or new franchise terms are recognized.

As noted above, the Company's current accounting policy is to recognize initial franchise fees when "earned" per the contract terms, which is currently when a new store 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, initial fees received will likely be recognized over the franchise term.

We do not anticipate this impact to be material to the Company's consolidated statement of income, and the cumulative catch-up adjustment to be recorded as deferred revenue upon adoption is expected to be approximately 2% of the Company's consolidated long-term liabilities. 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.

Upon adoption of ASU 2016-02, "Leases (Topic 842)," a portion of our franchise related revenue may be subject to the allocation provisions outlined within the revenue recognition standard. We are currently evaluating the specific implementation requirements, if any, for allocating consideration within our lessor contracts in accordance with the revenue recognition standard.

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): 2016—\$645.8; 2015—\$718.7; 2014—\$808.2. 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): 2016—\$88.8; 2015—\$113.8; 2014—\$98.7. Costs related to the Olympics sponsorship are included in these expenses for 2016 and 2014. In addition, significant advertising costs are incurred by franchisees through contributions to advertising cooperatives in individual markets.

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:

| <i>In millions, except per share data</i> | 2016 | 2015 | 2014 |
|---|-----------------|-------------|-------------|
| Share-based compensation expense | \$ 131.3 | \$ 110.0 | \$ 112.8 |
| After tax | \$ 89.6 | \$ 76.0 | \$ 72.8 |
| Earnings per common share-diluted | \$ 0.11 | \$ 0.08 | \$ 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, 2016, there was \$89.6 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 2016, 2015 and 2014 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

| | 2016 | 2015 | 2014 |
|--|----------------|-------------|-------------|
| Expected dividend yield | 3.0% | 3.6% | 3.3% |
| Expected stock price volatility | 19.2% | 18.8% | 20.0% |
| Risk-free interest rate | 1.2% | 1.7% | 2.0% |
| Expected life of options (in years) | 5.9 | 6.0 | 6.1 |
| Fair value per option granted | \$13.65 | \$10.43 | \$12.23 |

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—three to 12 years.

BUSINESSES HELD FOR SALE

Assets and liabilities of businesses held for sale on the consolidated balance sheet primarily consist 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, which comprise over 2,600 restaurants, to a developmental licensee. Under the terms of the agreement, the Company will retain a 20% ownership in the business. The Company expects to complete the sale and licensing transaction mid-year 2017, subject to satisfaction of customary conditions, including receipt of any regulatory approvals.

Based on approval by the Board of Directors, 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". Accordingly, the Company has ceased recording depreciation expense with respect to the assets of the China and Hong Kong markets effective January 1, 2017. As of December 31, 2016, total assets relating to businesses in China and Hong Kong were \$1.3 billion, of which \$217 million was current, and total liabilities were \$592 million, most of which was current.

As a result of this sale, the Company expects to record a gain of approximately \$700-\$900 million reflecting the difference

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 2016 activity in goodwill by segment:

| <i>In millions</i> | <i>U.S.</i> | <i>International Lead Markets</i> | <i>High Growth Markets</i> | <i>Foundational Markets & Corporate</i> | <i>Consolidated</i> |
|-------------------------------------|-------------------|---------------------------------------|--------------------------------|---|---------------------|
| Balance at December 31, 2015 | \$ 1,293.4 | \$ 698.1 | \$ 322.4 | \$ 202.4 | \$ 2,516.3 |
| Net restaurant purchases (sales) | (10.1) | 3.3 | 3.0 | (67.1) | (70.9) |
| Impairment losses | — | — | — | (39.9) | (39.9) |
| Currency translation | — | (20.2) | (7.7) | (4.0) | (31.9) |
| Assets of businesses held for sale | — | — | (37.6) | 0.5 | (37.1) |
| Balance at December 31, 2016 | \$ 1,283.3 | \$ 681.2 | \$ 280.1 | \$ 91.9 | \$ 2,336.5 |

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever an indicator of impairment exists. If an indicator of impairment exists (e.g., estimated earnings multiple value of a reporting unit is less than its carrying value), the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Accumulated impairment losses at December 31, 2016 and 2015 were \$96.6 million and \$94.1 million, respectively.

between the net book value of the businesses and an estimated \$1.5 billion of cash proceeds to be received at closing, subject to adjustments.

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."

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, 2016

| <i>In millions</i> | <i>Level 1*</i> | <i>Level 2</i> | <i>Carrying Value</i> |
|------------------------|-----------------|----------------|-----------------------|
| Derivative assets | \$ 134.3 | \$ 47.0 | \$ 181.3 |
| Derivative liabilities | | \$ (5.6) | \$ (5.6) |

December 31, 2015

| <i>In millions</i> | <i>Level 1*</i> | <i>Level 2</i> | <i>Carrying Value</i> |
|------------------------|-----------------|----------------|-----------------------|
| Derivative assets | \$ 139.9 | \$ 65.4 | \$ 205.3 |
| Derivative liabilities | | \$ (44.4) | \$ (44.4) |

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

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

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2016, the Company recorded fair value adjustments to its long-lived assets, primarily to goodwill, based on Level 3 inputs which includes the use of a discounted cash flow valuation approach.

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

At December 31, 2016, the fair value of the Company's debt obligations was estimated at \$27.5 billion, compared to a carrying amount of \$26.0 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, foreign currency options, 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, 2016 and 2015:

| <i>In millions</i> | <i>Balance Sheet Classification</i> | Derivative Assets | | Derivative Liabilities | | |
|---|---|--------------------------|-------------|---------------------------------------|-------------|-------------|
| | | 2016 | 2015 | <i>Balance Sheet Classification</i> | 2016 | 2015 |
| Derivatives designated as hedging instruments | | | | | | |
| Foreign currency | Prepaid expenses and other current assets | \$ 31.7 | \$ 55.0 | Accrued payroll and other liabilities | \$ (2.0) | \$ (22.5) |
| Interest rate | Prepaid expenses and other current assets | 1.0 | — | | | |
| Foreign currency | Miscellaneous other assets | 2.5 | 0.6 | Other long-term liabilities | (0.1) | (13.0) |
| Interest rate | Miscellaneous other assets | 1.7 | 5.3 | Other long-term liabilities | (1.6) | (3.4) |
| Total derivatives designated as hedging instruments | | \$ 36.9 | \$ 60.9 | | \$ (3.7) | \$ (38.9) |
| Derivatives not designated as hedging instruments | | | | | | |
| Equity | Prepaid expenses and other current assets | \$ 134.3 | \$ 0.3 | Accrued payroll and other liabilities | \$ (1.9) | \$ — |
| Foreign currency | Prepaid expenses and other current assets | 10.1 | 4.2 | Accrued payroll and other liabilities | — | (5.5) |
| Equity | Miscellaneous other assets | — | 139.9 | | | |
| Total derivatives not designated as hedging instruments | | \$ 144.4 | \$ 144.4 | | \$ (1.9) | \$ (5.5) |
| Total derivatives | | \$ 181.3 | \$ 205.3 | | \$ (5.6) | \$ (44.4) |

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, 2016, \$2.5 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, 2016.

| <i>In millions</i> | Derivatives in Hedging Relationships | <i>Gain (Loss) Recognized In Earnings on Hedging Derivative</i> | | <i>Gain (Loss) Recognized In Earnings on Hedged Items</i> | |
|--------------------|--------------------------------------|---|-------------|---|-------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Interest rate | | \$ (1.8) | \$ (3.4) | \$ 1.8 | \$ 3.4 |

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, foreign currency options 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. The Company excludes the time value of foreign currency options from its effectiveness assessment. As a result, changes in the fair value of the derivatives due to this component, as well as the ineffectiveness of the hedges, are recognized immediately in earnings.

| <i>In millions</i> | Derivatives in Hedging Relationships | <i>Gain (Loss) Recognized in AOCI (Effective Portion)</i> | | <i>Gain (Loss) Reclassified From AOCI Into Earnings (Effective Portion)</i> | | <i>Gain (Loss) Recognized in Earnings (Amount Excluded from Effectiveness Testing and Ineffective Portion)</i> | |
|------------------------------|--------------------------------------|---|-------------|---|-------------|--|-------------|
| | | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Foreign currency | | \$ 28.6 | \$ 35.3 | \$ 24.6 | \$ 53.0 | \$ — | \$ 22.9 |
| Interest rate ⁽¹⁾ | | — | — | (0.5) | (0.5) | — | — |
| | | \$ 28.6 | \$ 35.3 | \$ 24.1 | \$ 52.5 | \$ — | \$ 22.9 |

⁽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 and foreign currency options 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 and/or foreign currency options. 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 and/or foreign currency options. Although the fair value changes in the foreign currency options may fluctuate over the period of the contract, the Company's total loss on a foreign currency option is limited to the upfront premium paid for the contract; however, the potential gains on a foreign currency option are unlimited. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2016, the Company had derivatives outstanding with an equivalent notional amount of \$632.0 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 an increase of \$2.9 million for the year ended December 31, 2016 and a decrease of \$11.0 million for the year ended December 31, 2015. Based on interest rates and foreign exchange rates at December 31, 2016, there is \$22.9 million in after-tax cumulative cash flow hedging gains 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, 2016, \$8.6 billion of third party foreign currency denominated debt, \$3.3 billion of intercompany foreign currency denominated debt, and \$393.0 million of derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

| Derivatives in Hedging Relationships | Gain (Loss) Recognized in AOCI (Effective Portion) | |
|--------------------------------------|--|-----------------|
| | 2016 | 2015 |
| <i>In millions</i> | | |
| Foreign currency denominated debt | \$ 654.9 | \$ 668.1 |
| Foreign currency derivatives | 9.9 | 79.1 |
| | <u>\$ 664.8</u> | <u>\$ 747.2</u> |

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 | |
|--|---------------------------------------|----------------|
| | 2016 | 2015 |
| <i>In millions</i> | | |
| Foreign currency | \$ 4.3 | \$ 14.6 |
| Equity | 26.0 | 38.9 |
| | <u>\$ 30.3</u> | <u>\$ 53.5</u> |

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, 2016 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, 2016, 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 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.

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): 2016—6.8; 2015—5.2; 2014—5.8. Stock options that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2016—1.2; 2015—1.0; 2014—5.3.

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"). In January 2017, the Company's Board of Directors approved and the Company entered into a definitive agreement with a developmental licensee organization to sell its existing businesses in Denmark, Finland, Norway and Sweden (referred to as the "Nordics") in connection with the Company's refranchising initiatives. The Nordics comprise nearly 450 restaurants, the vast majority of which are operated by independent franchisees. The Company expects to complete the transaction around the end of the first quarter, subject to satisfaction of customary conditions.

Based on approval by the Board of Directors, the Company concluded the Nordics was "held for sale" in accordance with the requirements of ASC 360 "Property, Plant and Equipment". Accordingly, the Company has ceased recording depreciation expense with respect to the Nordics effective January 26, 2017. As of December 31, 2016, the Nordics' total assets and total liabilities were \$439 million and \$64 million, respectively. Cash proceeds upon the completion of the sale are estimated to be approximately \$450 million. No significant gains or losses are expected to be recognized upon the close of the transaction. There were no other subsequent events that required recognition or disclosure.

Property and Equipment

Net property and equipment consisted of:

| <i>In millions</i> | <i>December 31, 2016</i> | <i>2015</i> |
|--|--------------------------|-------------|
| Land | \$ 5,465.0 | \$ 5,582.5 |
| Buildings and improvements on owned land | 13,695.2 | 14,011.7 |
| Buildings and improvements on leased land | 11,511.9 | 12,892.9 |
| Equipment, signs and seating | 3,270.9 | 4,658.5 |
| Other | 500.4 | 546.8 |
| Property and equipment, at cost ⁽¹⁾ | 34,443.4 | 37,692.4 |
| Accumulated depreciation and amortization ⁽¹⁾ | (13,185.8) | (14,574.8) |
| Net property and equipment | \$ 21,257.6 | \$ 23,117.6 |

(1) In 2016, balances exclude \$2.3 billion of property and equipment, at cost and \$1.2 billion of accumulated depreciation and amortization that was reclassified to assets of businesses held for sale on the consolidated balance sheet in connection with the pending sale of the Company's businesses in China, Hong Kong, and Taiwan.

Depreciation and amortization expense for property and equipment was (in millions): 2016—\$1,390.7; 2015—\$1,438.0; 2014—\$1,539.3.

Other Operating (Income) Expense, Net

| <i>In millions</i> | <i>2016</i> | <i>2015</i> | <i>2014</i> |
|--|-------------|-------------|-------------|
| Gains on sales of restaurant businesses | \$ (283.4) | \$ (145.9) | \$ (137.4) |
| Equity in (earnings) losses of unconsolidated affiliates | (54.8) | 146.8 | 8.9 |
| Asset dispositions and other (income) expense, net | 72.3 | (26.6) | 108.2 |
| Impairment and other charges (gains), net | 341.6 | 235.1 | 38.9 |
| Total | \$ 75.7 | \$ 209.4 | \$ 18.6 |

▪ **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—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 targets, the realized gains/losses from the sale of McDonald's businesses in certain markets are reflected in this category.

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. Affiliates and developmental licensees 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:

| <i>In millions</i> | 2016 | 2015 | 2014 |
|--------------------------------------|-----------|-----------|-----------|
| Rents | \$6,107.6 | \$5,860.6 | \$6,106.7 |
| Royalties | 3,129.9 | 2,980.7 | 3,085.1 |
| Initial fees | 89.4 | 83.4 | 80.2 |
| Revenues from franchised restaurants | \$9,326.9 | \$8,924.7 | \$9,272.0 |

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

| <i>In millions</i> | Owned sites | Leased sites | Total ⁽¹⁾ |
|------------------------|-------------|--------------|----------------------|
| 2017 | \$ 1,319.1 | \$ 1,370.5 | \$ 2,689.6 |
| 2018 | 1,290.6 | 1,327.0 | 2,617.6 |
| 2019 | 1,261.0 | 1,279.1 | 2,540.1 |
| 2020 | 1,219.9 | 1,205.9 | 2,425.8 |
| 2021 | 1,167.5 | 1,127.4 | 2,294.9 |
| Thereafter | 10,018.5 | 8,745.2 | 18,763.7 |
| Total minimum payments | \$16,276.6 | \$ 15,055.1 | \$31,331.7 |

⁽¹⁾ Includes future gross minimum rent payments due to the Company from businesses in markets considered held for sale as of the date of the Company's filing of this report on Form 10-K. These rent payments per year (in millions) are as follows: 2017- \$91.8; 2018- \$90.6; 2019- \$87.2; 2020- \$84.5; 2021- \$81.3; Thereafter- \$589.2.

At December 31, 2016, net property and equipment under franchise arrangements totaled \$16.3 billion (including land of \$4.5 billion) after deducting accumulated depreciation and amortization of \$7.6 billion.

Leasing Arrangements

At December 31, 2016, the Company was the lessee at 14,763 restaurant locations through ground leases (the Company leases the land and the Company or franchisee 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-cancelable leases covering certain offices and vehicles.

The following table provides detail of rent expense:

| <i>In millions</i> | 2016 | 2015 | 2014 |
|-------------------------------|-----------|-----------|-----------|
| Company-operated restaurants: | | | |
| U.S. | \$ 48.6 | \$ 59.2 | \$ 61.3 |
| Outside the U.S. | 613.3 | 652.7 | 708.3 |
| Total | 661.9 | 711.9 | 769.6 |
| Franchised restaurants: | | | |
| U.S. | 471.2 | 463.7 | 446.3 |
| Outside the U.S. | 589.8 | 565.0 | 610.1 |
| Total | 1,061.0 | 1,028.7 | 1,056.4 |
| Other | 91.3 | 98.4 | 106.3 |
| Total rent expense | \$1,814.2 | \$1,839.0 | \$1,932.3 |

Rent expense included percent rents in excess of minimum rents (in millions) as follows—Company-operated restaurants: 2016—\$135.0; 2015—\$146.6; 2014—\$164.2. Franchised restaurants: 2016—\$186.4; 2015—\$178.8; 2014—\$182.8.

Future minimum payments required under existing operating leases with initial terms of one year or more are:

| <i>In millions</i> | Restaurant | Other | Total ⁽¹⁾ |
|------------------------|------------|---------|----------------------|
| 2017 | \$ 1,233.6 | \$ 69.4 | \$ 1,303.0 |
| 2018 | 1,139.4 | 60.5 | 1,199.9 |
| 2019 | 1,049.9 | 52.6 | 1,102.5 |
| 2020 | 957.5 | 43.3 | 1,000.8 |
| 2021 | 854.6 | 37.3 | 891.9 |
| Thereafter | 6,644.1 | 110.3 | 6,754.4 |
| Total minimum payments | \$11,879.1 | \$373.4 | \$12,252.5 |

⁽¹⁾ Includes future minimum lease payments for businesses in markets considered held for sale as of the date of the Company's filing of this report on Form 10-K. These lease payments per year (in millions) are as follows: 2017- \$251.1; 2018- \$206.7; 2019- \$178.6; 2020- \$157.3; 2021- \$136.4; Thereafter- \$593.3.

Income Taxes

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

| <i>In millions</i> | 2016 | 2015 | 2014 |
|--|-----------|-----------|-----------|
| U.S. | \$2,059.4 | \$2,597.8 | \$2,681.9 |
| Outside the U.S. | 4,806.6 | 3,957.9 | 4,690.1 |
| Income before provision for income taxes | \$6,866.0 | \$6,555.7 | \$7,372.0 |

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

| <i>In millions</i> | 2016 | 2015 | 2014 |
|----------------------------|-----------|-----------|-----------|
| U.S. federal | \$1,046.6 | \$1,072.3 | \$1,124.8 |
| U.S. state | 121.3 | 139.5 | 148.4 |
| Outside the U.S. | 1,550.2 | 816.0 | 1,431.7 |
| Current tax provision | 2,718.1 | 2,027.8 | 2,704.9 |
| U.S. federal | (122.1) | 6.8 | (81.8) |
| U.S. state | 14.1 | (3.9) | (6.2) |
| Outside the U.S. | (430.6) | (4.3) | (2.7) |
| Deferred tax provision | (538.6) | (1.4) | (90.7) |
| Provision for income taxes | \$2,179.5 | \$2,026.4 | \$2,614.2 |

Net deferred tax liabilities consisted of:

| <i>In millions</i> | December 31, 2016 | 2015 |
|--|-------------------|-----------|
| Property and equipment | \$1,459.8 | \$1,751.7 |
| Unrealized foreign exchange gains | 630.9 | 455.6 |
| Intangible liabilities | 445.2 | 464.7 |
| Other | 287.6 | 268.5 |
| Total deferred tax liabilities | 2,823.5 | 2,940.5 |
| Property and equipment | (650.2) | (472.7) |
| Employee benefit plans | (395.0) | (390.1) |
| Intangible assets | (170.7) | (222.6) |
| Deferred foreign tax credits | (316.8) | (289.2) |
| Operating loss carryforwards | (292.7) | (419.8) |
| Other | (338.6) | (297.0) |
| Total deferred tax assets before valuation allowance | (2,164.0) | (2,091.4) |
| Valuation allowance | 168.0 | 322.4 |
| Net deferred tax liabilities | \$ 827.5 | \$1,171.5 |
| Balance sheet presentation: | | |
| Deferred income taxes | \$1,817.1 | \$1,704.3 |
| Other assets-miscellaneous | (804.0) | (532.8) |
| Liabilities of businesses held for sale | (185.6) | — |
| Net deferred tax liabilities | \$ 827.5 | \$1,171.5 |

At December 31, 2016, the Company had net operating loss carryforwards of \$1.1 billion, of which \$0.8 billion has an indefinite carryforward. The remainder will expire at various dates from 2017 to 2031.

The Company's effective income tax rate is typically 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.

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

| | 2016 | 2015 | 2014 |
|--|-------|-------|-------|
| Statutory U.S. federal income tax rate | 35.0% | 35.0% | 35.0% |
| State income taxes, net of related federal income tax benefit | 1.5 | 1.6 | 1.6 |
| Foreign income taxed at different rates | (6.5) | (4.9) | (4.8) |
| Taxes related to unfavorable lower tax court ruling and audit progression in foreign tax jurisdictions | 1.2 | — | 4.1 |
| Cash repatriation | — | (2.3) | (1.2) |
| Other, net | 0.5 | 1.5 | 0.8 |
| Effective income tax rates | 31.7% | 30.9% | 35.5% |

As of December 31, 2016 and 2015, the Company's gross unrecognized tax benefits totaled \$924.1 million and \$781.2 million, respectively. After considering the deferred tax accounting impact, it is expected that about \$630 million of the total as of December 31, 2016 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:

| <i>In millions</i> | 2016 | 2015 |
|---|---------|---------|
| Balance at January 1 | \$781.2 | \$988.1 |
| Decreases for positions taken in prior years | (37.1) | (49.9) |
| Increases for positions taken in prior years | 150.1 | 30.5 |
| Increases for positions related to the current year | 116.6 | 83.7 |
| Settlements with taxing authorities | (17.7) | (258.0) |
| Lapsing of statutes of limitations | (69.0) | (13.2) |
| Balance at December 31 ⁽¹⁾ | \$924.1 | \$781.2 |

(1) Of this amount, \$890.0 million and \$704.0 million are included in Other long-term liabilities for 2016 and 2015, respectively, and \$9.0 million and \$21.9 million are included in Current liabilities - income taxes for 2016 and 2015, respectively, on the consolidated balance sheet. The remainder is included in Deferred income taxes on the consolidated balance sheet.

In 2015, the Company filed a protest with the Internal Revenue Service ("IRS") Appeals Office related to certain disagreed transfer pricing matters related to the Company's U.S. federal income tax return audits for 2009 and 2010. As of December 31, 2016, the Company has not yet received a response to this protest from the IRS. In addition, the Company's 2011 and 2012 U.S. federal income tax returns are currently under examination. 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 \$250 million within the next 12 months, of which up to \$10 million could favorably affect the effective tax rate. This would be due to the possible settlement of the 2009 and 2010 IRS protest, receipt of the 2011 and 2012 Revenue Agent Report, 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, we believe 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 \$117.0 million and \$83.6 million accrued for interest and penalties at December 31, 2016 and 2015, respectively. The Company recognized interest and penalties related to tax matters of \$41.7 million in 2016, \$21.1 million in 2015, and \$87.9 million in 2014, which are included in the provision for income taxes.

Deferred U.S. income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries and corporate joint ventures. These temporary differences were approximately \$16.0 billion at December 31, 2016 and consisted primarily of undistributed earnings considered permanently invested in operations outside the U.S. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

Employee Benefit Plans

Effective January 1, 2017, the Company's Profit Sharing and Savings Plan was renamed the McDonald's 401k Plan. The 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 \$464.9 million at December 31, 2016, and \$487.6 million at December 31, 2015, 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, 2016, derivatives with a fair value of \$134.3 million indexed to the Company's stock and a total return swap with a notional amount of \$186.9 million indexed to certain market indices were included at their fair value in Prepaid expenses and other current assets on the consolidated balance sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company's stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401k Plan, including nonqualified benefits and related hedging activities, were (in millions): 2016—\$24.8; 2015—\$24.0; 2014—\$29.1. 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): 2016—\$46.0; 2015—\$53.4; 2014—\$54.4.

The total combined liabilities for international retirement plans were \$65.6 million and \$76.0 million at December 31, 2016 and 2015, 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, each of which the Company believes have the potential to 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.

| <i>In millions</i> | 2016 | 2015 | 2014 |
|-------------------------------------|-------------|-------------|-------------|
| U.S. | \$ 8,252.7 | \$ 8,558.9 | \$ 8,651.0 |
| International Lead Markets | 7,223.4 | 7,614.9 | 8,544.5 |
| High Growth Markets | 6,160.7 | 6,172.8 | 6,845.2 |
| Foundational Markets & Corporate | 2,985.1 | 3,066.4 | 3,400.6 |
| Total revenues | \$ 24,621.9 | \$ 25,413.0 | \$ 27,441.3 |
| U.S. | \$ 3,768.7 | \$ 3,612.0 | \$ 3,522.5 |
| International Lead Markets | 2,838.4 | 2,712.6 | 3,034.5 |
| High Growth Markets | 1,048.8 | 841.1 | 933.9 |
| Foundational Markets & Corporate | 88.6 | (20.2) | 458.3 |
| Total operating income | \$ 7,744.5 | \$ 7,145.5 | \$ 7,949.2 |
| U.S. | \$ 11,960.6 | \$ 11,806.1 | \$ 11,872.1 |
| International Lead Markets | 9,112.5 | 11,136.3 | 12,538.4 |
| High Growth Markets | 5,208.6 | 5,248.6 | 5,866.0 |
| Foundational Markets & Corporate | 4,742.2 | 9,747.7 | 3,950.9 |
| Total assets | \$ 31,023.9 | \$ 37,938.7 | \$ 34,227.4 |
| U.S. | \$ 586.7 | \$ 533.2 | \$ 736.1 |
| International Lead Markets | 635.6 | 596.1 | 792.1 |
| High Growth Markets | 493.2 | 540.5 | 804.8 |
| Foundational Markets & Corporate | 105.6 | 144.1 | 250.4 |
| Total capital expenditures | \$ 1,821.1 | \$ 1,813.9 | \$ 2,583.4 |
| U.S. | \$ 510.3 | \$ 515.2 | \$ 512.2 |
| International Lead Markets | 451.6 | 460.9 | 521.2 |
| High Growth Markets | 362.0 | 363.9 | 387.8 |
| Foundational Markets & Corporate | 192.6 | 215.7 | 223.3 |
| Total depreciation and amortization | \$ 1,516.5 | \$ 1,555.7 | \$ 1,644.5 |

Total long-lived assets, primarily property and equipment, were (in millions)—Consolidated: 2016—\$25,200.4; 2015—\$27,607.8; 2014—\$29,264.7; U.S. based: 2016—\$11,689.7; 2015—\$11,940.4; 2014—\$11,883.1.

Debt Financing

LINE OF CREDIT AGREEMENTS

At December 31, 2016, 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 2.2% at December 31, 2016 (based on \$192.0 million of foreign currency bank line borrowings and \$799.8 million of commercial paper) and 2.0% at December 31, 2015 (based on \$731.6 million of foreign currency bank line borrowings and \$869.6 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 | |
|---|----------------|--|------|------------------------------------|------------|
| | | 2016 | 2015 | 2016 | 2015 |
| Fixed | | 4.0% | 4.0% | \$13,889.7 | \$14,190.6 |
| Floating | | 3.4 | 3.3 | 3,249.8 | 3,019.6 |
| Total U.S. Dollars | 2017-2045 | | | 17,139.5 | 17,210.2 |
| Fixed | | 1.7 | 2.4 | 6,127.5 | 3,951.9 |
| Floating | | 0.3 | 0.3 | 1,170.9 | 665.9 |
| Total Euro | 2017-2029 | | | 7,298.4 | 4,617.8 |
| Total British Pounds Sterling - Fixed | 2020-2054 | 5.3 | 5.3 | 921.3 | 1,100.1 |
| Total Chinese Renminbi - Floating ⁽²⁾ | | — | 4.3 | — | 491.8 |
| Fixed | | 2.9 | 2.9 | 106.9 | 104.0 |
| Floating | | — | 0.3 | — | 208.0 |
| Total Japanese Yen | 2030 | | | 106.9 | 312.0 |
| Fixed | | 0.5 | 2.1 | 416.9 | 264.7 |
| Floating | | 2.2 | 3.1 | 182.7 | 229.7 |
| Total other currencies ⁽³⁾ | 2017-2056 | | | 599.6 | 494.4 |
| Debt obligations before fair value adjustments and deferred debt costs ⁽⁴⁾ | | | | 26,065.7 | 24,226.3 |
| Fair value adjustments ⁽⁵⁾ | | | | — | 1.8 |
| Deferred debt costs | | | | (110.0) | (106.0) |
| Total debt obligations | | | | \$25,955.7 | \$24,122.1 |

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

(2) 2016 excludes \$297 million of Short-Term borrowings that was reclassified to liabilities of businesses held for sale on the consolidated balance sheet.

(3) Primarily consists of Swiss Francs and Korean Won.

(4) Aggregate maturities for 2016 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2017—\$77.2; 2018—\$1,756.0; 2019—\$3,932.7; 2020—\$2,395.8; 2021—\$1,555.2; Thereafter—\$16,348.8. These amounts include a reclassification of short-term obligations totaling \$2.5 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2019.

(5) 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 57.5 million at December 31, 2016, including 34.1 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 2016, 2015 and 2014, the total intrinsic value of stock options exercised was \$184.9 million, \$202.9 million and \$258.9 million, respectively. Cash received from stock options exercised during 2016 was \$299.4 million and the tax benefit realized from stock options exercised totaled \$54.5 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2016, 2015 and 2014, and changes during the years then ended, is presented in the following table:

| Options | 2016 | | | | 2015 | | 2014 | |
|----------------------------------|--------------------|---------------------------------|--|---------------------------------------|--------------------|---------------------------------|--------------------|---------------------------------|
| | 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 | 21.9 | \$ 84.76 | | | 23.4 | \$ 77.99 | 25.1 | \$ 69.15 |
| Granted | 4.3 | 117.10 | | | 4.3 | 97.33 | 3.9 | 95.13 |
| Exercised | (4.0) | 75.30 | | | (5.1) | 62.59 | (5.1) | 46.09 |
| Forfeited/expired | (0.7) | 106.50 | | | (0.7) | 96.76 | (0.5) | 94.56 |
| Outstanding at end of year | 21.5 | \$ 92.25 | 6.2 | \$ 633.9 | 21.9 | \$ 84.76 | 23.4 | \$ 77.99 |
| Exercisable at end of year | 13.4 | \$ 83.80 | 4.9 | \$ 507.5 | 13.4 | | 14.4 | |

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. Certain executives have been awarded RSUs that vest based on Company performance. 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.

A summary of the Company's RSU activity during the years ended December 31, 2016, 2015 and 2014 is presented in the following table:

| RSUs | 2016 | | 2015 | | 2014 | |
|--------------------------------|--------------------|--|--------------------|--|--------------------|--|
| | 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 | 2.4 | \$ 83.50 | 2.2 | \$ 83.49 | 2.0 | \$ 78.89 |
| Granted | 0.7 | 109.86 | 0.9 | 87.03 | 0.9 | 85.12 |
| Vested | (0.8) | 79.54 | (0.5) | 88.78 | (0.6) | 69.29 |
| Forfeited | (0.4) | 88.45 | (0.2) | 85.82 | (0.1) | 85.16 |
| Nonvested at end of year | 1.9 | \$ 94.13 | 2.4 | \$ 83.50 | 2.2 | \$ 83.49 |

The total fair value of RSUs vested during 2016, 2015 and 2014 was \$99.3 million, \$49.4 million and \$54.9 million, respectively. The tax benefit realized from RSUs vested during 2016 was \$29.6 million.

Quarterly Results (Unaudited)

| In millions, except per share data | Quarters ended December 31 | | Quarters ended September 30 | | Quarters ended June 30 | | Quarters ended March 31 | |
|---|-------------------------------|------------------|--------------------------------|------------------|---------------------------|------------------|----------------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 ⁽¹⁾ | 2015 |
| Revenues | | | | | | | | |
| Sales by Company-operated restaurants | \$3,652.8 | \$4,030.2 | \$3,972.1 | \$4,282.9 | \$3,916.6 | \$4,261.1 | \$3,753.5 | \$3,914.1 |
| Revenues from franchised restaurants | 2,376.1 | 2,311.1 | 2,452.0 | 2,332.2 | 2,348.4 | 2,236.6 | 2,150.4 | 2,044.8 |
| Total revenues | 6,028.9 | 6,341.3 | 6,424.1 | 6,615.1 | 6,265.0 | 6,497.7 | 5,903.9 | 5,958.9 |
| Company-operated margin | 616.9 | 611.6 | 732.6 | 675.2 | 668.5 | 664.8 | 578.2 | 559.8 |
| Franchised margin | 1,941.3 | 1,894.9 | 2,014.4 | 1,916.1 | 1,917.5 | 1,825.6 | 1,735.3 | 1,641.2 |
| Operating income | 1,969.0 | 1,880.4 | 2,137.3 | 2,030.3 | 1,857.9 | 1,849.3 | 1,780.3 | 1,385.5 |
| Net income | \$1,193.4 | \$1,206.2 | \$1,275.4 | \$1,309.2 | \$1,092.9 | \$1,202.4 | \$1,124.8 | \$ 811.5 |
| Earnings per common share—basic | | | | | | | | |
| | \$ 1.45 | \$ 1.32 | \$ 1.52 | \$ 1.41 | \$ 1.27 | \$ 1.26 | \$ 1.27 | \$ 0.84 |
| Earnings per common share—diluted | | | | | | | | |
| | \$ 1.44 | \$ 1.31 | \$ 1.50 | \$ 1.40 | \$ 1.25 | \$ 1.26 | \$ 1.25 | \$ 0.84 |
| Dividends declared per common share | | | | | | | | |
| | \$ — | \$ 0.89 | \$ 1.83 ⁽²⁾ | \$ 0.85 | \$ 0.89 | \$ 0.85 | \$ 0.89 | \$ 0.85 |
| Weighted-average common shares—basic | | | | | | | | |
| | 823.7 | 914.1 | 841.4 | 930.3 | 864.0 | 953.2 | 888.9 | 960.6 |
| Weighted-average common shares—diluted | | | | | | | | |
| | 829.7 | 919.9 | 847.7 | 934.8 | 871.2 | 957.6 | 896.3 | 965.5 |
| Market price per common share: | | | | | | | | |
| High | \$ 124.00 | \$ 120.23 | \$ 128.60 | \$ 101.88 | \$ 131.96 | \$ 101.08 | \$ 126.96 | \$ 101.09 |
| Low | 110.33 | 97.13 | 113.96 | 87.50 | 116.08 | 94.02 | 112.71 | 88.77 |
| Close | 121.72 | 118.14 | 115.36 | 98.53 | 120.34 | 95.07 | 125.68 | 97.44 |

(1) The Company elected to early adopt ASU 2016-09, "Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" in the second quarter 2016, which required reflection of any adjustments as of January 1, 2016. As such, the quarter ended March 31, 2016 presented here has been recasted to include the impact of adoption of the recognition of excess tax benefits as a reduction to the provision for income taxes of \$26.2 million, and a benefit to earnings per common share - basic and diluted of \$0.03 and \$0.02, respectively.

(2) Includes an \$0.89 per share dividend declared and paid in third quarter, and a \$0.94 per share dividend declared in third quarter and paid in fourth quarter.

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, 2016. 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, 2016, 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, 2016, 2015 and 2014 and the Company's internal control over financial reporting as of December 31, 2016. 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

March 1, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald's Corporation

We have audited the accompanying consolidated balance sheets of McDonald's Corporation as of December 31, 2016 and 2015, 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, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, 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), McDonald's Corporation's internal control over financial reporting as of December 31, 2016, 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 March 1, 2017, expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Chicago, Illinois
March 1, 2017

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

The Board of Directors and Shareholders of McDonald's Corporation

We have audited McDonald's Corporation's internal control over financial reporting as of December 31, 2016 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). McDonald's Corporation'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 report on 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 conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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.

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.

In our opinion, McDonald's Corporation maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of McDonald's Corporation as of December 31, 2016 and 2015 and for each of the three years in the period ended December 31, 2016, and our report dated March 1, 2017, expressed an unqualified opinion thereon.

ERNST & YOUNG LLP

Chicago, Illinois
March 1, 2017

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, 2016. 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

During the third quarter 2016, the Company commenced a phased initiative to transition some transaction-processing activities within certain accounting processes to a third-party service provider. The Company is performing the implementation in the ordinary course of business to increase efficiency. This is not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. Over time, this initiative is expected to continue to enhance the Company's internal control over financial reporting, but in the short-term may increase the Company's risk. Except for these ongoing changes, there has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2016 that has materially affected, or

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, 2016. 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 | 23,430,608 ⁽¹⁾ | \$ 92.40 | 34,112,990 |
| Equity compensation plans not approved by security holders | — | — | — |
| Total | 23,430,608 | \$ 92.40 | 34,112,990 |

(1) Includes 8,407,342 stock options granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan and 13,102,849 stock options and 1,920,417 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, 2016.

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, 2016. 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 9 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, 2016.

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, 2016.

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, 2016.

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 28 through 46 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, filed herewith.** |
| | (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.**
- (l) Description of Restricted Stock Units granted to Andrew J. McKenna, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**
- (m) 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.**
- (n) Retirement and Consulting Agreement between Donald Thompson and the Company, effective March 1, 2015, incorporated herein by reference from Exhibit 99 to Form 8-K (File No. 001-05231), filed on March 3, 2015.**
- (o) 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.**
- (p) 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.**
- (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.
- (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
March 1, 2017

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 1st day of March, 2017:

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

By _____
/s/ Walter E. Massey
Walter E. Massey
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

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | | | | |
|--|--------------------------------------|-------------|-------------|-------------|-------------|
| | <i>2016</i> | <i>2015</i> | <i>2014</i> | <i>2013</i> | <i>2012</i> |
| Earnings available for fixed charges | | | | | |
| Income before provision for income taxes | \$6,866.0 | \$6,555.7 | \$7,372.0 | \$8,204.5 | \$8,079.0 |
| Noncontrolling interest expense in operating results of majority-owned subsidiaries less equity in undistributed operating results of less than 50%-owned affiliates | 12.5 | 7.3 | 6.3 | 9.0 | 11.1 |
| Income tax provision (benefit) of 50%-owned affiliates included in income from continuing operations before provision for income taxes | 3.3 | 3.7 | (0.1) | 23.8 | 64.0 |
| Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors* | 342.6 | 365.1 | 374.6 | 374.6 | 358.1 |
| Interest expense, amortization of debt discount and issuance costs, and depreciation of capitalized interest* | 904.8 | 660.4 | 596.1 | 548.9 | 550.1 |
| | \$8,129.2 | \$7,592.2 | \$8,348.9 | \$9,160.8 | \$9,062.3 |
| Fixed charges | | | | | |
| Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors* | \$ 342.6 | \$ 365.1 | \$ 374.6 | \$ 374.6 | \$ 358.1 |
| Interest expense, amortization of debt discount and issuance costs* | 888.2 | 643.7 | 579.8 | 532.1 | 532.8 |
| Capitalized interest* | 7.1 | 9.4 | 14.8 | 15.6 | 16.1 |
| | \$1,237.9 | \$1,018.2 | \$ 969.2 | \$ 922.3 | \$ 907.0 |
| Ratio of earnings to fixed charges | 6.57 | 7.46 | 8.61 | 9.93 | 9.99 |

* 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

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | | |
|-------------------------------|--------------------------------------|-------------|-------------|
| | <i>2016</i> | <i>2015</i> | <i>2014</i> |
| Operating income | \$ 7,744.5 | \$ 7,145.5 | \$ 7,949.2 |
| Average assets ⁽¹⁾ | \$33,686.2 | \$34,137.6 | \$36,456.0 |
| Return on average assets | 23.0% | 20.9% | 21.8% |

(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⁾

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | | |
|--|--------------------------------------|-------------|-------------|
| | <i>2016</i> | <i>2015</i> | <i>2014</i> |
| Total debt obligations | \$25,955.7 | \$24,122.1 | \$14,935.7 |
| Fair value adjustments | — | (1.8) | (4.7) |
| Deferred debt costs | 110.0 | 106.0 | 54.0 |
| Debt obligations before fair value adjustments and deferred debt costs | \$26,065.7 | \$24,226.3 | \$14,985.0 |
| Fixed-rate debt | \$21,462.3 | \$19,611.3 | \$11,155.3 |
| Fixed-rate debt as a percent of total debt | 82% | 81% | 74% |

(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⁾

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | <i>2015</i> | <i>2014</i> |
|--|--------------------------------------|-------------|-------------|
| Total debt obligations | \$25,955.7 | \$24,122.1 | \$14,935.7 |
| Fair value adjustments | — | (1.8) | (4.7) |
| Deferred debt costs | 110.0 | 106.0 | 54.0 |
| Debt obligations before fair value adjustments and deferred debt costs | \$26,065.7 | \$24,226.3 | \$14,985.0 |
| Foreign currency-denominated debt | \$ 8,926.2 | \$ 7,016.1 | \$ 5,930.3 |
| Foreign currency-denominated debt as a percent of total debt | 34% | 29% | 40% |

(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⁾

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | <i>2015</i> | <i>2014</i> |
|--|--------------------------------------|-------------|-------------|
| Total debt obligations | \$25,955.7 | \$24,122.1 | \$14,935.7 |
| Fair value adjustments | — | (1.8) | (4.7) |
| Deferred debt costs | 110.0 | 106.0 | 54.0 |
| Debt obligations before fair value adjustments and deferred debt costs | \$26,065.7 | \$24,226.3 | \$14,985.0 |
| Total capitalization | \$23,861.4 | \$31,314.2 | \$27,838.4 |
| Total debt as a percent of total capitalization | 109% | 77% | 54% |

(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⁾

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | <i>2015</i> | <i>2014</i> |
|--|--------------------------------------|-------------|-------------|
| Total debt obligations | \$25,955.7 | \$24,122.1 | \$14,935.7 |
| Fair value adjustments | — | (1.8) | (4.7) |
| Deferred debt costs | 110.0 | 106.0 | 54.0 |
| Debt obligations before fair value adjustments and deferred debt costs | \$26,065.7 | \$24,226.3 | \$14,985.0 |
| Cash provided by operations | \$ 6,059.6 | \$ 6,539.1 | \$ 6,730.3 |
| Cash provided by operations as a percent of total debt | 23% | 27% | 45% |

(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

| <i>Dollars in millions</i> | <i>Years ended December 31, 2016</i> | <i>2015</i> | <i>2014</i> |
|--------------------------------|--------------------------------------|-------------|-------------|
| Cash provided by operations | \$ 6,059.6 | \$ 6,539.1 | \$ 6,730.3 |
| Less: Capital expenditures | 1,821.0 | 1,814.0 | 2,583.0 |
| Free cash flow | \$ 4,238.6 | \$ 4,725.1 | \$ 4,147.3 |
| Divided by: Net income | 4,686.5 | 4,529.3 | 4,757.8 |
| Free cash flow conversion rate | 90.4% | 104.3% | 87.2% |

Reconciliation of Returns on Incremental Invested Capital

ROIC 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 2016 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 2016 investing activities are included in the one-year and three-year calculations). In contrast, fourth quarter 2015 is heavily weighted because the assets purchased were deployed more than 12 months ago, and therefore have a full-year impact on 2016 operating income, with little or no impact to the base period (87.5% and 100.0% of fourth quarter 2015 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 ROIC are as follows:

One-year ROIC calculation (dollars in millions):

| Years ended December 31, | 2016 | 2015 | Increase/ (decrease) |
|---|-----------|-----------|-------------------------|
| NUMERATOR: | | | |
| Operating income | \$7,744.5 | \$7,145.5 | \$ 599.0 |
| Depreciation and amortization | 1,516.5 | 1,555.7 | (39.2) |
| Currency translation ⁽¹⁾ | | | 196.9 |
| Change in operating income plus depreciation and amortization (at constant foreign exchange rates) | | | \$ 756.7 |
| DENOMINATOR: | | | |
| Weighted-average cash used for investing activities ⁽²⁾ | | | \$ 1,207.0 |
| Currency translation ⁽¹⁾ | | | 0.7 |
| Weighted-average cash used for investing activities (at constant foreign exchange rates) | | | \$ 1,207.7 |
| One-year ROIC⁽³⁾ | | | 62.7% |

Three-year ROIC calculation (dollars in millions):

| Years ended December 31, | 2016 | 2013 | Increase/ (decrease) |
|---|-----------|-----------|-------------------------|
| NUMERATOR: | | | |
| Operating income | \$7,744.5 | \$8,764.3 | \$(1,019.8) |
| Depreciation and amortization | 1,516.5 | 1,585.1 | (68.6) |
| Currency translation ⁽¹⁾ | | | 1,380.9 |
| Change in operating income plus depreciation and amortization (at constant foreign exchange rates) | | | \$ 292.5 |
| DENOMINATOR: | | | |
| Weighted-average cash used for investing activities ⁽²⁾ | | | \$ 5,750.9 |
| Currency translation ⁽¹⁾ | | | (53.1) |
| Weighted-average cash used for investing activities (at constant foreign exchange rates) | | | \$ 5,697.8 |
| Three-year ROIC⁽³⁾ | | | 5.1% |

(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 used for investing activities for each quarter in the two-year and four-year periods ended December 31, 2016.

| | Years ended December 31, | |
|------------------------------------|--------------------------|-----------|
| | 2016 | 2015 |
| Cash used for investing activities | \$981.6 | \$1,420.0 |
| 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, | | | |
|------------------------------------|--------------------------|-----------|-----------|-----------|
| | 2016 | 2015 | 2014 | 2013 |
| Cash used for investing activities | \$981.6 | \$1,420.0 | \$2,304.9 | \$2,673.8 |
| 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 refranchising initiatives benefited the one-year and three-year ROIC calculation by 20.3% and 0.7%, respectively.

Exhibit 21. Subsidiaries of the Registrant

Name of Subsidiary [State or Country of Incorporation]

Domestic Subsidiaries

McD Asia Pacific, LLC [Delaware]
McD Europe Franchising LLC [Delaware]
McDonald's Deutschland LLC [Delaware]
McDonald's Development Italy LLC [Delaware]
McDonald's Europe, Inc. [Delaware]
McDonald's International Property Company, Ltd. [Delaware]
McDonald's Real Estate Company [Delaware]
McDonald's Sistemas de Espana, Inc. [Delaware]
McDonald's USA, LLC [Delaware]

Foreign Subsidiaries

3267114 Nova Scotia Company [Canada]
Closed Joint Stock Company "Moscow-McDonald's" [Russia]
Guangdong Sanyuan McDonald's Food Company Limited [China]*
HanGook McDonald's Co. Ltd. [South Korea]
Limited Liability Company "McDonald's" [Russia]
Lux MC Holdings S.à.r.l. [Luxembourg]
McD APMEA Holdings Pte. Ltd. [Singapore]
MCD Europe Limited [United Kingdom]
MCDI Holdings Limited [United Kingdom]
MCD Investments Limited [United Kingdom]
McDonald's Australia Limited [Australia]
McDonald's Central Europe GmbH [Austria]
McDonald's (China) Company Limited [China]
McDonald's France S.A.S. [France]
McDonald's Franchise GmbH [Austria]
McDonald's Gesellschaft m.b.H. [Austria]
McDonald's GmbH [Germany]
McDonald's Immobilien Gesellschaft mit beschränkter Haftung [Germany]
McDonald's Liegenschaftsverwaltung Gesellschaft m.b.H. [Austria]
McDonald's Nederland B.V. [Netherlands]
McDonald's Polska Sp. z o.o [Poland]
McDonald's Real Estate LLP [United Kingdom]
McDonald's Restaurants (Hong Kong) Limited [Hong Kong]
McDonald's Restaurants Limited [United Kingdom]
McDonald's Restaurants (New Zealand) Limited [New Zealand]
McDonald's Restaurants of Canada Limited [Canada]
McDonald's Restaurants (Shenzhen) Company Limited [China]
McDonald's Restaurants (Taiwan) Co., Ltd. [Taiwan]
McDonald's Suisse Development Sàrl [Switzerland]
McDonald's Suisse Restaurants Sàrl [Switzerland]
McDonald's (Tianjin) Foods Company Limited [China]
Restaurantes McDonald's, S.A. [Spain]
Shanghai McDonald's Food Co., Ltd. [China]
Sistemas McDonald's Portugal, LDA [Portugal]
Svenska McDonald's AB [Sweden]

The names of certain subsidiaries have been omitted because they do not constitute significant subsidiaries. These include, but are not limited to: McDonald's APMEA, LLC [Delaware]; McDonald's Global Markets LLC [Delaware]; McDonald's International, LLC [Delaware]; McDonald's Latin America, LLC [Delaware]; MCD Global Franchising Limited [United Kingdom]; and other domestic and foreign, direct and indirect subsidiaries of the registrant, including 49 wholly-owned subsidiaries of McDonald's USA, LLC, each of which operates 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.

* This subsidiary is not wholly owned by the registrant.

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 March 1, 2017 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, 2016.

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
March 1, 2017

Exhibit 24. Power of Attorney

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 Gloria Santona, 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, 2016, 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 1st day of March, 2017.

/s/ Lloyd H. Dean

Lloyd H. Dean
Director

/s/ Walter E. Massey

Walter E. Massey
Director

/s/ Stephen J. Easterbrook

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

/s/ John J. Mulligan

John J. Mulligan
Director

/s/ Robert A. Eckert

Robert A. Eckert
Director

/s/ Kevin M. Ozan

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

/s/ Margaret H. Georgiadis

Margaret H. Georgiadis
Director

/s/ Sheila A. Penrose

Sheila A. Penrose
Director

/s/ Enrique Hernandez, Jr.

Enrique Hernandez, Jr.
Chairman of the Board and Director

/s/ John W. Rogers, Jr.

John W. Rogers, Jr.
Director

/s/ Catherine Hoovel

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

/s/ Miles D. White

Miles D. White
Director

/s/ Jeanne P. Jackson

Jeanne P. Jackson
Director

/s/ Richard H. Lenny

Richard H. Lenny
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: March 1, 2017

/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: March 1, 2017

/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, 2016 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: March 1, 2017

/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, 2016 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: March 1, 2017

/s/ Kevin M. Ozan

Kevin M. Ozan

*Corporate Executive Vice President and
Chief Financial Officer*

