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ARCOS DORADOS HOLDINGS INC.

FORM 20-F
(Annual and Transition Report (foreign private issuer))

Filed 04/26/19 for the Period Ending 12/31/18

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Industry	Restaurants & Bars
Sector	Consumer Cyclicals
Fiscal Year	12/31

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

☐ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

☐ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Date of event requiring this shell company report
For the transition period from ________________ to ________________

Commission file number: 001-35129

ARCOS DORADOS HOLDINGS INC.

(Exact name of Registrant as specified in its charter)

British Virgin Islands
(Jurisdiction of incorporation or organization)

Dr. Luis Bonavita 1294, Office 501
Montevideo, Uruguay, 11300 WTC Free Zone
(Address of principal executive offices)

Juan David Bastidas
Chief Legal Officer
Arcos Dorados Holdings Inc.
Dr. Luis Bonavita 1294, 5th floor, Office 501, WTC Free Zone
Montevideo, Uruguay 11300
Telephone: +598 2626-3000
Fax: +598 2626-3018
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A shares, no par value	New York Stock Exchange

Securities registered or to be registered pursuant to Section 12(g) of the Act:
None
(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:
None
(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital stock or common stock as of the close of the period covered by the annual report.

Class A shares: 125,232,247
Class B shares: 80,000,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

☒ Yes ☐ No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

☐ Yes ☒ No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

☒ Yes ☐ No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S. GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act.

† The term "new or revised financial accounting standard" refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☒ International Financial Reporting Standards as issued by the International Accounting Standards Board ☐ Other ☐

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

☐ Item 17 ☐ Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

☐ Yes ☒ No

ARCOS DORADOS HOLDINGS INC.

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PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to "U.S. dollars," "dollars," "U.S.$" or "$" are to the U.S. dollar. All references to "Argentine *pesos* " or "ARS$" are to the Argentine *peso* . All references to "Brazilian *reais* " or "R$" are to the Brazilian *real* . All references to "Mexican *pesos* " or "Ps." are to the Mexican *peso* . All references to "Venezuelan *bolívares* " or "Bs." are to the Venezuelan *bolívar* , the legal currency of Venezuela. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls" for information regarding exchange rates for the Argentine, Brazilian and Mexican currencies since January 1, 2014.

Definitions

In this annual report, unless the context otherwise requires, all references to "Arcos Dorados," the "Company," "we," "our," "ours," "us" or similar terms refer to Arcos Dorados Holdings Inc., together with its subsidiaries. All references to "systemwide" refer only to the system of McDonald's-branded restaurants operated by us or our franchisees in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the "Territories," and do not refer to the system of McDonald's-branded restaurants operated by McDonald's Corporation, its affiliates or its franchisees (other than us).

We own our McDonald's franchise rights pursuant to a Master Franchise Agreement for all of the Territories, except Brazil, which we refer to as the MFA, and a separate, but substantially identical, Master Franchise Agreement for Brazil, which we refer to as the Brazilian MFA. We refer to the MFA and the Brazilian MFA, as amended or otherwise modified to date, collectively as the MFAs. We commenced operations on August 3, 2007, as a result of our purchase of McDonald's operations and real estate in the Territories (except for Trinidad and Tobago), which we refer to collectively as the "McDonald's LatAm" business, and the acquisition of McDonald's franchise rights pursuant to the MFAs, which together with the purchase of the McDonald's LatAm business, we refer to as the "Acquisition."

Financial Statements

We maintain our books and records in U.S. dollars and prepare our financial statements in accordance with accounting principles and standards generally accepted in the United States, or "U.S. GAAP."

The financial information contained in this annual report includes our consolidated financial statements at December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, as stated in their report included elsewhere in this annual report.

We were incorporated on December 9, 2010 as a direct, wholly owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006.

Our fiscal year ends December 31. References in this annual report to a fiscal year, such as "fiscal year 2018," relate to our fiscal year ended on December 31 of that calendar year.

Operating Data

Our operating segments are composed of four geographic regions of operation: (i) the South Latin American division, or "SLAD", which is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, (ii) the Caribbean division, which is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, (iii) Brazil and (iv) the North Latin American division, or "NOLAD," which is comprised of Costa Rica, Mexico and Panama.

We operate McDonald's-branded restaurants under two different operating formats: those directly operated by us, or "Company-operated" restaurants, and those operated by franchisees, or "franchised" restaurants. All references to "restaurants" are to our freestanding, food court, in-store and mall store restaurants and do not refer to our McCafé locations or Dessert Centers. Systemwide data represents measures for both our Company-operated restaurants and our franchised restaurants.

We are the majority stakeholder in two joint ventures with third parties that collectively own 15 restaurants. We consider these restaurants to be Company-operated restaurants. We also have granted developmental licenses to 11 restaurants. Developmental licensees own or lease the land and buildings on which their restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. We consider these restaurants to be franchised restaurants.

Market Share and Other Information

Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission, or the SEC, website) and industry publications, including the United Nations Economic Commission for Latin America and the Caribbean and the CIA World Factbook. Industry publications generally state that the information they include has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal reports and studies, estimates and market research, which we believe to be reliable and accurately extracted by us for use in this annual report, have not been independently verified. However, we believe such data is accurate and agree that we are responsible for the accurate extraction of such information from such sources and its correct reproduction in this annual report.

Basis of Consolidation

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Rounding

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

FORWARD-LOOKING STATEMENTS

This annual report contains statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as "anticipate," "believe," "could," "expect," "should," "plan," "intend," "estimate" and "potential," among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management's beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to of various factors, including, but not limited to, those identified in "Item 3. Key Information—D. Risk Factors" in this annual report. These risks and uncertainties include factors relating to:

- general economic, political, demographic and business conditions in Latin America and the Caribbean;
- fluctuations in inflation and exchange rates in Latin America and the Caribbean;
- our ability to implement our growth strategy;

- the success of operating initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
- our ability to compete and conduct our business in the future;
- changes in consumer tastes and preferences, including changes resulting from concerns over nutritional or safety aspects of beef, poultry, french fries or other foods or the effects of health pandemics and food-borne illnesses such as “mad cow” disease and avian influenza or “bird flu,” and changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;
- the availability, location and lease terms for restaurant development;
- our intention to focus on our restaurant reimaging plan;
- our franchisees, including their business and financial viability and the timely payment of our franchisees’ obligations due to us and to McDonald’s;
- our ability to comply with the requirements of the MFAs, including McDonald’s standards;
- our decision to own and operate restaurants or to operate under franchise agreements;
- the availability of qualified restaurant personnel for us and for our franchisees, and the ability to retain such personnel;
- changes in commodity costs, labor, supply, fuel, utilities, distribution and other operating costs;
- changes in labor laws;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to our restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
- changes in government regulation;
- material changes in tax legislation;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

ENFORCEMENT OF JUDGMENTS

We are incorporated under the laws of the British Virgin Islands with limited liability. We are incorporated in the British Virgin Islands because of certain benefits associated with being a British Virgin Islands company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions, and the availability of professional and support services. However, the British Virgin Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, British Virgin Islands companies may not have standing to sue before the federal courts of the United States.

A majority of our directors and officers, as well as certain of the experts named herein, reside outside of the United States. A substantial portion of our assets and several of such directors, officers and experts are located principally in Argentina, Brazil and Uruguay. As a result, it may not be possible for investors to effect service of process outside Argentina, Brazil and Uruguay upon such directors or officers, or to enforce against us or such

parties in courts outside Argentina, Brazil and Uruguay judgments predicated solely upon the civil liability provisions of the federal securities laws of the United States or other non-Argentine, Brazilian or Uruguayan regulations, as applicable. In addition, local counsel to the Company have advised that there is doubt as to whether the courts of Argentina, Brazil or Uruguay would enforce in all respects, to the same extent and in as timely a manner as a U.S. court or non-Argentine, Brazilian or Uruguayan court, an original action predicated solely upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable; and that the enforceability in Argentine, Brazilian or Uruguayan courts of judgments of U.S. courts or non-Argentine, Brazilian or Uruguayan courts predicated upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable, will be subject to compliance with certain requirements under Argentine, Brazilian or Uruguayan law, including the condition that any such judgment does not violate Argentine, Brazilian or Uruguayan public policy.

We have been advised by Maples and Calder, our counsel as to British Virgin Islands law, that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have been advised by Maples and Calder that a final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable (*i.e.* , not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands under British Virgin Islands common law.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

A. Directors and Senior Management

Not applicable.

B. Advisers

Not applicable.

C. Auditors

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

A. Offer Statistics

Not applicable.

B. Method and Expected Timetable

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Financial Data

The selected balance sheet data as of December 31, 2018 and 2017 and the income statement data for the years ended December 31, 2018, 2017 and 2016 of Arcos Dorados Holdings Inc. are derived from the consolidated financial statements included elsewhere in this annual report, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global. The selected balance sheet data as of December 31, 2016, 2015 and 2014 and the income statement data for the years ended December 31, 2015 and 2014 of Arcos Dorados Holdings Inc. are derived from consolidated financial statements audited by Pistrelli, Henry Martin y Asociados S.R.L., which are not included herein.

Our operating segments are composed of four geographic regions of operation: (i) the South Latin American division, or “SLAD”, which is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, (ii) the Caribbean division which is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela (iii) Brazil and (iv) the North Latin American division, or “NOLAD”, which is comprised of Costa Rica, Mexico and Panama.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006. We did not commence operations until the Acquisition on August 3, 2007.

We maintain our books and records in U.S. dollars and prepare our consolidated financial statements in accordance with U.S. GAAP. This financial information should be read in conjunction with “Presentation of Financial and Other Information,” “Item 5. Operating and Financial Review and Prospects” and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars, except for per share data)				
Income Statement Data:					
Sales by Company-operated restaurants	$ 2,932,609	$ 3,162,256	$ 2,803,334	$ 2,930,379	$ 3,504,302
Revenues from franchised restaurants	148,962	157,269	125,296	122,361	146,763
Total revenues	**3,081,571**	**3,319,525**	**2,928,630**	**3,052,740**	**3,651,065**
Company-operated restaurant expenses:					
Food and paper	(1,030,499)	(1,110,240)	(1,012,976)	(1,037,487)	(1,243,907)
Payroll and employee benefits	(607,793)	(683,954)	(607,082)	(660,773)	(791,677)
Occupancy and other operating	(803,539)	(842,519)	(752,428)	(793,622)	(939,481)
Royalty fees	(157,886)	(163,954)	(142,777)	(149,089)	(173,663)
Franchised restaurants—occupancy	(67,927)	(69,836)	(55,098)	(54,242)	(63,939)
General and administrative expenses	(229,324)	(244,664)	(221,075)	(270,680)	(272,065)
Other operating (expenses) income, net	(61,145)	68,577	41,386	6,560	(95,476)
Total operating costs and expenses	**(2,958,113)**	**(3,046,590)**	**(2,750,050)**	**(2,959,333)**	**(3,580,208)**
Operating income	**123,458**	**272,935**	**178,580**	**93,407**	**70,857**
Net interest expense	(52,868)	(68,357)	(66,880)	(64,407)	(72,750)
Loss from derivative instruments	(565)	(7,065)	(3,065)	(2,894)	(685)
Foreign currency exchange results	14,874	(14,265)	32,354	(54,032)	(74,117)
Other non-operating income (expenses), net	270	(435)	(2,360)	(627)	146
Income (loss) before income taxes	**85,169**	**182,813**	**138,629**	**(28,553)**	**(76,549)**
Income tax expense	(48,136)	(53,314)	(59,641)	(22,816)	(32,479)
Net income (loss)	**37,033**	**129,499**	**78,988**	**(51,369)**	**(109,028)**
Less: Net income attributable to non-controlling interests	(186)	(333)	(178)	(264)	(305)
Net income (loss) attributable to Arcos Dorados Holdings Inc.	**36,847**	**129,166**	**78,810**	**(51,633)**	**(109,333)**
Earnings (Loss) per share:					
Basic net income (loss) per common share attributable to Arcos Dorados	$ 0.18	$ 0.61	$ 0.37	$ (0.25)	$ (0.52)
Diluted net income (loss) per common share attributable to Arcos Dorados	$ 0.18	$ 0.61	$ 0.37	$ (0.25)	$ (0.52)

	As of December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars, except for share data)				
Balance Sheet Data:					
Cash and cash equivalent	$ 197,282	$ 308,491	$ 194,803	$ 112,519	$ 139,030
Total current assets	**464,562**	**653,037**	**445,190**	**378,996**	**447,196**
Property and equipment, net	856,192	890,736	847,966	833,357	1,092,994
Total non-current assets	**1,113,477**	**1,150,706**	**1,059,863**	**1,024,206**	**1,347,584**
Total assets	**1,578,039**	**1,803,743**	**1,505,053**	**1,403,202**	**1,794,780**
Accounts payable	242,455	303,452	217,914	187,685	220,337
Short-term debt and current portion of long-term debt	4,192	4,359	28,099	163,740	38,684
Total current liabilities	**493,312**	**605,583**	**548,308**	**577,314**	**542,066**
Long-term debt, excluding current portion	626,424	629,142	551,580	491,327	761,080
Total non-current liabilities	**691,968**	**702,018**	**605,169**	**538,998**	**795,127**
Total liabilities	**1,185,280**	**1,307,601**	**1,153,477**	**1,116,312**	**1,337,193**
Total common stock	512,760	509,647	506,884	504,772	498,616
Total equity	**392,759**	**496,142**	**351,576**	**286,890**	**457,587**
Total liabilities and equity	**1,578,039**	**1,803,743**	**1,505,053**	**1,403,202**	**1,794,780**
Shares outstanding	205,232,247	211,072,508	210,711,224	210,538,896	210,216,043

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars, except percentages)				
Other Data:					
Total Revenues					
Brazil	$ 1,345,453	$ 1,496,573	$ 1,333,237	$ 1,361,989	$ 1,816,046
Caribbean division(1)	483,743	474,822	409,671	398,144	594,220
NOLAD	406,848	386,874	363,965	367,364	385,114
SLAD	845,527	961,256	821,757	925,243	855,685
Total	**3,081,571**	**3,319,525**	**2,928,630**	**3,052,740**	**3,651,065**
Operating Income					
Brazil	$ 159,511	$ 160,608	$ 122,636	$ 116,820	$ 155,799
Caribbean division(1)	(49,567)	1,538	(12,392)	(40,102)	(91,859)
NOLAD	7,726	99,152	45,145	8,710	(9,150)
SLAD	53,777	71,718	66,359	78,022	62,768
Corporate and others and purchase price allocation	(47,989)	(60,081)	(43,168)	(70,043)	(46,701)
Total	**123,458**	**272,935**	**178,580**	**93,407**	**70,857**
Operating Margin(2)					
Brazil	11.9 %	10.7 %	9.2 %	8.6 %	8.6 %
Caribbean division(1)	(10.2)	0.3	(3.0)	(10.1)	(15.5)
NOLAD	1.9	25.6	12.4	2.4	(2.4)
SLAD	6.4	7.5	8.1	8.4	7.3
Total	**4.0**	**8.2**	**6.1**	**3.1**	**1.9**
Adjusted EBITDA(3)					
Brazil	$ 218,391	$ 218,172	$ 168,076	$ 174,102	$ 220,711
Caribbean division(1)	(8,281)	40,844	18,049	2,059	(11,284)
NOLAD	32,313	33,717	36,288	31,424	25,035
SLAD	73,670	87,083	76,327	100,718	82,859
Corporate and others	(58,096)	(74,879)	(60,295)	(78,132)	(65,647)
Total	**257,997**	**304,937**	**238,445**	**230,171**	**251,674**
Adjusted EBITDA Margin(4)					
Brazil	16.2 %	14.6 %	12.6 %	12.8 %	12.2 %
Caribbean division(1)	(1.7)	8.6	4.4	0.5	(1.9)
NOLAD	7.9	8.7	10.0	8.6	6.5
SLAD	8.7	9.1	9.3	10.9	9.7
Total	**8.4**	**9.2**	**8.1**	**7.5**	**6.9**
Other Financial Data:					
Working capital(5)	$ (28,750)	$ 47,454	$ (103,118)	$ (198,318)	$ (94,870)
Capital expenditures(6)	197,041	175,636	92,282	92,055	170,638
Dividends declared per common share	$ 0.10	$ —	$ —	$ —	$ 0.24

	As of December 31,				
	2018	**2017**	**2016**	**2015**	**2014**
Number of systemwide restaurants	**2,223**	**2,188**	**2,156**	**2,141**	**2,121**
Brazil	968	929	902	883	866
Caribbean division	337	350	353	356	359
NOLAD	524	519	517	518	513
SLAD	394	390	384	384	383
Number of Company-operated restaurants	**1,540**	**1,546**	**1,553**	**1,588**	**1,577**
Brazil	584	579	584	615	614
Caribbean division	251	263	266	267	270
NOLAD	362	363	365	364	352
SLAD	343	341	338	342	341
Number of franchised restaurants	**683**	**642**	**603**	**553**	**544**
Brazil	384	350	318	268	252
Caribbean division	86	87	87	89	89
NOLAD	162	156	152	154	161
SLAD	51	49	46	42	42

(1) Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. See "Item 5. Operating and Financial Review and Prospects-A. Operating Results-Foreign Currency Translation-Venezuela."

(2) Operating margin is operating income divided by total revenues, expressed as a percentage.

(3) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA, see "Item 5. Operating and Financial Review and Prospects-A. Operating Results-Key Business Measures."

(4) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.

(5) Working capital equals current assets minus current liabilities.

(6) Includes property and equipment expenditures and purchase of restaurant businesses paid at the acquisition date.

Presented below is the reconciliation between net income and Adjusted EBITDA on a consolidated basis:

Consolidated Adjusted EBITDA Reconciliation	For the Years Ended December 31, 2018	2017	2016	2015	2014
	(in thousands of U.S. dollars)				
Net income (loss) attributable to Arcos Dorados Holdings Inc.	**$ 36,847**	**$ 129,166**	**$ 78,810**	**$ (51,633)**	**$ (109,333)**
Plus (Less):					
Net interest expense	52,868	68,357	66,880	64,407	72,750
Loss from derivative instruments	565	7,065	3,065	2,894	685
Foreign currency exchange results	(14,874)	14,265	(32,354)	54,032	74,117
Other non-operating (income) expenses, net	(270)	435	2,360	627	(146)
Income tax expense	48,136	53,314	59,641	22,816	32,479
Net income attributable to non-controlling interests	186	333	178	264	305
Operating income	**123,458**	**272,935**	**178,580**	**93,407**	**70,857**
Plus (Less):					
Items excluded from computation that affect operating income:					
Depreciation and amortization	105,800	99,382	92,969	110,715	116,811
Gains from sale or insurance recovery of property and equipment	(4,973)	(95,081)	(57,244)	(12,308)	(3,379)
Write-offs of property and equipment	4,167	8,528	5,776	6,038	7,111
Impairment of long-lived assets	18,950	17,564	7,697	12,343	50,886
Impairment of goodwill	167	200	5,045	679	2,029
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	—	—	—	210	2,503
Reorganization and optimization plan	11,003	—	5,341	18,346	4,707
2008 Long-Term Incentive Plan incremental compensation from modification	(575)	1,409	281	741	149
Adjusted EBITDA	**257,997**	**304,937**	**238,445**	**230,171**	**251,674**

Exchange Rates and Exchange Controls

In 2018, 65.6% of our total revenues were derived from our restaurants in Argentina, Brazil and Mexico. While we maintain our books and records in U.S. dollars, our revenues are conducted in the local currency of the territories in which we operate, and as such may be affected by changes in the local exchange rate to the U.S. dollar. The exchange rates discussed in this section have been obtained from each country's central bank. However, in most cases, for consolidation purposes, we use a foreign currency to U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the aforementioned central banks.

Argentina

Exchange Rates

The Argentine *peso* depreciated 30.7% against the U.S. Dollar in 2014, 51.7% in 2015, 21.9% in 2016, 17.7% in 2017, 49.7% in 2018 and depreciated 15.10% in the first quarter of 2019. As of April 24, 2019, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Argentina was ARS$ 43.47 per U.S. dollar.

Exchange Controls

During 2001 and 2002, Argentina went through a period of severe political, economic and social crisis. Among other consequences, the crisis resulted in Argentina defaulting on its foreign debt obligations and the introduction of numerous changes in economic policies, including currency controls that tightened restrictions on capital flows, exchange controls, an official U.S. dollar exchange and transfer restrictions that substantially limited the ability of companies to retain foreign currency or make payments abroad. These foreign exchange controls were eased in a series of measures introduced by President Mauricio Macri's administration starting in December 2015.

For instance, on May 19, 2017, the Central Bank of Argentina issued Communication "A" 6244, effective as of July 1, 2017, which structurally modified the exchange regulations in force, establishing a new foreign exchange regime that significantly eased the access to the exchange market ("MULC", *Mercado Único y Libre de Cambios*).

In addition, on January 11, 2018, with the aim of providing more flexibility to the foreign exchange system, as well as promoting competition, allowing the entrance of new players to the system, a free floating foreign exchange market (*Mercado Libre de Cambios* , "MLC") was established by means of Executive Decree No. 27/2018 (as Amended by Law No. 27,444), thus replacing the MULC.

Within the MLC, exchange operations shall be carried out both by financial entities and also by any other person which has been duly authorized by the Central Bank of Argentina to engage in permanent or customary trade in the purchase and sale of foreign coins and banknotes, gold coins or bars and traveler's checks, money orders, transfers or similar operations in foreign currency.

By virtue of Communication "A" 6443 of the Central Bank of Argentina, which came into force on March 1, 2018, companies from any sector that operate in the MLC may operate as an exchange agency, solely by registering via an electronic form entitled "Registry of Foreign Exchange Operators" (*Registro de Operadores de Cambio*).

On September 28, 2018, the Monetary Policy Committee of the Central Bank of Argentina introduced an exchange rate range, effective as of October 1, 2018, as part of the terms and conditions of a revised agreement with the International Monetary Fund approved on June 20, 2018. The Argentine *peso* 's exchange rate with the U.S. dollar will be allowed to fluctuate between Ps. 34.00 and Ps. 44.00 per $1.00 without the Central Bank's intervention. The band was adjusted at a 3% monthly rate until the end of 2018 and will be adjusted at a monthly rate of 2% for 2019. If the exchange rate fluctuates over or below the range, the Central Bank of Argentina may intervene the MLC by selling or purchasing foreign currency, as the case may be, in order to maintain the exchange rate within the range.

As of the date of this annual report, in accordance with current regulations, all individuals and legal entities may freely operate in the exchange market and foreign exchange transactions may be carried out at the exchange rate freely agreed upon between the parties. All exchange and/or arbitrage operations shall be carried out through financial or exchange entities authorized by the Central Bank of Argentina, and shall comply in all cases with the provisions applicable to each transaction. Transactions that do not fall within the scope of the foreign exchange regulations will be subject to the Foreign Exchange Regime Law.

Notwithstanding the above mentioned measures recently adopted by the Macri administration, the Central Bank of Argentina and the federal government in the future may impose additional exchange controls that may impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

Brazil

Exchange Rates

The Brazilian *real* depreciated 11.3% against the U.S. dollar in 2014, 47.0% in 2015, and appreciated 19.4% in 2016, 1.7% in 2017, depreciated 19% in 2018 and 3.54% in the first quarter of 2019. As of April 24, 2019, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Brazil was R$3.96 per U.S. dollar.

Exchange Controls

Brazilian Resolution 3,568 establishes that, without prejudice to the duty of identifying customers, operations of foreign currency purchase or sale up to $3,000 or its equivalent in other currencies are not required to submit documentation relating to legal transactions underlying these foreign exchange operations. According to Resolution 3,568, the Central Bank of Brazil may define simplified forms to record operations of foreign currency purchases and sales of up to $3,000 or its equivalent in other currencies.

The Brazilian Monetary Council may issue further regulations in relation to foreign exchange transactions, as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of *reais*), including those made through so-called non-resident accounts.

Brazilian law also imposes a tax on foreign exchange transactions, or “IOF/Exchange,” on the conversion of *reais* into foreign currency and on the conversion of foreign currency into *reais* . As of October 7, 2014, the general IOF/Exchange rate applicable to almost all foreign currency exchange transactions was increased from zero to 0.38%, although other rates may apply in particular operations, such as the below transactions which are currently not taxed:

- inflow related to transactions carried out in the Brazilian financial and capital markets, including investments in our common shares by investors which register their investment under Resolution No. 4,373;
- outflow related to the return of the investment mentioned under the first bulleted item above; and
- outflow related to the payment of dividends and interest on shareholders’ equity in connection with the investment mentioned under the first bulleted item above.

Notwithstanding these rates of the IOF/Exchange, in force as of the date hereof, the Minister of Finance is legally entitled to increase the rate of the IOF/Exchange to a maximum of 25% of the amount of the currency exchange transaction, but only on a prospective basis.

Although the Central Bank of Brazil has intervened occasionally to control movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of capital movements or other factors, and, therefore, the Brazilian *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

Brazilian law further provides that whenever there is a significant imbalance in Brazil’s balance of payments or reasons to foresee such a significant imbalance, the Brazilian government may, and has done so in the past, impose temporary restrictions on the remittance of funds to foreign investors of the proceeds of their investments in Brazil. The likelihood that the Brazilian government would impose such restricting measures may be affected by the extent of Brazil’s foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil’s debt service burden relative to the economy as a whole and other factors. We cannot assure you that the Central Bank will not modify its policies or that the Brazilian government will not institute restrictions or delays on cross-border remittances in respect of securities issued in the international capital markets.

Mexico

Exchange Rates

The Mexican *peso* depreciated 0.27% against the U.S. dollar in 2018 and appreciated 1.54% in the first quarter of 2019. As of April 24, 2019, the free-market exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Mexico in the Federal Official Gazette as the rate of payment of obligations denominated in non-Mexican currency payable in Mexico was Ps. 18.83 per U.S. dollar.

Exchange Controls

For the last few years, the Mexican government has maintained a policy of non-intervention in the foreign exchange markets, other than conducting periodic auctions for the purchase of U.S. dollars, and has not had in effect any exchange controls (although these controls have existed and have been in effect in the past). However, the new Mexican government has recently indicated that it may make changes to current monetary policy and exchange controls or other interventions affecting the exchange rate may be instituted in the future. We cannot assure you that the Mexican government will maintain its current policies with regard to the Mexican *peso* or that the Mexican *peso* will not further depreciate or appreciate significantly in the future.

B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. As a result, the market price of our class A shares could decline, and you could lose all or part of your investment. This annual report also contains forward-looking statements that involve risks and uncertainties. See "Forward-Looking Statements." Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks facing our company or investments in Latin America and the Caribbean described below and elsewhere in this annual report.

Certain Factors Relating to Our Business

Our rights to operate and franchise McDonald's-branded restaurants are dependent on the MFAs, the expiration of which would adversely affect our business, results of operations, financial condition and prospects.

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in two MFAs through 2027. As a result, our ability to continue operating in our current capacity is dependent on the renewal of our contractual relationship with McDonald's.

McDonald's has the right, in its reasonable business judgment based on our satisfaction of certain criteria set forth in the MFAs, to grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years after the expiration in 2027 of the initial term of the MFAs upon such terms as McDonald's may determine. Pursuant to the MFAs, McDonald's will determine whether to grant us the option to renew between August 2020 and August 2024. If McDonald's grants us the option to renew and we elect to exercise the option, then we and McDonald's will amend the MFAs to reflect the terms of such renewal option, as appropriate. We cannot assure you that McDonald's will grant us an option to extend the term of the MFAs or that the terms of any renewal option will be acceptable to us, will be similar to those contained in the MFAs or will not be less favorable to us than those contained in the MFAs.

If McDonald's elects not to grant us the renewal option or we elect not to exercise the renewal option, we will have a three-year period in which to solicit offers for our business, which offers would be subject to McDonald's approval. Upon the expiration of the MFAs, McDonald's has the option to acquire all of our non-public shares and all of the equity interests of our wholly owned subsidiary Arcos Dourados Comercio de Alimentos Ltda., the master franchisee of McDonald's for Brazil, at their fair market value.

In the event McDonald's does not exercise its option to acquire LatAm, LLC and Arcos Dourados Comercio de Alimentos Ltda., the MFAs would expire and we would be required to cease operating McDonald's-branded restaurants, identifying our business with McDonald's and using any of McDonald's intellectual property. Although we would retain our real estate and infrastructure, the MFAs prohibit us from engaging in certain competitive businesses, including Burger King, Subway, KFC or any other quick-service restaurant, or QSR, business, or duplicating the McDonald's system at another restaurant or business during the two-year period following the expiration of the MFAs. As the McDonald's brand and our relationship with McDonald's are among our primary competitive strengths, the expiration of the MFAs for any of the reasons described above would materially and adversely affect our business, results of operations, financial condition and prospects.

Our business depends on our relationship with McDonald's and changes in this relationship may adversely affect our business, results of operations and financial condition.

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in the MFAs. As a result, our revenues are dependent on the continued existence of our contractual relationship with McDonald's.

Pursuant to the MFAs, McDonald's has the ability to exercise substantial influence over the conduct of our business. For example, under the MFAs, we are not permitted to operate any other QSR chains, we must comply with McDonald's high quality standards, we must own and operate at least 50% of all McDonald's-branded restaurants in each of the Territories, we must maintain certain guarantees in favor of McDonald's, including a standby letter of credit (or other similar financial guarantee acceptable to McDonald's) in an amount of $80.0 million, to secure our payment obligations under the MFAs and related credit documents, we cannot incur debt above certain financial ratios, we cannot transfer the equity interests of our subsidiaries, any significant portion of their assets or certain of the real estate properties that we own without McDonald's consent, and McDonald's has the right to approve the appointment of our chief executive officer and chief operating officer. In addition, the MFAs require us to reinvest a significant amount of money, including through reimaging our existing restaurants, opening new restaurants and advertising, which plans McDonald's has the right to approve. Under the 2017-2019 restaurant opening and reinvestment plan, we are required to open 180 restaurants and to reinvest $292 million in existing restaurants from 2017 through 2019. We cannot assure you that we will have available the funds necessary to finance these commitments, and their satisfaction may require us to incur additional indebtedness, which could adversely affect our financial condition. Moreover, we may not be able to obtain additional indebtedness on favorable terms, or at all. Failure to comply with these commitments could constitute a material breach of the MFAs and may lead to a termination by McDonald's of the MFAs. In addition, on January 25, 2017, McDonald's Corporation agreed to provide growth support for the same period. The impact of this support resulted in an effective royalty rate of 5.2% in 2017 and of 5.4% in 2018, and we project that it could result in an effective royalty rate of 5.9% in 2019.

Notwithstanding the foregoing, McDonald's has no obligation to fund our operations. In addition, McDonald's does not guarantee any of our financial obligations, including trade payables or outstanding indebtedness, and has no obligation to do so.

If the terms of the MFAs excessively restrict our ability to operate our business or if we are unable to satisfy our restaurant opening and reinvestment commitments under the MFAs, our business, results of operations and financial condition would be materially and adversely affected.

For certain periods of 2014, 2015 and 2016, McDonald's Corporation granted us limited waivers for our non-compliance with certain quarterly financial ratios specified in the MFA; a failure to comply with our original commitments could result in a material breach of the MFA.

During certain periods of 2014, 2015 and 2016, we were not in compliance with certain quarterly financial ratios specified in the MFA. We obtained a limited waiver from McDonald's Corporation through and including June 30, 2016. During the waiver period we were not required to maintain these quarterly financial ratios. We have been in compliance with these quarterly ratios since the expiration of the waiver. However, if we are unable to comply with our original commitments under the MFA or to obtain a waiver for any non-compliance in the future, we could be in material breach. If we breach the MFA, McDonald's will have certain rights, including the ability to acquire all or portions of our business. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value.

Pursuant to the MFAs, McDonald's has the right to acquire our non-public shares or our interests in one or more Territories upon the occurrence of certain events, including the death or permanent incapacity of our controlling shareholder or a material breach of the MFAs. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

McDonald's has the option to acquire all, but not less than all, of our non-public shares at 100% of their fair market value during the twelve-month period following the eighteen-month anniversary of the death or permanent

incapacity of Mr. Woods Staton, our Executive Chairman and controlling shareholder. In addition, if there is a material breach that relates to one or more Territories in which there are at least 100 restaurants in operation, McDonald's has the right either to acquire all of our non-public shares or our interests in our subsidiaries in such Territory or Territories. By contrast, if the initial material breach of the MFAs affects or is attributable to any of the Territories in which there are less than 100 restaurants in operation, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory. For example, since we have more than 100 restaurants in Mexico, if a Mexican subsidiary were to materially breach the MFA, McDonald's would have the right either to acquire our entire business throughout Latin America and the Caribbean or just our Mexican operations, whereas upon a similar breach by our Ecuadorean subsidiary, which has less than 100 restaurants in operation, McDonald's would only have the right to acquire our interests in our operations in Ecuador.

McDonald's was granted a perfected security interest in the equity interests of LatAm, LLC, Arcos Dourados Comercio de Alimentos Ltda. and certain of their subsidiaries to protect this right. In the event this right is exercised as a result of a material breach of the MFAs, the amount to be paid by McDonald's would be equal to 80% of the fair market value of the acquired equity interests. If McDonald's exercises its right to acquire our interests in one or more Territories as a result of a material breach, our business, results of operations and financial condition would be materially and adversely affected. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Termination" for more details about fair market value calculation.

The failure to successfully manage our future growth may adversely affect our results of operations.

Our business has grown significantly since the Acquisition, largely due to the opening of new restaurants in existing and new markets within the Territories, and also from an increase in comparable store sales. Our total number of restaurant locations has increased from 1,569 at the date of the Acquisition to 2,223 restaurants as of December 31, 2018.

Our growth is, to a certain extent, dependent on new restaurant openings and therefore may not be constant from period to period; it may accelerate or decelerate in response to certain factors. There are many obstacles to opening new restaurants, including determining the availability of desirable locations, securing reliable suppliers, hiring and training new personnel and negotiating acceptable lease terms, and, in times of adverse economic conditions, franchisees may be more reluctant to provide the investment required to open new restaurants. In addition, our growth in comparable store sales is dependent on continued economic growth in the countries in which we operate as well as our ability to continue to predict and satisfy changing consumer preferences.

We plan our capital expenditures on an annual basis, taking into account historical information, regional economic trends, restaurant opening and reimaging plans, site availability and the investment requirements of the MFAs in order to maximize our returns on invested capital. The success of our investment plan may, however, be harmed by factors outside our control, such as changes in macroeconomic conditions, changes in demand and construction difficulties that could jeopardize our investment returns and our future results and financial condition.

We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations.

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. We use McDonald's centralized supply chain management model, which relies on approved third-party suppliers and distributors for goods, and we generally use several suppliers to satisfy our needs for goods. This system encompasses selecting and developing suppliers of core products—beef, chicken, buns, produce, cheese, dairy mixes, beverages and toppings—who are able to comply with McDonald's high quality standards, and establishing sustainable relationships with these suppliers. McDonald's standards include cleanliness, product consistency, timeliness, following internationally recognized manufacturing practices, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up.

Our 34 largest suppliers account for approximately 70.7 % of our purchases excluding Venezuela. Very few of our suppliers have entered into written contracts with us as we only have pricing protocols with a vast majority of them. Our supplier approval process is thorough and lengthy in order to ensure compliance with McDonald's high quality standards. We therefore tend to develop strong relationships with approved suppliers and, given our importance to them, have found that pricing protocols with them are generally sufficient to ensure a reliable supply

of quality products. While we source our supplies from many approved suppliers in Latin America and the Caribbean, thereby reducing our dependence on any one supplier, the informal nature of the majority of our relationships with suppliers means that we may not be assured of long-term or reliable supplies of products from those suppliers.

In addition, certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. In light of these restrictions, as well as the MFAs' requirement to purchase certain core supplies from approved suppliers, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders.

If our suppliers fail to provide us with products in a timely manner due to unanticipated demand, production or distribution problems, financial distress or shortages, if our suppliers decide to terminate their relationship with us or if McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards and we are obligated to terminate our relationship with such supplier, we may have difficulty finding appropriate or compliant replacement suppliers. As a result, we may face inventory shortages that could negatively affect our operations.

Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements.

As of December 31, 2018, 30.7% of our restaurants were franchised. Under our franchise agreements, we receive monthly payments which are, in most cases, the greater of a fixed rent or a certain percentage of the franchisee's gross sales. Franchisees are independent operators with whom we have franchise agreements. We typically own or lease the real estate upon which franchisees' restaurants are located and franchisees are required to follow our operating manual that specifies items such as menu choices, permitted advertising, equipment, food handling procedures, product quality and approved suppliers. Our operating results depend to a certain extent on the restaurant profitability and financial viability of our franchisees. The concurrent failure by a significant number of franchisees to meet their financial obligations to us could jeopardize our ability to meet our obligations.

In addition, we are liable for our franchisees' monthly payment of a continuing franchise fee to McDonald's, which represents a percentage of those franchised restaurants' gross sales. To the extent that our franchisees fail to pay this fee in full, we are responsible for any shortfall. As such, the concurrent failure by a significant number of franchisees to pay their continuing franchise fees could have a material adverse effect on our results of operations and financial condition.

We do not have full operational control over the businesses of our franchisees.

We are dependent on franchisees to maintain McDonald's quality, service and cleanliness standards, and their failure to do so could materially affect the McDonald's brand and harm our future growth. Although we exercise significant influence over franchisees through the franchise agreements, franchisees have some flexibility in their operations, including the ability to set prices for our products in their restaurants, hire employees and select certain service providers. In addition, it is possible that some franchisees may not operate their restaurants in accordance with our quality, service, cleanliness, health or product standards. Although we take corrective measures if franchisees fail to maintain McDonald's quality, service and cleanliness standards, we may not be able to identify and rectify problems with sufficient speed and, as a result, our image and operating results may be negatively affected.

Ownership and leasing of a broad portfolio of real estate exposes us to potential losses and liabilities.

As of December 31, 2018, we owned the land for 496 of our 2,223 restaurants and the buildings for all but 11 of our restaurants. The value of these assets could decrease or rental costs could increase due to changes in local demographics, the investment climate and increases in taxes.

The majority of our restaurant locations, or those operated by our franchisees, are subject to long-term leases. We may not be able to renew leases on acceptable terms or at all, in which case we would have to find new locations to lease or be forced to close the restaurants. If we are able to negotiate a new lease at an existing location, we may be subject to a rent increase. In addition, current restaurant locations may become unattractive due to changes in neighborhood demographics or economic conditions, which may result in reduced sales at these locations.

The success of our business is dependent on the effectiveness of our marketing strategy.

Market awareness is essential to our continued growth and financial success. Pursuant to the MFAs, we create, develop and coordinate marketing plans and promotional activities throughout the Territories, and franchisees contribute a percentage of their gross sales to our marketing plan. In addition, we are required under the MFAs to spend at least 5% of our sales on advertising and promotional activities in the majority of our markets. Pursuant to the MFAs, McDonald's has the right to review and approve our marketing plans in advance and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We also participate in global and regional marketing activities undertaken by McDonald's and pay McDonald's approximately 0.1% of our sales in order to fund such activities.

If our advertising programs are not effective, or if our competitors begin spending significantly more on advertising than we do, we may be unable to attract new customers or existing customers may not return to our restaurants and our operating results may be negatively affected.

We use non-committed lines of credit to partially finance our working capital needs.

We use non-committed lines of credit to partially finance our working capital needs. Given the nature of these lines of credit, they could be withdrawn and no longer be available to us, or their terms, including the interest rate, could change to make the terms no longer acceptable to us. The availability of these lines of credit depends on the level of liquidity in financial markets, which can vary based on events outside of our control, including financial or credit crises. Any inability to draw upon our non-committed lines of credit could have an adverse effect on our working capital, financial condition and results of operations.

Covenants and events of default in the agreements governing our outstanding indebtedness could limit our ability to undertake certain types of transactions and adversely affect our liquidity.

As of December 31, 2018, we had $589.8 million in total outstanding indebtedness, consisting of $630.3 million in long-term debt, $0.4 million in short-term debt and $(40.9) million related to the fair market value of our outstanding derivative instruments. The agreements governing our outstanding indebtedness contain covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict some of our activities, including restrictions on:

- creating liens;
- paying dividends;
- maintaining certain leverage ratios;
- entering into sale and lease-back transactions; and
- consolidating, merging or transferring assets.

During certain periods of 2014, we were not in compliance with certain quarterly financial ratios specified in our revolving credit facility with Bank of America, N.A. We were able to successfully negotiate an amendment to the credit facility to increase these financial ratios, and we are currently in compliance with the revised ratios. See "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash (used in) Financing Activities—Revolving Credit Facilities".

If we fail to satisfy the covenants set forth in these agreements or another event of default occurs under the agreements, our outstanding indebtedness under the agreements could become immediately due and payable. If our outstanding indebtedness becomes immediately due and payable and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all.

Uncertainty relating to the calculation of LIBOR and other reference rates and their potential discontinuance may materially adversely affect the value of our indebtedness and as a result our business, results of operations, financial condition and prospects.

As of December 31, 2018, we had no outstanding indebtedness tied to variable interest rates. However, we may take out loans in the future pursuant to our revolving credit facilities, some of which are tied to variable interest rates, primarily LIBOR. In recent years, national and international regulators and law enforcement agencies have conducted investigations into a number of rates or indices, such as LIBOR, which are deemed to be "reference rates." Actions by such regulators and law enforcement agencies may result in changes to the manner in which certain reference rates are determined, their discontinuance, or the establishment of alternative reference rates. In particular, on July 27, 2017, the Chief Executive of the U.K. Financial Conduct Authority (the "FCA"), which regulates LIBOR, announced that the FCA will no longer persuade or compel banks to submit rates for the calculation of LIBOR after 2021. Such announcement indicates that the continuation of LIBOR on the current basis cannot and will not be guaranteed after 2021. Notwithstanding the foregoing, it appears highly likely that LIBOR will be discontinued or modified by 2021.

At this time, it is not possible to predict the effect that these developments, any discontinuance, modification or other reforms to LIBOR or any other reference rate, or the establishment of alternative reference rates may have on LIBOR, other benchmarks or floating rate debt securities, including the floating rate notes. Uncertainty as to the nature of such potential discontinuance, modification, alternative reference rates or other reforms may materially adversely affect the value of certain of our credit agreements that are tied to LIBOR. Furthermore, the use of alternative reference rates or other reforms could cause the interest rate calculated for such indebtedness to be materially different than expected. Any of the foregoing could have a material adverse effect on our business, results of operations, financial condition and prospects.

Our inability to attract and retain qualified personnel may affect our growth and results of operations.

We have a strong management team with broad experience in human resources, product development, supply chain management, operations, finance, marketing, real estate development and training. Our growth plans place substantial demands on our management team, and future growth could increase those demands. In addition, pursuant to the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and chief operating officer. Our ability to manage future growth will depend on the adequacy of our resources and our ability to continue to identify, attract and retain qualified personnel. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Also, the success of our operations depends in part on our ability to attract and retain qualified regional and restaurant managers and general staff. If we are unable to recruit and retain our employees, or fail to motivate them to provide quality food and service, our image, operations and growth could be adversely affected.

The resignation, termination, permanent incapacity or death of our Executive Chairman could adversely affect our business, results of operations, financial condition and prospects.

Due to Mr. Woods Staton's unique experience and leadership capabilities, it would be difficult to find a suitable successor for him if he were to cease serving as Executive Chairman for any reason. In the event of Mr. Woods Staton's death or permanent incapacity, pursuant to the MFA, McDonald's has the right to acquire all of our non-public shares during the twelve-month period beginning on the eighteen-month anniversary of his death or incapacity.

In addition, in the event that we need to appoint a new CEO, pursuant to the MFA, we must submit to McDonald's the name of such proposed successor for McDonald's approval. If we and McDonald's have not agreed upon a successor CEO after six months, McDonald's may designate a temporary CEO in its sole discretion pending our submission of information relating to a further candidate and McDonald's approval of that candidate. A delay in finding a suitable successor CEO could adversely affect our business, results of operations, financial condition and prospects.

Labor shortages or increased labor costs could harm our results of operations.

Our operations depend in part on our ability to attract and retain qualified restaurant managers and crew. While the turnover rate varies significantly among categories of employees, due to the nature of our business we

traditionally experience a high rate of turnover among our crew and we may not be able to replace departing crew with equally qualified or motivated staff.

As of December 31, 2018, we had 78,691 employees in our Company-operated restaurants and staff. Controlling labor costs is critical to our results of operations, and we closely monitor those costs. Some of our employees are paid minimum wages; any increases in minimum wages or changes to labor regulations in the Territories could increase our labor costs. For example, during 2018, Venezuela implemented six increases in the minimum wage. Similarly, in Argentina, a law enacted in November 2010 requires companies to pay overtime to all employees (except directors and managers). In addition, certain proposed bills have attempted to implement additional payments for weekends and mandatory employee profit-sharing, but none of those have been enacted by Congress. These or similar regulations, if adopted, may have an adverse impact on our results of operations. Competition for employees could also cause us to pay higher wages.

Some of our employees are represented by unions and are working under agreements that are subject to annual salary negotiations. We cannot guarantee the results of any such collective bargaining negotiations or whether any such negotiations will result in a work stoppage. In addition, employees may strike for reasons unrelated to our union arrangements. Any future work stoppage could, depending on the affected operations and the length of the work stoppage, have a material adverse effect on our financial position, results of operations or cash flows.

A failure by McDonald's to protect its intellectual property rights, including its brand image, could harm our results of operations.

The profitability of our business depends in part on consumers' perception of the strength of the McDonald's brand. Under the terms of the MFAs, we are required to assist McDonald's with protecting its intellectual property rights in the Territories. Nevertheless, any failure by McDonald's to protect its proprietary rights in the Territories or elsewhere could harm its brand image, which could affect our competitive position and our results of operations.

Under the MFAs, we may use, and grant rights to franchisees to use, McDonald's intellectual property in connection with the development, operation, promotion, marketing and management of our restaurants. McDonald's has reserved the right to use, or grant licenses to use, its intellectual property in Latin America and the Caribbean for all other purposes, including to sell, promote or license the sale of products using its intellectual property. If we or McDonald's fail to identify unauthorized filings of McDonald's trademarks and imitations thereof, and we or McDonald's do not adequately protect McDonald's trademarks and copyrights, the infringement of McDonald's intellectual property rights by others may cause harm to McDonald's brand image and decrease our sales.

Non-compliance with anti-terrorism and anti-corruption regulations could harm our reputation and have an adverse effect on our business, results of operations and financial condition.

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations under the MFAs (not cured within 30 days after receipt of notice thereof from McDonald's) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories, including by failing to comply with anti-terrorism or anti-corruption policies and procedures required by applicable law.

We maintain policies and procedures that require our employees to comply with anti-corruption laws, including the Foreign Corrupt Practices Act of 1977 (the "FCPA"), and our corporate standards of ethical conduct. However, we cannot ensure that these policies and procedures will always protect us from intentional, reckless or negligent acts committed by our employees or agents. If we are not in compliance with the FCPA and other applicable anti-corruption laws, we may be subject to criminal and civil penalties and other remedial measures, which could have an adverse impact on our business, financial condition, and results of operations. Any investigation of any potential violations of the FCPA or other anti-corruption laws by U.S. or other governmental authorities could adversely impact our reputation, cause us to lose or become disqualified from bids, and lead to other adverse impacts on our business, financial condition and results of operations.

Any tax increase or change in tax legislation may adversely affect our results of operations.

Since we conduct our business in many countries in Latin America and the Caribbean, we are subject to the application of multiple tax laws and multinational tax conventions. Our effective tax rate therefore depends on these

tax laws and multinational tax conventions, as well as on the effectiveness of our tax planning abilities. Our income tax position and effective tax rate are subject to uncertainty as our income tax position for each year depends on the profitability of Company-operated restaurants and on the profitability of franchised restaurants operated by our franchisees in tax jurisdictions that levy income tax at a broad range of rates. It is also dependent on changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules, changes to these rules and tax laws and examinations by various tax authorities. If our actual tax rate differs significantly from our estimated tax rate, this could have a material impact on our financial condition. In addition, any increase in the rates of taxes, such as income taxes, excise taxes, value added taxes, import and export duties, and tariff barriers or enhanced economic protectionism could negatively affect our business. Fiscal measures that target either QSRs or any of our products could also be taken.

We cannot assure you that any governmental authority in any country in which we operate will not increase taxes or impose new taxes on our operations or products in the future.

Tax assessments in any of the jurisdictions in which we operate may negatively affect our business and results of operations.

As part of the ordinary course of business, we are subject to inspections by federal, municipal and state tax authorities in Latin America. These inspections may generate tax assessments which, depending on their results, may have an adverse effect on our financial results. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

Litigation and other pressure tactics could expose our business to financial and reputational risk.

Given that we conduct our business in many countries, we may be subject to multi-jurisdictional private and governmental lawsuits, including but not limited to lawsuits relating to labor and employment practices, taxes, trade and business practices, franchising, intellectual property, consumer, real property, landlord/tenant, environmental, advertising, nutrition and antitrust matters. In the past, QSR chains have been subject to class-action lawsuits claiming that their food products and promotional strategies have contributed to the obesity of some customers. We cannot guarantee that we will not be subject to these types of lawsuits in the future. We may also be the target of pressure tactics such as strikes, boycotts and negative publicity from government officials, suppliers, distributors, employees, unions, special interest groups and customers that may negatively affect our reputation.

Information technology system failures or interruptions or breaches of our network security may interrupt our operations, exposing us to increased operating costs and to litigation.

We rely heavily on our computer systems and network infrastructure across our operations including, but not limited to, point-of-sale processing at our restaurants. As of the date of this annual report, we have not experienced any information security problems. However, despite our implementation of security measures and controls that provide reasonable assurance regarding our security posture, there remains the risk that our technology systems are vulnerable to damage, disability or failures due to physical theft, fire, power loss, telecommunications failure or other catastrophic events. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely way, we could experience an interruption in our operations. Moreover, security breaches involving our systems may occur in the future. These include internal and external security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. Our information technology systems contain personal, financial and other information that is entrusted to us by our customers, our employees and other third parties, as well as financial, proprietary and other confidential information related to our business. Moreover, our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. An actual or alleged security breach could result in disruptions, shutdowns, theft or unauthorized disclosure of personal, financial, proprietary or other confidential information. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and criminal penalties or civil liabilities.

Our insurance may not be sufficient to cover certain losses.

We face the risk of loss or damage to our properties, machinery and inventories due to fire, theft and natural disasters such as earthquakes and floods. While our insurance policies cover some losses in respect of damage or

loss of our properties, machinery and inventories, our insurance may not be sufficient to cover all such potential losses. In the event that such loss exceeds our insurance coverage or is not covered by our insurance policies, we will be liable for the excess in losses. In addition, even if such losses are fully covered by our insurance policies, such fire, theft or natural disaster may cause disruptions or cessations in its operations and adversely affect our financial condition and results of operations.

Certain Factors Relating to Our Industry

The food services industry is intensely competitive and we may not be able to continue to compete successfully.

Although competitive conditions in the QSR industry vary in each of the countries in which we conduct our operations, we compete with many well-established restaurant companies on price, brand image, quality, sales promotions, new product development and restaurant locations. Since the restaurant industry has few barriers to entry, our competitors are diverse and range from national and international restaurant chains to individual, local restaurant operators. Our largest competitors include Burger King, Yum! Brands (which operates KFC restaurants, Taco Bell and Pizza Hut and Pizza Hut Express restaurants), Carl's Junior and Subway. In Brazil, we also compete with Habib's, a Brazilian QSR chain that focuses on Middle Eastern food, and Bob's, a primarily Brazilian QSR chain that focuses on hamburger product offerings. We also face strong competition from new businesses targeting the same clients we serve, as well as from street vendors of limited product offerings, including hamburgers, hot dogs, pizzas and other local food items. We expect competition to increase as our competitors continue to expand their operations, introduce new products and market their brands.

If any of our competitors offers products that are better priced or more appealing to the tastes of consumers, increases its number of restaurants, obtains more desirable restaurant locations, provides more attractive financial incentives to management personnel, franchisees or hourly employees or has more effective marketing initiatives than we do in any of the markets in which we operate, this could have a material adverse effect on our results of operations.

Increases in commodity prices or other operating costs could harm our operating results.

Food and paper costs represented 35.1% of our total sales by Company-operated restaurants in 2018, and 21.1% of our food and paper raw materials cost is exposed to fluctuations in foreign exchange rates. We rely on, among other commodities, beef, chicken, produce, dairy mixes, beverages and toppings. The cost of food and supplies depends on several factors, including global supply and demand, new product offerings, weather conditions, fluctuations in energy costs and tax incentives, all of which makes us susceptible to substantial price and currency fluctuations and other increased operating costs. Our hedging strategies on the imported portion of our food and paper raw materials may not be successful in fully offsetting cost increases due to currency fluctuations. Furthermore, due to the competitive nature of the restaurant industry, we may be unable to pass increased operating costs on to our customers, which could have an adverse effect on our results of operations.

Demand for our products may decrease due to changes in consumer preferences or other factors.

Our competitive position depends on our continued ability to offer items that have a strong appeal to consumers. If consumer dining preferences change due to shifts in consumer demographics, dietary inclinations, trends in food sourcing or food preparation and our consumers begin to seek out alternative restaurant options, our financial results might be adversely affected. In addition, negative publicity surrounding our products could also materially affect our business and results of operations.

Our success in responding to consumer demands depends in part on our ability to anticipate consumer preferences and introduce new items to address these preferences in a timely fashion.

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

We are engaged in various efforts to improve our customers' experience in our restaurants. In particular, in partnership with McDonald's, we have invested in Experience of the Future ("EOTF"), which focuses on restaurant modernization and technology and digital engagement in order to transform the restaurant experience. As we accelerate our pace of converting restaurants to EOTF, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives and payment systems.

We are also developing a mobile ordering platform, which we expect to be available in the short term. In addition, we continue to build on mobile ordering and delivery initiatives, which may not generate expected returns. We may not fully realize the intended benefits of these significant investments, or these initiatives may not be well executed, and therefore our business results may suffer.

Our business activity may be negatively affected by disruptions, catastrophic events or health pandemics.

Unpredictable events beyond our control, including war, terrorist activities, political and social unrest and natural disasters, could disrupt our operations and those of our franchisees, suppliers or customers, have a negative effect on consumer spending or result in political or economic instability. These events could reduce demand for our products or make it difficult to ensure the regular supply of products through our distribution chain.

In addition, incidents of health pandemics, food-borne illnesses or food tampering could reduce sales in our restaurants. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, bovine spongiform encephalopathy (or “mad cow” disease), hepatitis A or salmonella could cause customers to avoid meat or fish products. For example, the H1N1 influenza virus outbreak in Argentina and Mexico in 2009 significantly impacted our sales in those countries. Furthermore, our reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents being caused by third-party food suppliers and distributors who operate outside of our control and/or multiple locations being affected rather than a single restaurant. In addition, recurrent events in our region related to the Dengue, Yellow Fever and Zika viruses have resulted in heightened health concerns in the region, which could reduce the visits to our restaurants if these cases are not controlled. The latest reports of the Panamerican Health Organization related to Processed and Ultra Processed Foods put fast-food related products on their list of recommended products to avoid consuming, or on which to apply additional taxes or advertising-related restrictions.

Food safety events involving McDonald’s outside of Latin America or other well-known QSR chains could negatively impact our business industry. Another extended issue in our region is the use of social media to post complaints against the QSR segment and the use of mobile phones to capture any deviation in our processes, products or facilities. Media reports of health pandemics or food-borne illnesses found in the general public or in any QSR could dramatically affect restaurant sales in one or several countries in which we operate, or could force us to temporarily close an undetermined number of restaurants. As a restaurant company, we depend on consumer confidence in the quality and safety of our food. Any illness or death related to food that we serve could substantially harm our operations. While we maintain extremely high standards for the quality of our food products and dedicate substantial resources to ensure that these standards are met and well communicated publicly the spread of these illnesses is often beyond our control and we cannot assure you that new illnesses resistant to any precautions we may take will not develop in the future.

In addition, our industry has long been subject to the threat of food tampering by suppliers, employees or customers, such as the addition of foreign objects to the food that we sell. Reports, whether true or not, of injuries caused by food tampering have in the past negatively affected the reputations of QSR chains and could affect us in the future. Instances of food tampering, even those occurring solely at competitor restaurants, could, by causing negative publicity about the restaurant industry, adversely affect our sales on a local, regional, national or systemwide basis. A decrease in customer traffic as a result of public health concerns or negative publicity could materially affect our business, results of operations and financial condition.

Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children’s meals may harm McDonald’s brand image and our results of operations.

A significant portion of our business depends on our ability to make our product offerings appealing to families with children. Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay are considering imposing, or have already imposed, restrictions on the ways in which we market our products, including proposals restricting our ability to advertise directly to children through the use of toys and to sell toys in conjunction with food.

In June 2012, Chile passed a law banning the inclusion of toys in children's meals with certain nutritional characteristics (Law Nº 20,606). This law came into effect on June 26, 2016. The ban in Chile also restricts

advertisements to children under the age of 14. As a result of these laws, we modified our children's meals in order to continue offering toys in them. The measures adopted allowed us to continue selling children's meals at similar levels as before the Law Nº 20,606 came into effect. However, we were subject to several audits by the Chilean authorities. Chilean Law Nº 20,869, which also came into effect on June 26, 2016, restricts advertisements on television and in movie theaters between 6:00 a.m. and 10:00 p.m. This law affects food products that exceed certain standards of nutritional quality set by the Chilean authorities. These restrictions on advertisements did not affect or have any impact on our sales. On June 26, 2019, strict standards of nutritional quality set by the Chilean authorities will come into effect and we have already modified the contents of some of our products in order to continue offering toys in children's meals.

Similar to Chile, in 2013, Peru approved Law No. 30021, which, together with the corresponding Regulatory Decree approved in June 2017, restricts the advertising of processed food products and non-alcoholic beverages intended for children under 16. In addition, regulations establish that advertisements of food products and non-alcoholic beverages containing trans-fat and high levels of sodium, sugar and saturated fat must contain a warning stating that excessive consumption should be avoided. These regulations do not include food prepared on the spot at the request of a customer, and as a result, Arcos Dorados' products are excluded from the scope of application of such law.

Since 2014, the Mexican Ministry of Health empowered the Federal Commission for Prevention of Sanitary Risks (*Comisión Federal para la Protección contra Riesgos Sanitarios* or COFEPRIS) to regulate advertising directed at families with children. On April 15, 2014, COFEPRIS issued certain regulations which establish the maximum contents of fat, sodium and sugars that every meal advertised to children on television and in cinemas may contain. In February of 2015, COFEPRIS ordered us to stop advertising Happy Meals on television until we disclosed all the nutritional information for Happy Meals to COFEPRIS. We provided this information to COFEPRIS, but we have not yet received any legal authorization to advertise Happy Meals either during the general times when children may be watching television or during any programming geared towards children. Generally, we are prohibited from advertising Happy Meals from 2:30 p.m. to 7:30 p.m., Monday through Friday, and from 7:00 a.m. to 7:00 p.m. on Saturday and Sunday.

In Brazil, the Federal Prosecutor's Office filed suit in 2009 seeking to enjoin various QSRs, including us, from including toys in our children's meals. The Lower Federal Court in São Paulo ruled that the lawsuit was without merit. The Prosecutor's Office filed an appeal against this decision, which will be adjudicated by the Regional Federal Court in São Paulo. As of the date of this annual report, this appeal is still pending and the outcome remains uncertain. In addition, the number of proposed laws seeking to restrict the sale of toys with meals increased significantly in Brazil at the federal, state and municipal levels. In April 2013, a consumer protection agency in Brazil fined us $1.6 million for a 2010 advertising campaign relating to our offering of meals with toys from the motion picture *Avatar* . We filed a lawsuit seeking to annul the fine. The lower court ruled there was no basis for the penalty, which was upheld by the appellate court. The consumer protection agency filed a special appeal against this decision, which is pending final decision. Although similar fines relating to our current and previous advertising campaigns involving the sale of toys may be possible in the future, as of the date of this annual report, we are unaware of any other such fines, and in 2018, our subsidiaries in Brazil and Mexico joined the International Food and Beverage Alliance that regulates advertising for kids to help ensure our ongoing compliance with advertising restrictions.

On July 28, 2014, Colombia enacted Decree 975 of 2014, which sets forth certain directives regarding advertising directed at children. These directives include, (i) limiting any insinuation that the food and beverage being advertised is a substitute for any of the principal daily meals; (ii) any advertising directed at children or adolescents, during certain times of the day when children and adolescents are more likely to be consuming such advertising, must include disclosure that the advertisement is not part of the actual program; and (iii) requiring parental approval for any advertisement through a child/adolescent digital platform that requests any download or purchase.

Certain jurisdictions in the United States are also considering curtailing or have curtailed food retailers' ability to sell meals to children including free toys if these meals do not meet certain nutritional criteria.

In Argentina, there are currently several bills in Congress aimed at restricting advertising of high-calorie or processed food and beverages, which are being discussed. Although as of the date of this annual report there are currently no federal regulations in force, some of these bills might be enacted in the short term. In addition, at the

local level, the Province of Santa Fe and the City of Buenos Aires have enacted local regulations, imposing certain restrictions on the advertisement of high-calorie or processed foods and beverages targeting underage consumers.

Although we have in many cases been able to mitigate the impact of these types of laws and regulations on our sales, we may not be able to do so in the future and the imposition of similar or stricter laws and regulations in the future in the Territories may have a negative impact on our results of operations. In general, regulatory developments that adversely impact our ability to promote and advertise our business and communicate effectively with our target customers, including restrictions on the use of licensed characters, may have a negative impact on our results of operations.

We are subject to increasingly strict data protection laws, which could increase our costs and adversely affect our business.

On August 2018, Brazil approved the General Data Protection Law (" *Lei Geral de Proteção de Dados* " or "LGPD"), federal law 13,709/2018. Very similar to the European Union General Data Protection Regulation ("GDPR"), the LGDP significantly improves Brazil's existing legal framework by regulating the use of personal data by the private and public sectors. The concept of "data processing" is broad and includes the collection, storage, transfer, deletion and other activities related to personal data; penalties include warnings, single and daily fines, blocking and elimination of the personal data at stake. By the time of its enforcement on August 2020, Arcos Dourados Comercio de Alimentos Ltda. will need to ensure that personal data processing is grounded on at least one legal basis provided for in the LGPD and will need to adopt administrative and technical security measures to protect personal data. The implementation of these and similar laws and regulations in the other countries in which we operate may increase our operation costs, which could have a material adverse effect on our business.

Environmental laws and regulations may affect our business.

We are subject to various environmental laws and regulations. These laws and regulations govern, among other things, discharges of pollutants into the air and water and the presence, handling, release and disposal of, and exposure to, hazardous substances. These laws and regulations provide for significant fines and penalties for noncompliance. Third parties may also assert personal injury, property damage or other claims against owners or operators of properties associated with release of, or actual or alleged exposure to, hazardous substances at, on or from our properties.

Liability from environmental conditions relating to prior, existing or future restaurants or restaurant sites, including franchised restaurant sites, may have a material adverse effect on us. Moreover, the adoption of new or more stringent environmental laws or regulations could result in a material environmental liability to us.

In addition, beginning in 2018, Latin America experienced a wave of regulatory attempts to eliminate single use plastic products in the region. In many countries, new laws and regulations, especially in relation to the use of plastic straws, have already been approved and in many cases will carry stiff penalties for violations. We will need to find suitable alternatives before these new laws and regulations become effective. We are working to find alternative products, which may be more expensive than the plastic products we previously used and which may increase our costs and have a material adverse effect on our business **.**

We may be adversely affected by legal actions with respect to our business.

We could be adversely affected by legal actions and claims brought by consumers or regulatory authorities in relation to the quality of our products and eventual health problems or other consequences caused by our products or by any of their ingredients. We could also be affected by legal actions and claims brought against us for products made in a jurisdiction outside the jurisdictions where we are operating. An array of legal actions, claims or damaging publicity may affect our reputation as well as have a material adverse effect on our revenues and businesses. See "Item 8. Financial Information─A. Consolidated Statements and Other Information─Legal Proceedings."

Unfavorable publicity or a failure to respond effectively to adverse publicity, particularly on social media platforms, could harm our reputation and adversely impact our business and financial performance.

The good reputation of our brand is a key factor in the success of our business. Actual or alleged incidents at any of our restaurants could result in harmful publicity. Even incidents occurring at restaurants operated by our

competitors or in the supply chain generally could result in negative publicity that could harm the restaurant industry and thus, indirectly, our brand. In particular, in recent years, there has been a marked increase in the use of social media platforms and similar devices which give individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their participants' posts, often without filters or checks on accuracy of the content posted. A variety of risks are associated with the dissemination of this information online, including the improper disclosure of proprietary information, negative comments about our company, exposure of personally identifiable information, fraud or outdated information. The inappropriate use of social media platforms by our customers, employees or other individuals could increase our costs, lead to litigation or result in negative publicity that could damage our reputation. If we are unable to quickly and effectively respond, we may suffer damage to our reputation or loss of consumer confidence in our products, which could adversely affect our business, results of operations, cash flows and financial condition, as well as require resources to rebuild our reputation.

Certain Factors Relating to Latin America and the Caribbean

Our business is subject to the risks generally associated with international business operations.

We engage in business activities throughout Latin America and the Caribbean. In 2018, 70% of our revenues were derived from Brazil, Argentina, Mexico and Puerto Rico. As a result, our business is and will continue to be subject to the risks generally associated with international business operations, including:

- governmental regulations applicable to food services operations;
- changes in social, political and economic conditions;
- transportation delays;
- power, water and other utility shutdowns or shortages;
- limitations on foreign investment;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- inflation;
- import-export quotas and restrictions on importation;
- changes in local labor conditions;
- changes in tax and other laws and regulations;
- expropriation and nationalization of our assets in a particular jurisdiction; and
- restrictions on repatriation of dividends or profits.

Some of the Territories have been subject to social and political instability in the past, and interruptions in operations could occur in the future.

Changes in governmental policies in the Territories could adversely affect our business, results of operations, financial condition and prospects.

Governments throughout Latin America and the Caribbean have exercised, and continue to exercise, significant influence over the economies of their respective countries. Accordingly, the governmental actions, political developments, regulatory and legal changes or administrative practices in the Territories concerning the economy in general and the food services industry in particular could have a significant impact on us. We cannot assure you that changes in the governmental policies of the Territories will not adversely affect our business, results of operations, financial condition and prospects.

Latin America has experienced, and may continue to experience, adverse economic conditions that have impacted, and may continue to impact, our business, financial condition and results of operations.

The success of our business is dependent on discretionary consumer spending, which is influenced by general economic conditions, consumer confidence and the availability of discretionary income in the countries in which we operate. Latin American countries have historically experienced uneven periods of economic growth, recessions, periods of high inflation and economic instability. Currently, the economic growth rates of the economies of many Latin American countries have slowed and some have entered recessions. Any prolonged economic downturn could result in a decline in discretionary consumer spending. This may reduce the number of consumers who are willing and able to dine in our restaurants, or consumers may make more value-driven and price-sensitive purchasing choices, eschewing our core menu items for our entry-level food options. We may also be unable to sufficiently increase prices of our menu items to offset cost pressures, which may negatively affect our financial condition.

In addition, a prolonged economic downturn may lead to higher interest rates, significant changes in the rate of inflation or an inability to access capital on acceptable terms. Our suppliers and service providers could experience cash flow problems, credit defaults or other financial hardships. If our franchisees cannot adequately access the financial resources required to open new restaurants, this could have a material effect on our growth strategy.

Many of our customers depend on remittances from family members living overseas. Laws, regulations or events that limit such remittances or any changes to United States immigration policy may adversely affect our financial condition and results of operations.

Many of the jurisdictions in which we operate depend on remittances as a source of revenue. Many of our customers rely on remittances from family members living overseas as a primary or secondary source of income. Any law, regulation or event that restricts, taxes or prevents those remittances may adversely affect demand for our products and our customers' ability to repay their consumer loans, which in turn may adversely affect our financial condition and results of operations. In particular, President Trump's administration has in the past mentioned the possibility of taxing remittances to Mexico. We cannot assure you that the Trump administration will not implement taxing of remittances to Mexico or the other countries in which we operate. The implementation of any such measure may have a material adverse effect on our financial condition and results of operations.

Inflation and government measures to curb inflation may adversely affect the economies in the countries where we operate, our business and results of operations.

Many of the countries in which we operate, have experienced, or are currently experiencing, high rates of inflation. For example, as of June 30, 2018, Argentina is considered highly inflationary under U.S. GAAP. In addition, Venezuela has been considered hyperinflationary under U.S. GAAP since 2010. Although inflation rates in many of the other countries in which we operate have been relatively low in the recent past, we cannot assure you that this trend will continue. The measures taken by the governments of these countries to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and retarding economic growth. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in many of these countries and to heightened volatility in their securities markets. Periods of higher inflation may also slow the growth rate of local economies that could lead to reduced demand for our core products and decreased sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to fully pass on to our customers, which could adversely affect our operating margins and operating income.

Exchange rate fluctuations against the U.S. dollar in the countries in which we operate have negatively affected, and could continue to negatively affect, our results of operations.

We are exposed to exchange rate risk in relation to the United States dollar. While substantially all of our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports, as well as some of our capital expenditures and a significant portion of our long-term debt, are denominated in U.S. dollars. As a result, the decrease in the value of the local currencies of the countries in which we operate as compared to the U.S. dollar has increased our costs, and any further decrease in the value of such currencies will further increase our costs. Although we maintain a hedging strategy to attempt to mitigate some of our exchange rate risk, our hedging strategy may not be successful or may not fully offset our losses relating to exchange rate fluctuations.

As a result, fluctuations in the value of the U.S. dollar with respect to the various currencies of the countries in which we operate or in U.S. dollar interest rates could adversely impact our net income, results of operations and financial condition.

Price controls and other similar regulations in certain countries have affected, and may in the future affect, our results of operations.

Certain countries in which we conduct operations have imposed, and may continue to impose, price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. For example, there are currently certain price control regulations in effect in Argentina. However, the current administration has not enforced these regulations since 2015, and as a result, we are not in practice subject to price controls in Argentina.

Moreover, the Venezuelan market is subject to a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although we managed to navigate the negative impact of the price controls on our operations from 2013 through 2018, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment. See “Item 4. Information on the Company—B. Business Overview—Regulation.”

The imposition and enforcement of these and similar restrictions in the future may place downward pressure on the prices at which our products are sold and may limit the growth of our revenue. We cannot assure you that existing price controls will not be enforced or become more stringent, or that new price controls will not be imposed in the future, or that any such controls may not have an adverse effect on our business. Our inability to control the prices of our products could have an adverse effect on our results of operations.

We could be subject to expropriation or nationalization of our assets and government interference with our business in certain countries in which we operate.

We face a risk of expropriation or nationalization of our assets and government interference with our business in several of the countries in which we do business. These risks are particularly acute in Venezuela. The current Venezuelan government has promoted a model of increased state participation in the economy through welfare programs, exchange and price controls and the promotion of state-owned companies. We can provide no assurance that Company-operated or franchised restaurants will not be threatened with expropriation and that our operations will not be transformed into state-owned enterprises. In addition, the Venezuelan government may pass laws, rules or regulations which may directly or indirectly interfere with our ability to operate our business in Venezuela which could result in a material breach of the MFAs, in particular if we are unable to comply with McDonald’s operations system and standards. A material breach of the MFAs would trigger McDonald’s option to acquire our non-public shares or our interests in Venezuela. See “—Certain Factors Relating to Our Business—McDonald’s has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value.”

We are subject to significant foreign currency exchange controls and currency devaluation in certain countries in which we operate.

Certain Latin American economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries, including for the purchase of dollar-denominated inputs, the payment of dividends or the payment of interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

For example, in 2018, our subsidiaries in Argentina represented 15.9% of our total revenues. Although the current administration has eased exchange controls, the Argentine government has in the past tightened restrictions on capital flows and imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments outside of Argentina. Furthermore, in the past, the Central Bank of Argentina exercised a *de facto* prior approval power for certain foreign exchange transactions otherwise authorized to be carried out under the applicable regulations, such as dividend payments or repayment of principal of inter-company loans as well as the import of goods. Any implementation of such measures in the future could

impact our ability to transfer funds outside of Argentina and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina. As a result, if we are prohibited from transferring funds out of Argentina, or if we become subject to similar restrictions in other countries in which we operate, our results of operations and financial condition could be materially adversely affected.

In addition, the continuing devaluation of the Argentine peso since the end of 2015 and the Venezuelan bolivar since 2010 has led to higher inflation levels, has significantly reduced competitiveness, real wages and consumption and has had a negative impact on businesses whose success is dependent on domestic market demand and supplies payable in foreign currency.

Moreover, the new Mexican federal government has recently indicated that it may make changes to current monetary policy and exchange controls or other interventions affecting the exchange rate may be instituted in the future. We cannot assure you that the Mexican government will maintain its current policies with regard to the Mexican peso. As a result, if the new Mexican federal government changes its monetary policy or exchange controls, our results of operations and financial condition could be materially adversely affected.

Further currency devaluations in any of the countries in which we operate could have a material adverse effect on our results of operations and financial condition. See "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls."

If we fail to comply with, or if we become subject to, more onerous government regulations, our business could be adversely affected.

We are subject to various federal, state and municipal laws and regulations in the countries in which we operate, including those related to the food services industry, health and safety standards, importation of goods and services, marketing and promotional activities, nutritional labeling, zoning and land use, environmental standards and consumer protection. We strive to abide by and maintain compliance with these laws and regulations. The imposition of new laws or regulations, including potential trade barriers, may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our financial condition.

For example, Argentine regulations require us to seek permission from the Argentine authorities prior to importing certain goods. Although these regulations do not currently affect us, they may in the future prevent or delay the receipt of goods that we require for our operations, or increase the costs associated with obtaining those goods, and therefore have an adverse impact on our business, results of operations or financial condition. Additionally, in 2017, Venezuela enacted the Productive Foreign Investments Constitutional Act, which replaced the Foreign Investment Act of 2014. This law establishes the requirements and limitations for the transfer of dividends and repatriation of foreign investments. It also establishes a minimum investment sum to be registered with the Ministry of Popular Power with Foreign Investment, limits access to internal financing, modifies the criteria of foreign investments and creates a new penalty system for those who do not comply with the law.

Regulations governing the food services industry have become more restrictive. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules, if possible, and therefore increase our cost of operation.

Certain Factors Relating to Our Class A Shares

Mr. Woods Staton, our Executive Chairman, controls all matters submitted to a shareholder vote, which will limit your ability to influence corporate activities and may adversely affect the market price of our class A shares.

Mr. Woods Staton, our Executive Chairman, owns or controls common stock representing 43.22% and 77.92%, respectively, of our economic and voting interests. As a result, Mr. Woods Staton is and will be able to strongly influence or effectively control the election of our directors, determine the outcome of substantially all actions requiring shareholder approval and shape our corporate and management policies. The MFAs' requirement that Mr. Woods Staton at all times hold at least 51% of our voting interests likely will have the effect of preventing a change in control of us and discouraging others from making tender offers for our shares, which could prevent shareholders from receiving a premium for their shares. Moreover, this concentration of share ownership may make it difficult for shareholders to replace management and may adversely affect the trading price for our class A shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. This concentration of control could be disadvantageous to other shareholders with interests different from those of Mr. Woods Staton and the trading price of our class A shares could be adversely affected. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders" for a more detailed description of our share ownership.

Furthermore, the MFAs contemplate instances where McDonald's could be entitled to purchase the shares of Arcos Dorados Holdings Inc. held by Mr. Woods Staton. However, our publicly held class A shares will not be similarly subject to acquisition by McDonald's.

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our class A shares to decline.

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our Class A shares to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our articles of association, we are authorized to issue up to 420,000,000 class A shares, of which 125,232,247 class A shares were outstanding as of December 31, 2018 and 6,360,826 class A shares were held in treasury. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our class A shares.

As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NYSE corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A shares.

Section 303A of the New York Stock Exchange, or NYSE, Listed Company Manual requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. British Virgin Islands law, the law of our country of incorporation, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee, and our board thus may not include, or may include fewer, independent directors than would be required if we were subject to these NYSE requirements. Since a majority of our board of directors may not consist of independent directors as long as we rely on the foreign private issuer exemption to these NYSE requirements, our board's approach may, therefore, be different from that of a board with a majority of independent directors, and as a result, the management oversight of our Company may be more limited than if we were subject to these NYSE requirements.

Certain Risks Relating to Investing in a British Virgin Islands Company

We are a British Virgin Islands company and it may be difficult for you to obtain or enforce judgments against us or our executive officers and directors in the United States.

We are incorporated under the laws of the British Virgin Islands. Most of our assets are located outside the United States. Furthermore, most of our directors and officers reside outside the United States, and most of their assets are located outside the United States. As a result, you may find it difficult to effect service of process within the United States upon these persons or to enforce outside the United States judgments obtained against us or these persons in U.S. courts, including judgments in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Likewise, it may also be difficult for you to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an action against us or these persons in a British Virgin Islands court predicated upon the civil liability provisions of the U.S. federal securities laws.

As there is no treaty in force on the reciprocal recognition and enforcement of judgments in civil and commercial matters between the United States and the British Virgin Islands, courts in the British Virgin Islands will not automatically recognize and enforce a final judgment rendered by a U.S. court.

Any final and conclusive monetary judgment obtained against us in U.S. courts, for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issue would be necessary, provided that in respect of the U.S. judgment:

- the U.S. court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;

- the judgment given by the U.S. court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of ours;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- the proceedings pursuant to which judgment was obtained were not contrary to public policy.

Under our articles of association, we indemnify and hold our directors harmless against all claims and suits brought against them, subject to limited exceptions.

You may have more difficulty protecting your interests than you would as a shareholder of a U.S. corporation.

Our affairs are governed by the provisions of our memorandum of association and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law. The rights of our shareholders and the responsibilities of our directors and officers under the British Virgin Islands law are different from those applicable to a corporation incorporated in the United States. There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, the British Virgin Islands regulations governing the securities of British Virgin Islands companies may not be as extensive as those in effect in the United States, and the British Virgin Islands law and regulations in respect of corporate governance matters may not be as protective of minority shareholders as state corporation laws in the United States. Therefore, you may have more difficulty protecting your interests in connection with actions taken by our directors and officers or our principal shareholders than you would as a shareholder of a corporation incorporated in the United States.

You may not be able to participate in future equity offerings, and you may not receive any value for rights that we may grant.

Under our memorandum and articles of association, existing shareholders are entitled to preemptive subscription rights in the event of capital increases. However, our articles of association also provide that such preemptive subscription rights do not apply to certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC.

ITEM 4. INFORMATION ON THE COMPANY

A. History and Development of the Company

Overview

We were incorporated as Arcos Dorados Holdings Inc. on December 9, 2010 under the laws of the British Virgin Islands as a direct, wholly owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. Following the merger, we replaced Arcos Dorados Limited in the corporate structure and replicated its governance structure.

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act. Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges.

Our principal executive offices are located at Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay (CP 11300). Our telephone number at this address is +598 2626-3000. Our registered office

in the British Virgin Islands is Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

Important Events

The Acquisition

McDonald's Corporation has a longstanding history in Latin America and the Caribbean, dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its presence across the region as consumer markets and opportunities arose, opening its first stores in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We commenced operations on August 3, 2007, as a result of the Acquisition of McDonald's LatAm business. Woods Staton, our Executive Chairman and controlling shareholder, was the joint venture partner of McDonald's Corporation in Argentina for over 20 years prior to the Acquisition and also served as President of McDonald's South Latin American division from 2004 until the Acquisition. Our senior management team includes executives who had previously worked in McDonald's LatAm business or with Mr. Woods Staton.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010, June 3, 2011 and March 17, 2016, entered into by us, LatAm, LLC (the "Master Franchisee"), our wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V., certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On March 21, 2018, Arcos Dorados Group B.V. (together with Arcos Dorados B.V. and us, the "Owner Entities") replaced Arcos Dorados Coöperatieve U.A. as party to the MFA. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

The Axionlog Split-off

We used to own and operate some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). As of the date of the split-off, Axionlog operated in Argentina, Chile, Mexico and Venezuela, and its main third-party customers were Sodexho, Eurest, Sadia, WalMart, Carrefour, Subway and Dairy Queen. We effected a split-off of Axionlog to our existing shareholders in March 2011. For additional information about the split-off of Axionlog, see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off."

Capital Expenditures and Divestitures

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants in the Territories during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. In the event that we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan or reinvestment plan to adapt to changes in economic or political conditions.

Under the 2017-2019 restaurant opening and reinvestment plan, we are required to open 180 restaurants and to reinvest $292 million in existing restaurants from 2017 through 2019. However, for the same three-year period, we now expect to open at least 200 new restaurants and to reinvest at least $390 million in existing restaurants. Total capital expenditures for 2017 to 2019 are now expected to be approximately $660 million.

As a result of our previous reinvestment and reopening plans, property and equipment expenditures were $197.0 million, $174.8 million and $92.3 million in 2018, 2017 and 2016 respectively. In 2018, we opened 70 restaurants, reimaged 173 existing restaurants, opened 6 McCafé locations and 375 Dessert Centers (see "—B. Business

Overview—Our Operations—McCafé Locations and Dessert Centers”). In 2017, we opened 50 restaurants, reimaged 124 existing restaurants and opened 2 McCafé locations and 223 Dessert Centers (see “—B. Business Overview—Our Operations—McCafé Locations and Dessert Centers”). In 2016, we opened 33 restaurants, reimaged 81 existing restaurants and opened one McCafé location and 140 Dessert Centers (see “—B. Business Overview—Our Operations—McCafé Locations and Dessert Centers”). In 2018, 2017 and 2016, we closed 35, 18 and 18 restaurants, respectively.

In addition, outflows related to purchases of restaurant businesses paid at acquisition date totaled $0.9 million in 2017. We had no such outflows in 2018 and 2016.

Proceeds from the sale of property and equipment and sales of restaurant businesses, including related advances, totaled $13.0 million, $72.4 million and $113.5 million in 2018, 2017 and 2016, respectively.

Capital expenditures for 2019 are expected to be between $270.0 million and $300.0 million (including development and non-development capital expenditures), considering between 80 and 85 gross restaurant openings.

In March 2015, we announced a plan to monetize certain real estate assets in our portfolio that are either non-core or operating assets where the value significantly exceeds the operating potential of the asset. We have many long-standing assets across our region that have appreciated due to the significant development around those properties. As of December 31, 2018, and since inception, the cumulative redevelopment proceeds we received from the sale of these properties totaled $168.1 million. The main goal of the redevelopment initiative was to reduce debt levels. We have decided not to pursue additional redevelopment deals at this time, as the stated debt reduction targets have been achieved.

B. Business Overview

Overview

We are the world’s largest independent McDonald’s franchisee in terms of systemwide sales and number of restaurants, according to McDonald’s, representing 4.3% of McDonald’s global sales in 2018. We have the exclusive right to own, operate and grant franchises of McDonald’s restaurants in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to collectively as the Territories. As of December 31, 2018, we operated or franchised 2,223 McDonald’s-branded restaurants, which represented 6.3% of McDonald’s total franchised restaurants worldwide. In 2018 and 2017, we accrued $157.9 million and $164.0 million, respectively, in royalties to McDonald’s (not including royalties accrued on behalf of our franchisees).

We operate in the QSR sub-segment of the fast food segment of the Latin American and Caribbean food service industry. In Latin America and the Caribbean, the fast food segment has benefited from the region’s increasing modernization, as people in more densely populated areas adopt lifestyles that increasingly seek convenience, speed and value.

We commenced operations on August 3, 2007, as a result of the Acquisition. We operate McDonald’s-branded restaurants under two different operating formats, Company-operated restaurants and franchised restaurants. As of December 31, 2018, of our 2,223 McDonald’s-branded restaurants in the Territories, 1,540 (or 69.3%) were Company-operated restaurants and 683 (or 30.7%) were franchised restaurants. We generate revenues primarily from two sources: sales by Company-operated restaurants and revenues from franchised restaurants. Revenues from franchised restaurants primarily consist of rental income, which is generally based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. We own the land for 496 of our restaurants (totaling approximately 1.1 million square meters) and the buildings for all but 11 of our restaurants.

Our business has grown significantly since the Acquisition: we have increased our presence in existing and new markets in the Territories by opening a net total of 35 restaurants (70 total restaurants opened, including 42 Company-operated and 28 franchised, while 35 closed), 6 McCafé locations and 375 Dessert Centers (see "—Our Operations—McCafé Locations and Dessert Centers").

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela; NOLAD, consisting of Costa Rica, Mexico and Panama; and SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay.

As of December 31, 2018, 43.5% of our restaurants were located in Brazil, 17.7% in SLAD, 23.6% in NOLAD and 15.2% in the Caribbean division. We believe our diversified market presence reduces our dependence on any one market and helps stabilize the impact of individual countries' economic cycles on our revenues. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

The following table presents a breakdown of total revenues by division:

	For the Years Ended December 31,				
	2018	2017	2016	2015	2014
	(in thousands of U.S. dollars)				
Total Revenues					
Brazil	$ 1,345,453	$ 1,496,573	$ 1,333,237	$ 1,361,989	$ 1,816,046
Caribbean division(1)	483,743	474,822	409,671	398,144	594,220
NOLAD	406,848	386,874	363,965	367,364	385,114
SLAD	845,527	961,256	821,757	925,243	855,685
Total	**3,081,571**	**3,319,525**	**2,928,630**	**3,052,740**	**3,651,065**

(1) Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. See "Item 5. Operating and Financial Review and Prospects-A. Operating Results-Foreign Currency Translation-Venezuela."

Our Operations

Company-Operated and Franchised Restaurants

We operate our McDonald's-branded restaurants under two basic structures: (i) Company-operated restaurants operated by us and (ii) franchised restaurants operated by franchisees. Under both operating alternatives, the real estate location may either be owned or leased by us.

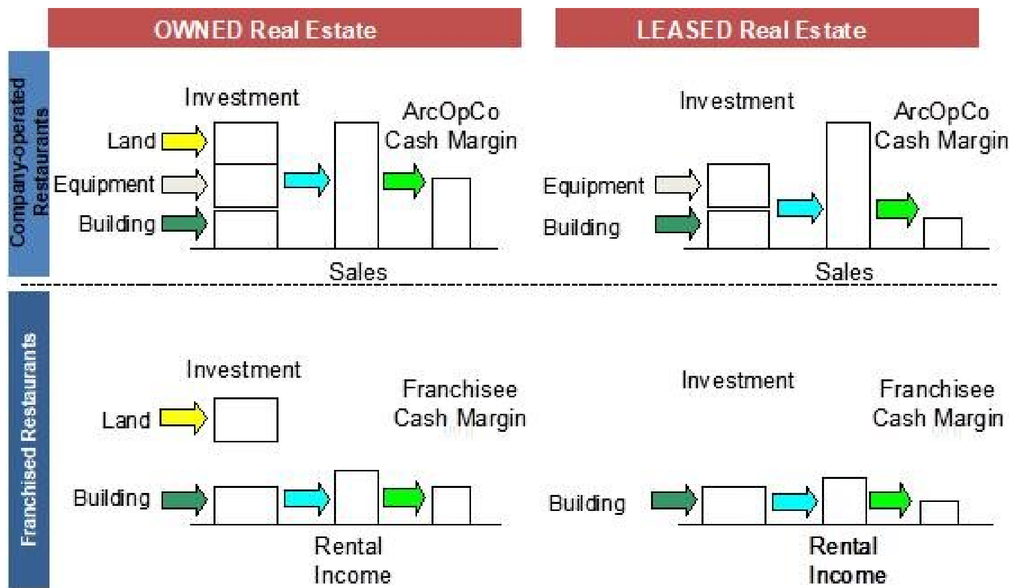
We own, fully manage and operate Company-operated restaurants and retain any operating profits generated by such restaurants, after paying operating expenses and the franchise and other fees owed to McDonald's under the MFAs. In Company-operated restaurants, we assume the capital expenditures for the building and equipment of the restaurant and, if we own the real estate location, for the land as well.

In contrast to Company-operated restaurants, franchised restaurants are operated and managed by the franchisee with technical and operational support from us as master franchisee, including training programs, operations manuals, access to our supply and distribution network and marketing assistance. Under our conventional franchise arrangements, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and decor of their restaurants, and by reinvesting in the business over time. We are required by the MFAs to own the real estate or to secure long-term leases for franchised restaurant sites. We subsequently lease or sublease the property to franchisees. This arrangement allows for long-term occupancy of the property and assists in the alignment of our franchisees' interests with our own.

In exchange for the lease and services, franchisees pay a monthly rent to us, generally based on the greater of a fixed rent or a certain percentage of gross sales. In addition to this monthly rent, we collect the monthly continuing

franchise fee, which generally is 5% of the U.S. dollar equivalent of the restaurant's gross sales, and pay these fees to McDonald's pursuant to the MFAs. However, if a franchisee fails to pay its monthly continuing franchise fee, we remain liable for payment in full of these fees to McDonald's. Pursuant to the MFAs, franchisees pay an initial franchise fee in connection with the opening of a new franchised restaurant and a transfer fee upon transfer of a franchised restaurant, both of which are subsequently shared by McDonald's and us. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Franchise Fees."

The chart below illustrates the economics for Company-operated restaurants and franchised restaurants in the case of owned and leased real estate:



Source : Arcos Dorados

In addition, we are the majority stakeholder in two joint ventures that collectively own 15 restaurants in Argentina and Chile. We have also granted developmental licenses to 11 restaurants. Pursuant to the developmental licenses, the developmental licensees own or lease the land on and building in which the restaurant is located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. All of our joint ventures and developmental licenses were in existence at the time of the Acquisition.

Restaurant Categories

We classify our restaurants into one of four categories: (i) freestanding, (ii) food court, (iii) in-store and (iv) mall stores. Freestanding restaurants are the largest type of restaurant, have ample indoor seating and include a drive-thru area and parking lot. Food court restaurants are located in malls and consist primarily of a front counter and kitchen and do not have their own seating area. In-store restaurants are part of a larger building, but they do not have a drive-thru area or a parking lot. Mall stores are located in malls like food court restaurants, but have their own seating areas. As of December 31, 2018, 1,049 (or 47.2%) of our restaurants (not including non-traditional satellite stores) were freestanding, 581 (or 26.1%) were food courts, 285 (or 12.8%) were in-stores and 308 (or 13.9%) were mall stores. These percentages vary by country, and may shift as opportunities in malls and more densely populated areas become available in some of the Territories.

Below are examples of each of our restaurant categories:

Freestanding

In-store

Mall Store

Food Court

Source : Arcos Dorados

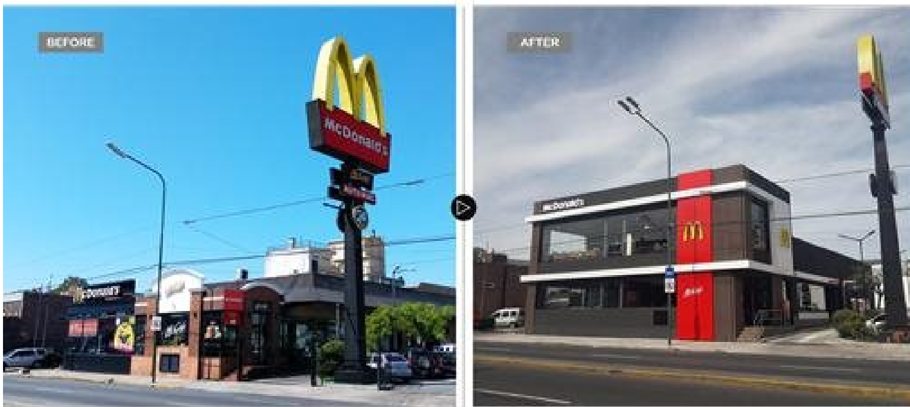
Returns on investment in each type of restaurant vary significantly due to the different capital expenditures required and their different sales potential; mall stores generally provide the highest return on investment while freestanding restaurants generally provide the lowest. Moreover, returns vary significantly on a country-by-country basis.

Reimaging

An important component of our development plan is the reimaging of existing restaurants. As of December 31, 2018, we had completed the reimaging of 841 of the 1,569 restaurants we purchased in the Acquisition, an increase of 135 restaurants as compared to December 31, 2017. Our restaurants that have undergone reimaging during the past three years have experienced an additional increase in sales per restaurant over the comparable sales growth experienced by restaurants which have not been reimaged in the same period. Both we and McDonald's are committed to maintaining an image for our restaurants that creates a contemporary dining experience. Over the last few years, we have invested substantially in the reimaging of our restaurants, and we, pursuant to the MFAs, have committed to a significant reimaging plan. See "Item 10. Additional Information—C. Material Contracts."

Objectives of the reimaging include elevating the customer's perception of McDonald's and creating a more sophisticated and highly aspirational environment. We have developed systemwide guidelines for the interior and exterior design of reimaged restaurants. When carrying out a reimaging project, we minimize the impact on the operations and sales of the restaurants by keeping the restaurants open and operating during the renovations and working in specific areas of the location at particular times.

Below are images of the exterior of a few of our restaurants that have benefited from reimaging:



Source : Arcos Dorados

McCafé Locations and Dessert Centers

Our brand extension efforts focus on the development of additional McCafé locations and Dessert Centers. McCafé locations are stylish, separate areas within restaurants where customers can purchase a variety of customizable beverages, including lattes, cappuccinos, mochas, hot and iced premium coffees and hot chocolate. McCafé locations have been very successful in creating a different customer experience, optimizing the use of our restaurants at all hours of operation and providing a higher profit margin than our regular restaurant operations. We believe the primary benefit of McCafé locations is that they attract new customers by increasing the variety of our product offerings and improving our image.

McCafé locations have been a key factor in adding value to our customers' experience and represented 9.4% of the total transactions and 5.9% of total sales of the restaurants in which they were located in 2018. As of December 31, 2018, there were 266 McCafé locations in the Territories, of which 17.3% were operated by franchisees. Argentina and Brazil, with 82 and 79 locations, respectively, have the greatest number of McCafé locations. The first McCafé in Latin America was opened in Argentina in 1999. Pursuant to the MFAs, we have the right to add McCafé locations to the premises of our restaurants.

Below are images of the interior of two of our McCafé locations:

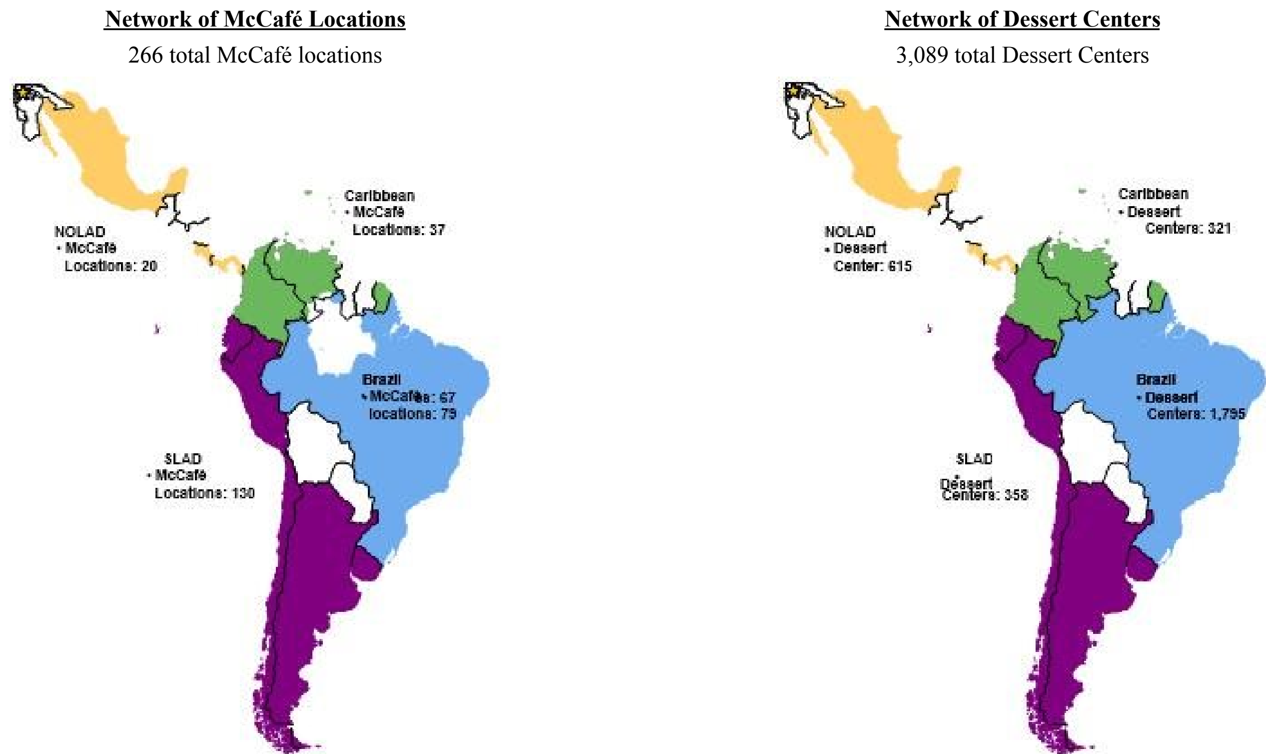
Dessert Center -Ice Cube

Source : Arcos Dorados

In addition to McCafé locations, Dessert Centers have been a very successful brand extension. Dessert Centers operate separately from existing restaurants, but depend on them for supplies and operational support. For example, a mall store restaurant can provide support for several Dessert Centers located in different locations throughout the same mall. Our Dessert Centers are conveniently located to attract customers, thereby serving as important transaction generators and providing an effective method of extending our band presence to non-traditional areas. At Dessert Centers, customers can purchase a variety of dessert items, including the McFlurry and soft-serve ice cream. Dessert Centers require low capital expenditures and provide returns on investment and operating margins that are significantly higher than our regular restaurant operations. As such, we believe they are an important driver in increasing our market penetration.

Dessert Centers represented 35.5% of our transactions and 10.9% of our total sales in 2018. As of December 31, 2018, there were 3,089 Dessert Centers in the Territories. Dessert Centers are highly successful in Brazil, where we have 1,795 locations. The first Dessert Center was created in Brazil in 1979.

The following maps set forth our McCafé locations and Dessert Centers in each of the Territories as of December 31, 2018:



Source : Arcos Dorados

The McDonald's Brand

Interbrand, a brand consulting firm, ranked McDonald's tenth among the top twenty global brands in 2018. In addition, we believe that in Latin America and the Caribbean, the McDonald's brand benefits from an aspirational cachet as a "destination" restaurant with a reputation for safe, fresh and good-tasting food in an attractive setting. McDonald's strong brand equity stems from the dedicated execution of its brand promise and its ability to associate with the local community where it operates. McDonald's sets the standard in the restaurant industry worldwide for brand stewardship and marketing leadership.

Product Offerings

A crucial part of delivering the brand to clients depends on our product offerings, or more specifically, our menu strategy and management. The key objective of our menu strategy is the development and offering of quality food choices that attract customers to our restaurants on a regular basis. The elements we utilize to achieve this goal include offering McDonald's core menu, our product innovation initiatives and our focus on food safety.

Our menus feature three tiers of products: (i) affordable entry-level options, such as our *Combo del Día* (Combo of the Day), *McTrio 3x3* in Mexico and *Almuerzos Colombianos* (Colombian Lunches) in Colombia, (ii) core menu options, such as the Big Mac, Happy Meal and Quarter Pounder, and (iii) premium options, such as Big Tasty or Signature Collection hamburgers and chicken sandwiches and low-calorie or low-sodium products that are marketed through common platforms rather than as individual items. These platforms can be based on the type of products, such as beef, chicken, salads or desserts, or on the type of customer targeted, such as the children's menu. We have offered a new menu with fewer calories and less sugar and sodium in the majority of our Territories since 2011.

Since 2013, we have offered dairy products, fresh fruits or vegetables with our Happy Meals in all of the Territories except Venezuela.

Our core menu is the most important element of our menu strategy and includes well-recognized food choices that have global customer acceptance and are what customers repeatedly order at McDonald's-branded restaurants worldwide. During 2018, we celebrated the fiftieth anniversary of the Big Mac by distributing MacCoins, the first McDonald's currency, in the majority of our markets. Customers were able to exchange their MacCoins for Big Macs until the end of 2018 in participating markets. We also made extensions of our core products, such as Grand Big Mac and Grand Cheddar McMelt in Brazil, Double Quarter Pounder with Cheese and Bacon in Argentina and Chile and cheddar and bacon fries in Argentina and Brazil.

Product Development

We have been very innovative in our product development in Latin America and the Caribbean. In key countries, our understanding of the local market has enabled us to successfully introduce new items to appeal to local tastes and to provide our customers with additional food options. Our chicken-based offerings include bone-in chicken in markets such as Colombia, Peru, Panama and Costa Rica. We also offer Signature Collection hamburgers with innovative flavors and premium offerings, such as Club House, Signature Guacamole Crispy Onion Barbecue. Also, we carefully monitor the sales of our products and are able to quickly modify them if necessary. For instance, although we always offer the McFlurry dessert product, we include in this product platform a promotional topping that is offered for a limited period of time, followed by a new promotional topping to maintain the sales momentum (for example, Oreo, Ovomaltine, Hershey's, Milka and Kit Kat).

In 2011, we began the rollout of Made For You, or MFY, a new kitchen operating platform that allows us to improve the quality and freshness of our products, provide faster service and diversify our offerings. MFY's implementation is funded by cutting waste and productivity gains. As of December 31, 2013, we had implemented MFY in almost all of our Company-operated restaurants in Argentina, Aruba, Brazil, Curaçao, French Guiana, Mexico, Puerto Rico, Trinidad and Tobago, and the U.S. Virgin Islands. During 2014, we implemented MFY in Costa Rica, Panama, seven restaurants in Uruguay and 23 of our new restaurants in Colombia. During 2015, we completed MFY in Martinique, four restaurants in Guadalupe and 32 additional restaurants in Colombia. During 2017, we completed the implementation of MFY in the French West Indies and during 2018, we completed the implementation of MFY in the rest of the territories in which we operate.

We work closely with McDonald's to develop new product offerings and McDonald's considers our recommendations regarding regional tastes and preferences and works with us to accommodate such tastes and preferences. We continue to benefit from McDonald's product development efforts following the Acquisition and have access to a library of products developed globally for the McDonald's system. In addition, we continue to benefit from the Hamburger Universities in the United States and Brazil and the food studio located in Brazil that aims to develop locally relevant products for the region. The Hamburger Universities and the food studio models have been McDonald's main global source of people and product development. The Hamburger Universities provide restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of the business, like restaurant and people management, sales and accounting, while emphasizing consistent restaurant operations procedures, service, quality and cleanliness.

Product and Pricing Strategy

Value perceptions change significantly between markets and even between areas within a single market. In order to adjust pricing to meet customers' expectations in each market, we have developed local expertise aimed at understanding the dynamics of the local marketplace and the characteristics of its customers. We also examine trends in the pricing of raw materials, packaging, product-related operating costs as well as individual item sales volumes to fully understand profitability by item. In addition, we use international consultants with particular experience in this area to understand marketplace dynamics and consumer characteristics. These insights feed into the local markets' menu, promotional and pricing strategy as well as the marketing plan that is disseminated to both Company-operated and franchised restaurants. Restaurants may then adjust pricing and/or item offerings as they choose in an attempt to optimize sales, profitability and local preferences. This cycle is part of an overall revenue management philosophy and is part of our business management practices utilized throughout the region.

Advertisement & Promotion

We believe that sales in the QSR sub-segment can be significantly affected by the frequency and quality of our advertising and promotional programs. In particular, we benefit from the strength of McDonald's global resources, including its global alliances with some of the largest multinational conglomerates and sponsorship of sporting events such as the FIFA World Cup and participation in various movie promotions, which provides us with important advertising and promotion opportunities.

We promote the McDonald's brand and our products by advertising in all of the Territories. We create, develop and coordinate marketing plans and promotional activities throughout the Territories; however, pursuant to the MFAs, McDonald's reserves the right to review and approve any advertising materials and related promotional activities and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We are required under the MFAs to spend at least 5% of our gross sales, and our franchisees generally are required to pay us a certain percentage of their gross sales for the portion of advertising expenditures related to their restaurants, on advertisement and promotion activities. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage to drive sales. The advertisement and promotion program is formulated based on the amount of advertisement and promotion support needed for each strategic platform for the year. Our key strategic platforms include menu relevance, by introducing premium products and extending core product lines, convenience and strengthening the kids and family experience. In terms of pricing, we understand that our customers seek great-tasting food at affordable prices and that their perception of value while at the restaurant is a significant factor in determining overall satisfaction and frequency of visits. For example, in 2018, with the goal of increasing our local customer frequency, we launched the fiftieth anniversary of the Big Mac celebration as part of a global activation, in Argentina, Brazil, Chile, Colombia, Ecuador, Peru, Uruguay, Puerto Rico, French Guyana, Martinique and Guadeloupe, where we distributed the MacCoins, the first McDonald's currency. Customers were able to exchange their MacCoins for Big Macs until the end of 2018 in such markets. Other initiatives included the "books or toys" campaign in all our markets in Latin America, through which we sold more than 15 million books since 2013 and more than 900 thousand books in 2018 alone and which aims to encourage children's creativity. We also continued our premium platform through which we offered new, premium dishes, such as the Pico Guacamole, Blue Cheese and Bacon, Mushroom Swiss, Chipotle, Egg & Bacon, McPicanha and McVeggie preparations of our Signature Collection burgers.

Through the execution of these initiatives, we work to enhance the McDonald's experience for customers throughout the Territories, and increase our sales and customer counts. We aim to position ourselves as a "forever young" brand by delivering a youthfully energetic, distinctly casual, personally engaging and delightful dining/brand experience.

Regional Operations

The Company is divided into four geographical divisions: Brazil, the Caribbean division, NOLAD and SLAD. Except for Brazil, the divisions are subsequently divided into sub-groups comprised of individual Territories. The presidents of the divisions report directly to our chief operating officer.

The following map sets forth the number of our restaurants in each of our operating divisions as of December 31, 2018:

Source: Arcos Dorados

We remain close to customers by managing operations at the local level, including implementing recruiting centers, conducting marketing campaigns and promotions, monitoring consumer perception and managing menu offerings. We conduct administrative and strategic activities at either the divisional level or at our headquarters, as appropriate. In addition, we have designed standardized crew recruiting manuals and have implemented an online communication platform for crew and managers. These centralized operations help us maintain consistent procedures, quality control and brand management across all of our markets.

Set forth below is a summary of our restaurant portfolio as of December 31, 2018.

	Ownership					Store Type (1)						Real Property (2)	
Portfolio by Division	**Company-Operated**	**Joint Venture**	**Franchised**	**Developmental License**	**Total**	**Freestanding**	**Food Court**	**In-Store**	**Mall Store**	**Dessert Centers**	**McCafé Locations**	**Owned**	**Leased**
Brazil	584	0	384	0	968	432	340	85	111	1,795	79	108	860
Caribbean Division	251	0	85	1	337	225	21	37	54	321	37	129	207
NOLAD	362	0	152	10	524	272	145	50	56	615	20	162	352
SLAD	328	15	51	0	394	120	74	112	87	358	130	97	297
Total	1,525	15	672	11	2,223	1,049	580	284	308	3,089	266	496	1,716

(1) Non-traditional satellite restaurants are not included in these figures.

(2) Developmental licenses and mobile stores are not included in these figures.

Brazil

Brazil is our largest division in terms of restaurants, with 968 restaurants as of December 31, 2018 and $1,345.5 million in revenues in 2018, representing 43.5% and 43.7% of our total restaurants and revenues, respectively. Our operations in Brazil are based in Sao Paulo and McDonald's has been present in Brazil since opening its first restaurant in Rio de Janeiro in 1979.

Caribbean Division

The Caribbean division includes eleven territories with 337 restaurants as of December 31, 2018 and $483.7 million in revenues in 2018, representing 15.2% and 15.7% of our total restaurants and revenues, respectively. Its primary market in terms of number of restaurants is Venezuela, representing 35.6% of the Caribbean division's restaurants. Venezuela is our fourth-largest market in terms of restaurants. McDonald's has been present in Venezuela since opening its first restaurant in Caracas in 1985. In terms of revenues, however, our primary market in this region is Puerto Rico, accounting for 30.0% of the Caribbean division's revenues.

NOLAD

NOLAD includes three countries with 524 restaurants as of December 31, 2018 and $406.8 million in revenues in 2018, representing 23.6% and 13.2% of our total restaurants and revenues, respectively. Its primary market is Mexico, where the division's management is based. McDonald's has been present in Mexico since opening its first restaurant in Mexico City in 1985. Mexico represents 74.0% of NOLAD's restaurants and 45.7% of NOLAD's revenues, and Mexico is our second-largest market in terms of restaurants.

SLAD

SLAD includes five countries with 394 restaurants as of December 31, 2018 and $845.5 million in revenues in 2018, representing 17.7% and 27.4% of our total restaurants and revenues, respectively. Its primary market is Argentina, where the division's management is based. McDonald's has been present in Argentina since opening its first restaurant in Buenos Aires in 1986. As of December 31, 2018, Argentina represented 57.6% of SLAD's restaurants and 58.1% of SLAD's revenues in 2018. Argentina is our third-largest market in terms of restaurants.

Seasonality

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

Supply and Distribution

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. Currently, we have an integrated and centralized supply chain management system that focuses on (i) the highest possible quality and food safety, (ii) competitive market pricing that is predictable and sustainable over time, and (iii) leveraging of local, regional and global sourcing strategies to obtain a competitive advantage. This system consists of the selection and development of suppliers that are able to comply with McDonald's high quality standards and the establishment of the appropriate type of relationships with these suppliers. These standards, which are based on the highest industry standards, such as International Organization for Standardization (ISO) standards, British Retail Consortium (BRC) standards and others, include cleanliness, product consistency and timeliness, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, or HACCP, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up. Due to our supply chain management and high quality standards, we believe our products have a competitive advantage because they have many attributes that make them appealing to our customers. For instance, our McNuggets are made of 100% white meat; our frying oil is 100% free of trans fatty acids; the dairy mix for our sundaes and the McFlurry undergo aseptic processes to rid them of bacteria; our vegetables are washed and sanitized; and our hamburger patties are made with 100% beef and do not contain additives.

Pursuant to the MFAs, we purchase core products and services, such as beef, chicken, buns, produce, cheese, dairy mixes and toppings, from approved suppliers and distributors who satisfy the above requirements. If McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards, it may terminate the supplier's approved status. Beyond the purchase of core products and services, we have no restrictions on which suppliers or distributors we may use. We have largely continued the supply relationships that McDonald's had established prior to the Acquisition, and we develop relationships with new suppliers in accordance with McDonald's product and supplier protocols, including the following: Supplier Quality Management System, (SQMS), Social Workplace Accountability (SWA), Distributor Quality Management Program (DQMP), Animal Health and Welfare (AHW) or Packaging Quality Management Systems (PQMS).

Since the process to become an approved supplier is lengthy, expensive and requires proof of compliance with McDonald's high quality standards, we have found that oral agreements with our approved suppliers generally are sufficient to ensure a reliable supply of quality food products, and we have developed long-term relationships with many of our suppliers. In addition, we enter into written agreements with most of our suppliers regarding the cost of such goods, which can be based on pricing protocols, formula costing, benchmarking or open bidding, as appropriate. Our 34 largest suppliers account for approximately 70.7% of our supplies excluding Venezuela, and no single supplier or group of related suppliers account for more than 11% of our total food and paper costs. Among our main suppliers are McCain Foods Limited, HAVI Group L.P., JBS S.A., Reyes Holdings L.L.C., BRF S.A., The Coca-Cola Company, Campo del Tesoro S.A., Polenghi Industrias Alimenticias Ltda., Bimbo S.A., Arytza S.A., Axionlog B.V., Bemis Company Inc., Eco Axial S.A., Frima S.A., Tyson Foods, Golden State Foods, Kerry Group plc., Schreiber Foods Inc., Griffith Foods Worldwide Inc., Granja Tres Arroyos SRL, Panifresh S.A., Lactalis, Cargill S.A., Brasilgrafica S.A., Productos Alimenticios Kelly's S.A., Sergesa, Lacteos de Poblet S.A, Danone S.A., Fortunato Mangravita SA, Watts S.A., Terbium Industrial S.A. de C.V., BO Packaging S.A., Nestle S.A., Marfrig Global Foods S/A e Industrial and American Beef S.A.

Our integrated supply chain management optimizes value as we work with suppliers to develop pricing protocols, inventory, planning and product quality. As of December 31, 2018, approximately 22.6% of the food and paper products used in our restaurants were exposed to fluctuations in foreign exchange rates. This percentage varies among the Territories; for example, 30.5% of the products consumed in Mexico are exposed to fluctuations in foreign exchange rates, while 16.1% and 48.6% of the products consumed in Brazil and Colombia, respectively, are exposed. This includes the toys distributed in our restaurants, which are imported from China. Certain supplies, such as beef, must often be locally sourced in 2018 due to restrictions on their importation. Combined with the MFAs' requirement to purchase certain core supplies from approved suppliers, although we maintain contingency plans to back up restaurant supplies, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations." The suppliers send almost all of their products to distribution centers that are in charge of transportation, warehousing, financial administration, demand and inventory planning and customer service. The distribution centers interact directly with our Company-operated and franchised restaurants.

Until March 16, 2011, we owned and operated some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). See "—A. History and Development of the Company—Important Events—The Axionlog Split-off." In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog provides us with distribution inventory, storage (dry, frozen and chilled) and transportation services in Argentina, Chile, Colombia, Mexico, Uruguay, Peru, Venezuela and Ecuador. For additional information about our transactions with Axionlog, see "Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off."

Supply Chain Management and Quality Assurance

All products that we sell meet McDonald's specifications, including new products and promotions. We work with our suppliers to implement key standards testing at each stage of our supply chain, including raw materials, processing and distribution. With respect to raw materials, we verify that produce suppliers undergo verification audits. All protein suppliers also undergo Animal Welfare Policy, "mad cow" disease and HACCP audits. At the

processing stage, we implement a supplier quality management system that encourages continuous improvement in each key product category. We conduct seminars annually with all key suppliers on topics such as standards calibration, product sensory evaluation and best practices, and all suppliers are audited annually by a third party for compliance with McDonalds's SQMS. As members of the Global Food Safety Initiative (GFSI), we encourage our suppliers to adopt any norm under the umbrella of GFSI that is recognized globally. We measure compliance through visits to processing plants, supplier summits, regularly scheduled audits and sensory testing that is achieved through a combination of product, equipment and operational procedures. At the distribution stage, we have implemented the Distribution Quality Management Program, which includes a shelf-life management system, strict temperature controls for receiving and storage of food products, a sophisticated stock recovery program and a quality inspection program. In 2017, we complemented our audit process with the implementation of unannounced checks at the facilities of high-risk suppliers.

Our quality testing extends to restaurant operations. The Quality Program that includes Across The Counter Quality (ATCQ), Behind The Counter Quality (BTCQ) and Field Service Support is designed for restaurant improvement and food safety verification processes that allow us to track the implementation of changes in restaurant operations, new products, procedures and equipment. Moreover, in 2017 we introduced a Food Safety Restaurants audit, which is an audit of our vendors run by a third-party contractor. We participate in the restaurant operations improvement process designed by McDonald's, under which Company-operated and franchised restaurants are visited at least three times in any 21-month cycle to identify system opportunities to continuously improve our operations. Visits are conducted by our operation consultants, who assess restaurants based on food quality, service and cleanliness. We also participate in the worldwide mystery shopper program designed by McDonald's, where all restaurants are visited twice a month by a third-party vendor who provides us with feedback from a customer perspective. This feedback, called customer satisfaction opportunity reports, is sent to a centralized monitoring system that evaluates key operations indicators. Our multidisciplinary teams, which include members of our Supply Chain and Marketing and Operations teams, work to improve quality and efficiency at the restaurant level throughout the Territories.

Our Competition

We compete with international, national, regional and local retailers of food products. We compete on the basis of price, convenience, service, menu variety and product quality. Our competition in the broadest perspective includes restaurants, quick-service eating establishments, pizza parlors, coffee shops, street vendors, ice cream vendors, convenience food stores, delicatessens and supermarkets.

Our Customers

We aim to provide our customers with safe, fresh and good-tasting food at a good value and a favorable dining experience in the family friendly environment demanded by our target demographic of young adults and families with children. Based on data from the United Nations Economic Commission for Latin America and the Caribbean, the Territories represented a market of approximately 555 million people in 2018—equivalent to the combined population of the United States, Germany, France and the United Kingdom—of which approximately 25.1% are under 14 years old and 42.0% are under 25 years old. As a business focused on young adults in the 14 to 35 age range and families with children, our operations have benefited, and we expect to continue to benefit, from our Territories' population size, age profile when compared to more developed markets and improving socio-economic conditions.

The McDonald's brand in Latin America is positioned as an aspirational experience and a destination for our guests. In order to maintain that brand positioning, we have implemented several initiatives focused on providing our guests with a differentiated customer experience. EOTF provides an innovative experience with a noticeable change in the areas of service, hospitality, and atmosphere in the restaurant. We will evolve to an integrated vision, based on 5 fundamental pillars to transversally deliver the expected experience for our guest: atmosphere, people, family, menu and technology.

Despite ongoing risks generally associated with international business operations, the confluence of favorable factors throughout many of the Territories, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of customers.

Regulation

We are subject to various multi-jurisdictional federal, regional and local laws in the countries in which we operate affecting the operation of our business, as are our franchisees and suppliers. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, tax, operating, building and fire agencies in the jurisdiction in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals can delay or prevent the opening of a new restaurant in a particular area. Restaurant operations are also subject to federal and local laws governing matters such as wages, working conditions and overtime. We are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment.

Substantive laws that regulate the franchisor/franchisee relationship presently exist in several of the countries in which we operate, including Brazil. These laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply and regulate franchise sales communications.

Certain countries in which we conduct operations have imposed, and may continue to impose, price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products.

For example, in September 2014, Argentina passed: (i) Law No. 26,991, the "Regulation on Production and Consumption Relationships Act," which reformed a 1974 Act (Law on Supply of Goods and Services); and (ii) Law No. 26,992, the "Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act."

The Regulation on Production and Consumption Relationships Act empowers the Secretary of Commerce to, among other things: (i) establish profit margins and set price levels (setting maximum, minimum and benchmark prices); (ii) issue regulations on commerce, intermediation, distribution or production of goods and services; (iii) impose the continuance of production, industrialization, commercialization, transport, distribution or rendering of services or impose the production of goods; (iv) set subsidies; (v) request any kind of documentation and correspondence related to commercial activities or the management of the businesses and impose the publication of prices and availability of goods and services and seize such documentation for up to 30 working days; (vi) impose registration and recordkeeping requirements; and (vii) impose licensing regimes for commercial activities. In addition, the Secretary of Commerce is entitled to impose certain penalties for failure to comply with the Regulation on Production and Consumption Relationships Act, including fines, temporary closure of businesses, seizure of goods and products and loss of fiscal benefits.

The Creation of the Observatory of Prices and Availability of Inputs, Goods and Services Act created a technical agency under the Secretary of Commerce (the Observatory of Prices and Availability of Inputs, Goods and Services) to control and systematize prices. Under the current administration, the Argentine government has not enforced the aforementioned regulations and neither this agency nor those regulations has had an adverse impact on us. As of the date of this annual report, we are not aware of any measures carried out implementing the abovementioned regulations in Argentina, but we cannot assure you that such regulations will not impact our business and results of operations in the future.

Similarly, in Venezuela, the Fair Price Act has been in force since 2013, which seeks to lower high inflation by controlling prices and costs in the chain of production. The Fair Price Act generally sets forth a profit cap of 30% on the cost structure of goods and services, thus reducing management's ability to freely determine final prices. According to regulations passed under the Fair Price Act, to determine a final and fair price, management must observe and consider all of the costs of production, including (i) acquisition costs of raw materials, the determination of which must comply with existing regulations on transfer pricing (i.e., price, freight, primary storage, non-recoverable taxes and other costs directly attributable to the acquisition of raw materials), (ii) labor costs, and (iii) indirect costs of production.

The Fair Price Act also empowers the National Agency for the Defense of Socio-economic Rights to implement provisions and regulations on "fair pricing" and to oversee and audit businesses in Venezuela. Breaches of the Fair Price Act can result in criminal charges against merchants or business people. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—Price controls and other similar regulations in certain countries have affected and may continue to affect our results of operations." Although we managed to navigate the negative impact of the price controls on our operations from 2013 through

2018, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment.

We are also subject to the labor laws applicable in the countries in which we operate. The adoption of new or more stringent labor laws or regulations could result in a material liability to us. For example, during 2018, Venezuela implemented six increases in the minimum wage and the United States Virgin Islands approved the final wage increase in a three-stage increase started in 2015. In Argentina, a law enacted in November 2010 requires companies to pay overtime to all employees (except directors and managers). In addition, certain proposed bills have attempted to implement additional payments for weekends and mandatory employee profit-sharing, but none of those have been enacted by Congress. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Labor shortages or increased labor costs could harm our results of operations."

New interpretations or unexpected applications of existing labor laws or regulations may also affect our business practices or results of operations. In August 2015, UGT (*União Geral dos Trabalhadores*), a Brazilian labor union, filed a complaint before the Federal Prosecutor's Office claiming that we breached tax, labor, franchise and antitrust laws. The Prosecutor's Office dismissed the complaint related to labor law and ordered the investigation to be split between the tax and franchise/antitrust law accusations. On November 2016, the Prosecutor's Office dismissed the complaint concerning franchise/antitrust law accusations and the investigation was closed in 2017. However, although we have not been formally notified, we understand that a preliminary inquiry is in progress to examine the complaint related to the tax claim. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Retained Lawsuits and Contingent Liabilities."

In September 2014, Argentina enacted Law No. 26,993 (the "Prior Conciliation Service in Consumer Relations"). The Prior Conciliation Service in Consumer Relations is an administrative dispute resolution service within the Argentine Ministry of Production, by which consumers may freely submit their claims, with the purpose of reaching a settlement enforceable before the courts in case of noncompliance before a mediator within 30 days from the filing of the relevant claim. Consumers may only carry out proceedings before this administrative entity when the claims do not exceed a value equivalent to 55 times the minimum wage. Pursuant to Law No. 26,993, companies that are summoned to, but do not appear before, the Prior Conciliation Service in Consumer Relations may be subject to a fine equivalent to one minimum wage.

In addition, we may become subject to legislation or regulation seeking to regulate high-fat and/or high-sodium foods, particularly in Argentina, Brazil, Chile and Uruguay. Moreover, restrictions on advertising by food retailers and QSRs have been proposed or adopted in Argentina, Brazil, Chile, Colombia, Mexico, Peru and Uruguay, including proposals to restrict our ability to sell toys in conjunction with food. Certain jurisdictions in the United States are considering curtailing or have curtailed McDonald's ability to sell children's meals including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Latin American countries where we do business, may have a negative impact on our results of operations. We will comply with any laws or regulations that may be enacted, and we can provide no assurance of the effect that any possible future laws and regulations will have on our operating results. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Industry—Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children's meals may harm McDonald's brand image and our results of operations."

Environmental Issues

To the best of our knowledge, there are currently no international, federal, state or local environmental laws, rules or regulations that we expect will materially affect our results of operations or our position with respect to our competitors. However, we can provide no assurance of the effect that any possible future environmental laws will have on our operating results.

For example, in 2018, there was increased attention on single-use plastic products, such as plastic straws, and various countries and big cities in Puerto Rico, Uruguay and Brazil began implementing regulations prohibiting or restricting the use of certain plastic products. The implementation of these and similar laws and regulations may increase our supply costs if we are required to change the types of disposable products that we use in our restaurants, which could have a material effect on our business. See "Item 3. Key Information—D. Risk Factors— Certain Factors Relating to Our Industry— Environmental laws and regulations may affect our business."

Insurance

We maintain insurance policies in accordance with the requirements of the MFAs and as appropriate beyond those requirements, to the extent we believe additional coverage is necessary. Our insurance policies include commercial general liability, workers compensation, "all risk" property and business interruption insurance, among others. See "Item 10. Additional Information—C. Material Contracts—The MFAs—Insurance."

Social Initiatives and Charitable Activities

The well-being of the communities where we operate is of considerable importance to us and we are engaged in a wide range of programs focused on positively impacting those communities. In addition to the current support we give to Ronald McDonald House Charities, we expanded our social reach in 2018 by strengthening our initiatives in the areas of Youth Employment and Sustainable Development.

The following paragraphs summarize some of our principal programs and contributions.

Youth Employment

Youth unemployment is one of the most critical issues facing countries in Latin America. Through our *Youth Employment* initiative, we promote social mobility by providing employment opportunities to young people in Latin America that help them develop valuable customer service and leadership skills that can be applied to a wide range of career paths in the future. We are implementing this initiative through strategic alliances and by leveraging our trajectory and experience in this field. We are also developing projects for labor participation that include technical training and programs to support the employment of people with disabilities. For instance, we partnered with the Ministries of Labor of Mexico, Argentina, Costa Rica, Puerto Rico and Ecuador to promote employment participation of certain minority groups.

We increased our focus on Youth Employment because it has been one of the most significant problems facing Latin American countries in recent years. Being one of the largest employers in Latin America and the Caribbean, over 80% of our new hires during 2018 were young adults.

Another initiative is *Empleo con Apoyo* , which aims to provide employment opportunities to youth with disabilities, encouraging the development of their skills and raise awareness with respect to the needs of individuals with disabilities. During 2018, approximately 2,000 employees were part of this program. In addition and related to Empleo con Apoyo, in 2018 we received the Global Recognition Award from the United Nations for our exemplary employment practices for disabled people in the State of Sao Paulo, Brazil. We maintain these practices in several of our markets through alliances with local organizations, such as the one with DISCAR in Argentina, which offer formal job opportunities to people with disabilities.

In addition, in April 2012, we became one of the founders and partners of the New Employment Opportunities (NEO) Program developed by the Inter-American Development Bank and the International Youth Foundation, which promotes the employability of the region's youth. As of December 2018, NEO has reached approximately 250,000 youth in 7 countries within the region. We have strengthened this alliance by working with NEO in Mexico, Chile, and Panama.

One of our most important soft skills training programs is *Creating Your Future,* a program supported by the Ministry of Education in Argentina that provides opportunities for skills development for our employees. This program was implemented with Kuepa, an organization dedicated to providing professional and soft skills training in Latin America, and the Global Fairness Initiative, an international non-profit organization focused on economic development. Since its launch on September 2016, more than 110 employees have participated in the program, and of those, more than 60 have already graduated. The program lasts two to three months and combines online and classroom education in three main areas: guidance for work; technical skills in either hospitality, customer service or computers; personal finances, math and Spanish.

Additionally, we have continued to strengthen our partnerships with other organizations that focus on soft skills training, such as the Forge Foundation (including its branches in Argentina, Mexico, Uruguay, Peru and Mexico), Aldeas SOS and Movimiento Nueva Generación Instituto Ayrton Senna (Brazil), among others in Latin America. In 2018, we donated over $9.0 million in connection with Gran Dia and McHappy Day. Those funds were transferred

to non-governmental organizations that support the development of soft skills and the employability skills of young people across the region as well as supporting the local chapters of the Ronald McDonald Foundation.

In addition, in partnership with the JPMorgan Chase Foundation and IOS (Institute of Social Opportunities) in Brazil, we signed an alliance to develop a certified academic program in IT, *Talentos del Futuro* . Approximately 100 young people from our crew graduated from the program after studying to acquire technical knowledge in programming, networks and system languages.

We have also worked on helping those who have more difficulty in finding a formal job. For example, *Trabalho Novo* in Brazil a public/private partnership that helps homeless people start a job in our restaurants. In 2018, we helped 97 people through this program.

We also participate in programs in Mexico and Colombia, including the *Jovenes Construyendo el Futuro* program in Mexico, which helps teach life skills such as financial planning to young people, and the *40,000 Employees* initiative in Colombia, which has created a consortium of companies with the goal of providing job opportunities to 40,000 people.

Community

In 2017, we began the Gran Dia campaign, which seeks to broaden the social impact of Arcos Dorados. Through this campaign, funds raised through the sale of Big Macs were donated to local organizations supporting youth employment and the Ronald McDonald House Charities. We also celebrated the McHappy Day, a day on which McDonald's restaurants across Latin America raise money for various community causes by donating the proceeds from the sales of Big Macs on that day. All our restaurants as well as their community volunteers, franchisees and suppliers participated in both campaigns. We raised more than $9.0 million.

We primarily contribute to the communities in which we operate through the Ronald McDonald House Charities, which is dedicated to creating, finding and supporting programs that directly improve the health and well-being of children by providing "a home away from home" to children undergoing medical treatment in hospitals and their families. As of December 31, 2018, there were 57 Ronald McDonald House Charities programs in 13 countries in Latin America and the Caribbean, including 25 Ronald McDonald Houses, 30 Ronald McDonald Family Rooms and 2 Ronald McDonald Care Mobiles, which were built to deliver pediatric care services to remote locations.

In addition, in Brazil, since 2014, we have been developing the *Bom Vizinho* (Good Neighbor) program in over 500 restaurants across the country. The project consists in engaging our restaurant crew to take part in activities to serve the community close to restaurants. These activities include sidewalk maintenance, painting of street walls, blood donation, food donation, and using the restaurant as the hub for social activities. In 2018, over 8,000 activities were carried out.

Nutrition and Well-Being

As part of our commitment to offering nutritious and high quality products to our customers, we are dedicated to actively promoting a balanced lifestyle. This includes providing reliable, accessible information to guide educated nutritional decisions. We were the first restaurant chain in Latin America to provide full nutritional and calorie information about our menu on our websites in every country, as well as giving consumers within the restaurants full printed nutritional information on every tray liner. In 2014 we added a nutritional calculator on our websites to complement nutritional transparency with a personalized tool to enable our customers to make the right nutritional choices for their lifestyle. In addition, in 2017, we developed our *Receta para el Futuro* initiative in partnership with McDonald's. This initiative focuses on leveraging the scale and presence of Arcos Dorados in Latin America, to support McDonald's Scale for Good initiative, which focuses on offering balanced meals that meet certain criteria regarding saturated fat, added sugar and sodium. *Receta para el Futuro* meet our sustainability goals with respect to climate change, sustainable beef sourcing and packaging and recycling. See "—Sustainable Development."

From a safety and quality perspective, we only use products that have passed strict quality and hygiene controls throughout the production chain, inside our restaurants and up to the moment they are served to our customers. These products are sourced from our approved supplier network for all McDonald's restaurants. We seek to adhere to the strictest food safety standards in the industry and we pay special attention to the enforcement of those standards. All of our restaurants are audited on a yearly basis by a third party entity.

We also run the so called " *Puertas Abiertas* " program in the region, in which customers and key stakeholders are invited to visit our behind-the-counter operations. This program is aimed at greater transparency and has hosted over 10 million customers across the region since 2015 when the program was created. In 2018, 3.2 million customers visited our kitchens.

We also participate in several educational, sports and well-being programs throughout Latin America and the Caribbean, promoting our brand and encouraging our employees and customers to participate. One such event is the McDonald's 5K Women's Run (*Las Mujeres Corremos*), a regional race held annually since 2010 that brought together nearly 20,000 women in 2018, running in 6 cities in Latin America.

Sustainable Development

We strive to be an environmental steward dedicated to conserving natural resources and minimizing waste. We have developed sustainability initiatives with a focus on sustainable supplies, and energy and water efficiency. To carry out these initiatives, we have developed strategic partnerships with prestigious organizations such as the World Wildlife Fund ("WWF"), the Nature Conservancy, the Rainforest Alliance the Forest Stewardship Council and the Marine Stewardship Council. For the ninth consecutive year, together with the WWF, all restaurants in our 20 markets have participated in Earth Hour by switching off their external lights and canopies.

One of our most important values is to preserve and care for an increasingly limited resource: water. We have made a tangible commitment to this value through the *Natal Program* , which was started at Arcos Dorados Brazil and aims to minimize water waste so that more water is available to local communities, especially in regions with limited access to water or at risk of water rationing. Through this initiative, we have reduced water consumption in our restaurants by 15% and as of 2018 we have implemented the initiative in over 500 restaurants throughout Latin America.

We are also committed to recycling. In order to align our efforts on recycling, we adopted CEMPRE (*Compromiso Empresarial para el Reciclaje*), an initiative started by leading companies from different industries, such as Coca Cola, Nestle, Unilever, that are dedicated to working on environmental issues in Latin America, in certain of our markets (Brazil, Colombia, Argentina and Chile). We are also active members of CEADS (*Consejo Empresario Argentino para el Desarrollo Sustentable*) in Argentina as well as similar organizations in other countries.

We are also leading campaigns to address the disposal of plastic goods, an area of recent focus by environmental groups and social media. For example, in August 2018, we started a campaign to discourage the usage of plastic straws at our restaurants, which includes consumer education on how to properly dispose of plastic straws and a new policy to only provide straws upon customer request (not applicable to Drive-thrus and Delivery). As a result of this action, we reduced the consumption of plastic straws across Latin America in our restaurants by 50%. See "Item 3. Key Information—D. Risk Factors— Certain Factors Relating to Our Industry— Environmental laws and regulations may affect our business."

To improve the sustainability of our supplies, we defined six priority items for our business with WWF's support: beef, chicken, fish, palm oil, coffee and the packaging we use. Today, coffee, fish and packaging are certified as 100% sustainable in Brazil, and we continue to work with the certification plans in order to achieve sustainability certifications for our supplies in all our markets in Latin America. In 2017, in partnership with Forest Stewardship Counsel, we also celebrated FSC Friday in Brazil and Argentina, a global initiative that aims to reinforce the importance of responsible forest management, with the participation of partners, suppliers, collaborators and the community.

Arcos Dorados Brazil and Arcos Dorados Puerto Rico are also improving the sustainability of their supplies by only selling Filet-o-Fish certified by the Marine Stewardship Council (MSC). In addition, 100% of the coffee that we buy in Brazil comes from certified sources and we are working to replicate this model in the rest of our markets.

We strive to work with suppliers that have strong standards of animal welfare and that meet McDonald's standards and policies. We have committed to ensuring that all pork used in our restaurants will be sourced by producers that can demonstrate plans to promote group housing for their sows. We are actively working with our pork suppliers, producers and other stakeholders to transition over time to this standard. The responsible use of antibiotics is important for animal health, as well as to ensure the future effectiveness of antimicrobial medicines. In

March 2015, we announced that we will only source from suppliers who can guarantee that their animals (i) are raised without growth-stimulating antibiotics; (ii) have only received antibiotics to cure or prevent disease under veterinary supervision; (iii) are only administered antibiotics approved for veterinary use; and (iv) are raised in environments that encourage healthy animal welfare and husbandry conditions to help reduce the need for antibiotic use. We are continuously working with our suppliers and producers to achieve this goal for the responsible use of antibiotics. Based on the premise that our customers deserve high quality products originating from healthy animals, together with McDonald's, we have been pioneers in prioritizing animal welfare. We have a specific committee for animal welfare issues, which acts under the guidelines of the Professional Animal Auditor Certification Organization (PAACO), an animal welfare organization.

In addition, in October, 2016, we announced that we will begin sourcing only cage free eggs in various countries, with the goal of having 100% of the eggs served at our restaurants coming from cage free eggs by 2025.

Protecting the Forests is a top priority. All of our suppliers have committed to ending procurement of any supplies from the Amazon. In 2017, McDonald’s publicly announced its Commitment on Forests, which aims to eliminate deforestation from our supply chains and promote responsible forestry and production practices that benefit people, communities and the planet. This commitment includes the Amazon, the Cerrado and the Chaco, a province in Argentina. In October 2011, McDonald’s signed a global moratorium against harvesting soy from the Amazon region and has maintained this commitment every year since, including actively supporting the 2014 renewal of the Brazilian Soy Moratorium. In August 2016, we sourced the first sustainable beef in Latin America from the Novo Campo Project, an initiative that complies with the standards of the Brazilian Roundtable for Sustainable Beef. With this initiative, we were the first restaurant in the QSR industry in Brazil to acquire the product from production cycles that meet global principles and criteria established by the Global Roundtable for Sustainable Beef. Among other criteria, this meets our commitment to zero deforestation, not source products within Conservancy and/or Indian areas, ensure that child labor or slavery conditions do not occur and pass through a third-party verification audit. Arcos Dorados is an active member of several working groups and has a leadership position regarding the development of sustainable agricultural practices in the region.

By working very closely and sharing best practices across Latin America, we are reducing our carbon footprint and greenhouse gas (GHG) emissions in our operations. In addition, many of our suppliers participate in the CDP (Carbon Disclosure Project), which focuses on reducing the carbon footprint generated by participating members’ operations.

As of December 31, 2018, we had 4 LEED-certified restaurants and 1 LEED-certified corporate university. Leadership in Energy & Environmental Design, or LEED-certified buildings are more environmentally responsible and resource-efficient buildings throughout their life-cycle. In December 2008, we opened the first LEED-certified restaurant in Latin America in Bertioga on the coast of São Paulo, Brazil. This restaurant received its LEED certification in September 2009, becoming the first McDonald’s restaurant in Latin America to receive such certification. In August 2010, we opened our second LEED-certified restaurant in Pilar, Argentina. In July 2011, we re-inaugurated the McDonald’s at Parque Hundido, in Mexico DF, as our third LEED-certified restaurant. In January 2013, we opened the fourth LEED-certified restaurant in Guaynabo, Puerto Rico, which obtained its LEED certification in November 2013. The McDonald’s University in São Paulo, Brazil, was remodeled and reopened in April 2011 as a LEED-certified building. This McDonald’s University, one of seven such units in the world, is the corporate education center for employees from all over Latin America and the Caribbean. Among the programs offered at the McDonald’s University in São Paulo is an MBA in Strategies for Sustainable Development, the only educational program of its kind at this level in Latin America.

The know-how accumulated in the construction of these ecological buildings is being used for the development of new McDonald’s restaurants, such as our High Efficiency Restaurants, developed in Brazil in compliance with McDonald’s standards as required by the MFAs, at which efficiencies have been achieved by implementing sustainability measures for, among others, the reuse of water and the use of more efficient lightning technics and using a more efficient architectural design with regard to the amount of equipment, kitchen and support areas. These architectural changes allow a reduction in carbon footprint associated to building process.

Finally, we survey our key suppliers in Latin America and the Caribbean to ensure their operations meet the highest standards possible and partner with them in reducing our impact on the environment. This includes implementing and sharing best practices throughout the supply chain for sustainable sourcing, transportation, resource use, residue disposal and energy consumption, among other matters, using CDP as our strategic partner.

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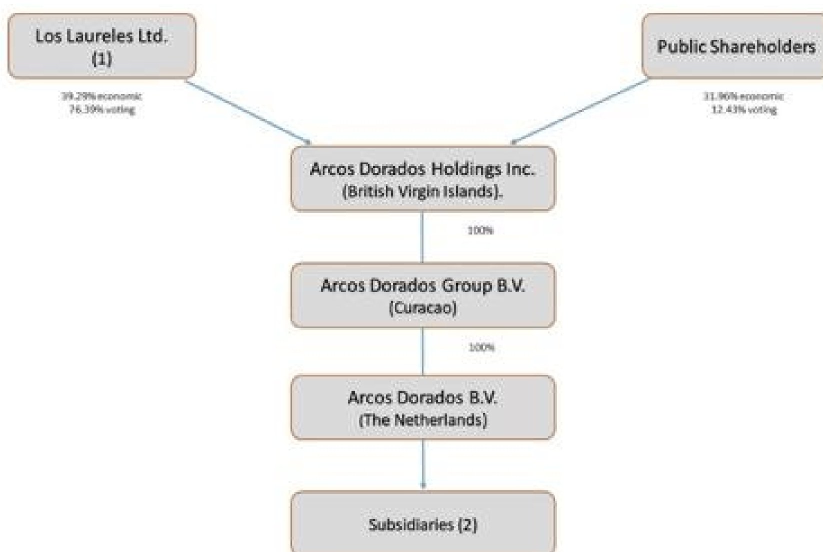
C. Organizational Structure

We conduct substantially all of our business through our indirect, wholly owned Dutch subsidiary Arcos Dorados B.V. Our controlling shareholder is Los Laureles Ltd., a British Virgin Islands company, which is beneficially owned by Mr. Woods Staton, our Executive Chairman. Under the MFAs, Los Laureles Ltd. is required to hold at all times at least 51% of our voting interests, which is accomplished through its ownership of 100% of the class B shares of Arcos Dorados Holdings Inc., each having five votes per share. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.” Arcos Dorados B.V. owns all the equity interests of LatAm, LLC, the master franchisee, and owns, directly or indirectly, all the equity interests of the subsidiaries operating our restaurants in the Territories.

The following chart shows our corporate structure as of April 2019.



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(1) Includes class A shares and class B shares beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. is beneficially owned by Mr. Woods Staton. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”

(2) Includes operating subsidiaries held directly and, in some cases, indirectly through certain intermediate subsidiaries.

Other than as described above, all of our significant subsidiaries are wholly owned by us, except Arcos Dorados Argentina S.A., of which Mr. Woods Staton owns 0.003%.

D. Property, Plants and Equipment

Property Operations

Our long-standing presence in Latin America and the Caribbean has allowed us to build a significant property portfolio with hard-to-replicate locations in key markets across the region that enhance our customers’ experience and ultimately support our brand and market position. As of December 31, 2018, we owned the land for 497 of our 2,223 restaurants (totaling approximately 1.1 million square meters). We owned the buildings for all but 11 of our stand-alone restaurants, all of which are under developmental licenses, whereby the licensees own or lease the land

on and buildings in which the restaurants are located. We lease the remaining real estate property where we operate. Accordingly, we are able to charge rent on the real estate that we own and lease to our franchisees. The rental payments generally are based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. When we lease land, we match the term of our sublease to the term of the franchise. We may charge a higher rent to franchisees than that which we pay on our leases, therefore deriving additional rental income.

The selection, construction and maintenance of restaurant locations and other related real estate assets, which is a key element of our performance, is determined based on an evaluation of expected returns on investment and the most efficient allocation of our capital expenditures. In addition to our restaurant property, we have (i) corporate offices in Montevideo, Uruguay; Buenos Aires, Argentina; and Sao Paulo, Brazil; and regional offices in Mexico City, Mexico and Bogota, Colombia; (ii) manufacturing and logistics centers in Sao Paulo, Brazil; and (iii) training centers in Sao Paulo, Brazil and Buenos Aires, Argentina.

ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

A. Operating Results

The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements as of December 31, 2018 and 2017 and for the years ended December 31, 2018, 2017 and 2016, and the notes thereto, included elsewhere in this annual report, as well as the information presented under "Presentation of Financial and Other Information" and "Item 3. Key Information—A. Selected Financial Data."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Item 3. Key Information—D. Risk Factors."

Segment Presentation

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin American division, or NOLAD, consisting of Costa Rica, Mexico and Panama; and the South Latin American division, or SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay. As of December 31, 2018, 43.5% of our restaurants were located in Brazil, 17.7% in SLAD, 23.6% in NOLAD and 15.2% in the Caribbean division. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

We are required to report information about operating segments in our financial statements in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. We have determined that our reportable segments are those that are based on our method of internal reporting, and we manage our business and operations through our four geographical divisions (Brazil, the Caribbean division, NOLAD and SLAD). The accounting policies of the segments are the same as those for the Company on a consolidated basis.

Principal Income Statement Line Items

Revenues

We generate revenues primarily from two sources: sales by Company-operated restaurants and revenue from franchised restaurants, which primarily consists of rental income, typically based on the greater of a flat fee or a percentage of sales reported by our franchised restaurants. This rent, along with occupancy and operating rights, is stipulated in our franchise agreements. These agreements typically have a 20-year term but may be shorter if

necessary to mirror the term of the real estate lease. In 2018, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.2% and 4.8% of our total revenues, respectively. In 2017 and 2016, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.3% and 4.7% and 95.7% and 4.3% of our total revenues, respectively.

Operating Costs & Expenses

Our sales are heavily influenced by brand advertising, menu selection and initiatives to improve restaurant operations. Sales are also affected by the timing of restaurant openings and closures. We do not record sales from our franchised restaurants as revenues.

Company-operated restaurants incur four types of operating costs and expenses:

- food and paper costs, which represent the costs of the products that we sell to customers in Company-operated restaurants;
- payroll and employee benefit costs, which represent the wages paid to Company-operated restaurant managers and crew, as well as the costs of benefits and training, and which tend to increase as we increase sales;
- occupancy and other operating expenses, which represent all other direct costs of our Company-operated restaurants, including advertising and promotional expenses, the costs of outside rent, which are generally tied to sales and therefore increase as we increase our sales, outside services, such as security and cash collection, building and leasehold improvement depreciation, depreciation on equipment, repairs and maintenance, insurance, restaurant operating supplies and utilities; and
- royalty fees, representing the continuing franchise fees we pay to McDonald's pursuant to the MFAs, which are determined as a percentage of gross product sales.

Franchised restaurant occupancy expenses include, mainly, as applicable, the costs of depreciating and maintaining the land and buildings upon which franchised restaurants are situated or the cost of leasing that property. A significant portion of our leases establish that rent payments are based on the greater of a flat fee or a specified percentage of the restaurant's sales.

We promote the McDonald's brand and our products by advertising in all of the Territories. Pursuant to the MFAs, we are required to spend at least 5% of our sales on advertisement and promotion activities annually. These activities are guided by our overall marketing plan, which identifies the key strategic platforms that we leverage to drive sales. Our franchisees are generally required to pay us a certain percentage of their sales to cover advertising expenditures related to their restaurants. We account for these payments as a deduction to our advertising expenses. As a result, our advertising expenses only reflect the expenditures related to Company-operated restaurants. Advertising expenses are recorded within the "Occupancy and other operating expenses" line item in our consolidated income statement. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

General and administrative expenses include the cost of overhead, including salaries and facilities, travel expenses, depreciation of office equipment, buildings and vehicles, amortization of intangible assets, occupancy costs, professional services and the cost of field management for Company-operated and franchised restaurants, among others.

Other operating income (expenses), net, include gains and losses on asset acquisitions and dispositions, gains related to sales of restaurant businesses, write-offs of property and equipment, insurance recovery, impairment charges, rental income and depreciation expenses of excess properties, accrual for contingencies, write-offs and write-downs of inventory, recovery of taxes and other miscellaneous items.

Other Line Items

Net interest expense primarily includes interest expense on our short-term and long-term debt as well as the amortization of deferred financing costs. Loss from derivative instruments relates primarily to the ineffective portion of derivative instruments.

Foreign currency exchange results relate to the impact of remeasuring monetary assets and liabilities denominated in currencies other than our functional currencies. See "—Foreign Currency Translation."

Other non-operating income (expenses), net, primarily include certain results related to tax credits, asset taxes and income tax adjustments related to prior years that we are required to pay in certain countries and other non-operating charges.

Income tax expense includes both current and deferred income taxes. Current income taxes represent the amount accrued during the period to be paid to the tax authorities while deferred income taxes represent the earnings impact of the change in deferred tax assets and liabilities that are recognized in our balance sheet for future income tax consequences.

Net income attributable to non-controlling interests relate to the participation of non-controlling interests in the net income of certain subsidiaries that collectively owned 15 restaurants at December 31, 2018 (15 restaurants at December 31, 2017).

Impact of Inflation and Changing Prices

Some of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In general, we believe that, over time, we have demonstrated the ability to manage inflationary environments effectively. During 2018 and 2017, our revenues were favorably impacted by our pricing strategy in many of these inflationary environments, as we were able to increase average check to keep pace with inflation.

The Venezuelan market is also subject to price controls, which limit our ability to increase prices to offset the impact of continuing high inflation on our operating costs. Although we managed to navigate the negative impact of the price controls on our operations from 2015 through 2018, the existence of such laws and regulations continues to present a risk to our business. We continue to closely monitor developments in this dynamic environment.

Key Business Measures

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth.

In analyzing business trends, management considers a variety of performance and financial measures which are considered to be non-GAAP including: Adjusted EBITDA, comparable sales growth, systemwide data and constant currency measures.

Comparable Sales

Comparable sales is a key performance indicator used within the retail industry and is indicative of the success of our initiatives as well as local economic, competitive and consumer trends. Comparable sales are driven by changes in traffic and average check, which is affected by changes in pricing and product mix. Increases or decreases in comparable sales represent the percent change in sales from the prior year for all restaurants in operation for at least thirteen months, including those temporarily closed. Some of the reasons restaurants may close temporarily include reimaging or remodeling, rebuilding, road construction and natural disasters. With respect to restaurants where there are changes in ownership, all previous months' sales are reclassified according to the new ownership category when reporting comparable sales. As a result, there will be discrepancies between the sales figures used to calculate comparable sales and our results of operations. We report on a calendar basis, and therefore the comparability of the same month, quarter and year with the corresponding period for the prior year is impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a period can impact comparable sales positively or negatively. We refer to these impacts as calendar shift/trading day adjustments. These impacts vary geographically due to consumer spending patterns and have the greatest effect on monthly comparable sales while annual impacts are typically minimal.

We calculate and analyze comparable sales and average check in our divisions and systemwide on a constant currency basis, which means that sales in local currencies, including the *Argentine peso* and *Venezuelan bolivar* , are converted to U.S. dollar using the same exchange rate in the applicable division or systemwide, as applicable, over the periods under comparison to remove the effects of currency fluctuations from the analysis. We believe these constant currency measures, which are considered to be non-GAAP measures, provide a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency fluctuations.

Company-operated comparable sales growth refers to comparable sales growth for Company-operated restaurants and franchised comparable sales growth refers to comparable sales growth for franchised restaurants. We believe comparable sales growth is a key indicator of our performance, as influenced by our strategic initiatives and those of our competitors.

Average Restaurant Sales

Average restaurant sales, or ARS, is an important measure of the financial performance of our systemwide restaurants and changes in the overall direction and trends of sales. ARS is calculated by dividing the sales for the relevant period by the arithmetic mean of the number of restaurants at the beginning and end of such period. ARS is influenced mostly by comparable sales performance and restaurant openings and closures. As ARS is provided in nominal terms, it is affected by movements in foreign currency exchange rates.

Sales Growth

Sales growth refers to the change in sales by all restaurants, whether operated by us or by franchisees, from one period to another. We present sales growth both in nominal terms and on a constant currency basis, which means the latter is calculated by converting sales in local currencies, including the *Argentine peso* and *Venezuelan bolivar* , to U.S. dollar using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from the analysis.

Adjusted EBITDA

We use Adjusted EBITDA to facilitate operating performance comparisons from period to period. Adjusted EBITDA is defined as our operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating income (expenses), net, and within general and administrative expenses in our statement of income: gains from sale or insurance recovery of property and equipment; write-offs of property and equipment; impairment of long-lived assets and goodwill; stock-based compensation related to the special awards in connection with the initial public offering, under the 2011 Equity Incentive Plan; reorganization and optimization plan expenses; and incremental compensation related to the modification of our 2008 long-term incentive plan. See “Item 3. Key Information—A. Selected Financial Data.”

We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures (affecting net interest expense and other financial charges), taxation (affecting income tax expense) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. In addition, we exclude gains from sale or insurance recovery of property and equipment not related to our core business; write-offs of property and equipment and impairment of long-lived assets and goodwill that do not result in cash payments; stock-based compensation related to the special awards under the 2011 Equity Incentive Plan; reorganization and optimization plan expenses; bonuses granted in connection with our initial public offering due to its special nature; and incremental compensation expense related to the modification of our 2008 long-term incentive plan. While a GAAP measure for purposes of our segment reporting, Adjusted EBITDA is a non-GAAP measure for reporting our total Company performance. Our management believes, however, that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their evaluation of our operating performance.

Systemwide data

Systemwide data represents measures for both Company-operated and franchised restaurants. While sales by franchisees are not recorded as revenues by us, management believes the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised restaurant revenues and are indicative of the financial health of our franchisee base. Systemwide results are driven primarily by our Company-operated restaurants, as 69.3% of our systemwide restaurants are Company-operated as of December 31, 2018.

Foreign Currency Translation

The financial statements of our foreign operating subsidiaries are translated in accordance with guidance in ASC 830, Foreign Currency Matters. Except for our Venezuelan and Argentine operations, the functional currencies of our foreign operating subsidiaries are the local currencies of the countries in which we conduct our operations. Therefore, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rates as of the balance sheet date, and revenues and expenses are translated at the average exchange rates prevailing during the period. Translation adjustments are included in the "Accumulated other comprehensive loss" component of shareholders' equity. We record foreign currency exchange results related to monetary assets and liabilities transactions, including intercompany transactions, denominated in currencies other than our functional currencies in our consolidated income statement.

Under U.S. GAAP, an economy is considered to be highly inflationary when its three-year cumulative rate of inflation meets or exceeds 100%. Since January 1, 2010 and July 1, 2018, Venezuela and Argentina, respectively, were considered to be highly inflationary, and as such, the financial statements of each of these subsidiaries are remeasured as if its functional currency was the reporting currency of the relevant subsidiary's immediate parent company (U.S. dollars for Venezuelan operations and Brazilian reais ("BRL") for Argentine operations). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment component of "Accumulated other comprehensive loss" within shareholders' equity.

Venezuela

Venezuela's exchange rate system is administered by the Central Bank of Venezuela and the Venezuelan Ministry of Finance, and currently consists of a unified foreign exchange market called NEW DICOM, which operates through an auction mechanism and which was introduced in February 2018, replacing the previous dual exchange rate system. The first auction was published on February 5, 2018, with an exchange rate of 25,000 VEF per U.S. dollar. This new mechanism was considered for remeasurement purposes.

On August 20, 2018, the Venezuelan government announced the removal of five zeros from the Venezuelan currency and renamed it the "Sovereign Bolivar" (VES). In addition, the new currency experienced devaluation from 2.48 to 59.93 VES per U.S. dollar.

Although we have participated in several auctions since the new mechanism was put in place, on June 1, 2018 we were, granted with $20 for the first time at an exchange rate of 600,000 VEF per US dollar. Afterwards, we participated in auctions in July and December. Those transactions occurred at an exchange rate greater than the one published by the governmental authorities. Considering that under ASC 830, foreign currency transactions are required to be remeasured at the applicable rate at which a particular transaction could be settled, each time we access to the new DICOM at an exchange rate greater than the one published, that higher rate is used for remeasurements purposes.

As of December 31, 2018, our local currency-denominated net monetary position in Venezuela, that would be subject to remeasurement in the event of further changes in the exchange rate, was net liability $0.1 million. In addition, our Venezuelan subsidiary's non-monetary assets were $16.8 million (mainly fixed assets).

Currency devaluations in Venezuela have had a significant effect on our income statements and have impacted the comparability of our income statements. For more details about the Venezuelan exchange rate used for financial reporting, see Note 22 to our consolidated financial statements.

Critical Accounting Policies and Estimates

This management's discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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, we evaluate our estimates and judgments based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions.

We consider an accounting estimate to be critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on our financial condition or operating performance is material.

We believe that of our significant accounting policies, the following encompass a higher degree of judgment and/or complexity.

Depreciation of Property and Equipment

Accounting for property and equipment involves the use of estimates for determining the useful lives of the assets over which they are to be depreciated. We believe that the estimates we make to determine an asset's useful life are critical accounting estimates because they require our management to make estimates about technological evolution and competitive uses of assets. We depreciate property and equipment on a straight-line basis over their useful lives based on management's estimates of the period over which these assets will generate revenue (not to exceed the lease term plus renewal options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. We periodically review these lives relative to physical factors, economic considerations 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 recognition of increased depreciation and amortization expense or write-offs in future periods. No significant changes to useful lives have been recorded in the past. A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

Impairment of Long-Lived Assets and Goodwill

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review goodwill for impairment annually, primarily during the fourth quarter. In assessing the recoverability of our long-lived assets and goodwill, we consider changes in economic conditions and make assumptions regarding, among other factors, estimated future cash flows by market and by restaurant, discount rates by country and the fair value of the assets. Estimates of future cash flows are highly subjective judgments based on our experience and knowledge of our 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.

See Note 3 to our consolidated financial statements for a detail of markets for which we performed impairment tests of our long-lived assets and goodwill, as well as impairment charges recorded.

If our estimates or underlying assumptions change in the future, we may be required to record additional impairment charges.

Accounting for Taxes

We record a valuation allowance to reduce the carrying value of deferred tax assets if it is more likely than not that some portion or all of our deferred assets will not be realized. Our valuation allowance as of December 31, 2018, 2017 and 2016 amounted to $219.9 million, $271.7 million and $290.6 million, respectively. We have considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance. This assessment is carried out on the basis of internal projections, which are updated to reflect our most recent operating trends, such as the expiration date for tax loss carryforwards. Because of the imprecision inherent in any forward-looking data, the further into the future our estimates project, the less objectively verifiable they become. Therefore, we apply judgment to define the period of time to include projected future income to support the future realization of the tax benefit of an existing deductible temporary difference or carryforward and whether there is sufficient evidence to support the projections at a more-likely-than-not level for this period of time. Determining whether a valuation allowance for deferred tax assets is necessary often requires an extensive analysis of positive (e.g., a history of accurately projecting income) and negative evidence (e.g., historic operating losses) regarding realization of the deferred tax assets and inherent in that, an assessment of the likelihood of sufficient future taxable income. In 2018, 2017 and 2016, we recognized net gains amounting to $24.6 million, $19.1 million

and $17.0 million, respectively. If these estimates and assumptions change in the future, we may be required to adjust the valuation allowance. This could result in a charge to, or an increase in, income in the period this determination is made.

In addition, the Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company assesses the likelihood of any adverse judgments or outcomes on its tax positions, including income tax and other taxes, based on the technical merits of a tax position derived from authorities such as legislation and statutes, legislative intent, regulations, rulings and case law and their applicability to the facts and circumstances of the tax position.

As of December 31, 2018, there are certain matters related to the interpretation of income tax laws for which there is a possibility that a loss may have been incurred, as of the date of the financial statements in accordance with ASC 740, in an amount of $181 million, related to assessments for the fiscal years 2009 to 2014. No formal claim has been made for fiscal years within the statute of limitations by tax authorities in any of the mentioned matters. However, those years are still subject to audit and claims may be asserted in the future.

It is reasonably possible that, as a result of audit progression within the next 12 months, there may be new information that causes the Company to reassess its tax positions because the outcome of tax audits cannot be predicted with certainty. While the Company cannot estimate the impact that new information may have on its unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate as determined under ASC 740.

Provision for Contingencies

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. Accounting for contingencies involves the use of estimates for determining the probability of each contingency and the estimated amount to settle the obligation, including related costs. We accrue liabilities when it is probable that future costs will be incurred and the costs can be reasonably estimated. The accruals are based on all the information available at the issuance date of the financial statements, including our estimates of the outcomes of these matters and our lawyers' experience in contesting, litigating and settling similar matters. If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the notes to our consolidated financial statements. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings" for a description of significant claims, lawsuits and other proceedings.

See Note 18 to our consolidated financial statements.

Results of Operations

We have based the following discussion on our consolidated financial statements. You should read it along with these financial statements, and it is qualified in its entirety by reference to them.

In a number of places in this annual report, in order to analyze changes in our business from period to period, we present our results of operations and financial condition on a constant currency basis, which is considered to be a non-GAAP measure. Constant currency results isolate the effects of foreign exchange rates on our results of operations and financial condition. In particular, we have isolated the effects of appreciation and depreciation of local currencies in the Territories against the U.S. dollar because we believe that doing so is useful in understanding the development of our business. For these purposes, we eliminate the effect of movements in the exchange rates by converting the balances in local currency for both periods being compared from their local currencies to the U.S. dollar using the same exchange rate.

Key Business Measures

The following tables present sales, sales growth, sales growth on a constant currency basis, comparable sales growth and average restaurant sales increases/(decreases):

	Sales			Sales growth		Sales growth in constant currency		Comparable sales growth	
	For the Years Ended December 31,			For the Years Ended December 31,		For the Years Ended December 31,		For the Years Ended December 31,	
	2018	2017	2016	2018(1)	2017(3)	2018(1)	2017(3)	2018(2)	2017(4)
	(in thousands of U.S. dollars, except percentages)								
Sales by Company-operated restaurants	2,932,609	3,162,256	2,803,334	(7.3)%	12.8%	1,244.5%	21.4%	1,270.4%	22.2%
Franchised sales(5)	1,200,112	1,250,606	990,220	(4.0)%	26.3%	3,100.2%	45.9%	2,983%	36.9%
Systemwide sales	4,132,721	4,412,862	3,793,554	**(6.3)%**	**16.3%**	**1,770.4%**	**27.8%**	**1,778.1%**	**26.3%**

(1) In nominal terms, sales decreased during 2018 due to the negative impact of the depreciation of currencies mainly in Venezuela, Argentina and Brazil against the U.S. dollar. This was partially offset by comparable sales growth of 1,778.1%, as a result of hyperinflation in Venezuela. We had 1,540 Company-operated restaurants and 683 franchised restaurants as of December 31, 2018, compared to 1,546 Company-operated restaurants and 642 franchised restaurants as of December 31, 2017.

(2) Our comparable sales growth on a systemwide basis in 2018 was driven by the increase in average check, which resulted mainly from price increases in Venezuela (driven by the hyperinflation) and in Argentina and from increased traffic at our restaurants.

(3) In nominal terms, sales increased during 2017 due to comparable sales growth of 26.3%, mainly as a result of hyperinflation in Venezuela, the net addition of 47 restaurants systemwide since January 1, 2016 and the appreciation of the Brazilian real against the U.S. dollar. We had 1,546 Company-operated restaurants and 642 franchised restaurants as of December 31, 2017, compared to 1,553 Company-operated restaurants and 603 franchised restaurants as of December 31, 2016. This was partially offset by the negative impact of the depreciation of currencies mainly in Venezuela and Argentina against the U.S. dollar.

(4) Our comparable sales growth on a systemwide basis in 2017 was driven by the increase in average check, which resulted mainly from price increases.

(5) Franchised sales correspond to sales generated by franchised restaurants, which we do not collect. Revenues from franchised restaurants primarily consist of rental income.

By division

	Sales			Sales growth		Sales growth in constant currency		Comparable sales growth	
	For the Years Ended December 31,			For the Years Ended December 31,		For the Years Ended December 31,		For the Years Ended December 31,	
	2018	2017	2016	2018	2017	2018	2017	2018	2017
	(in thousands of U.S. dollars, except percentages)								
Sales by Company-operated restaurants:									
Brazil	$ 1,251,458	$ 1,396,411	$ 1,254,684	(10.4)%	11.3 %	2.0 %	2.8 %	1.1 %	4.8 %
Caribbean division	467,352	457,033	396,807	2.3 %	15.2 %	8,559.0 %	85.3 %	8,719.4 %	84.6 %
NOLAD	388,233	370,457	349,190	4.8 %	6.1 %	6.3 %	7.9 %	6.4 %	6.8 %
SLAD	825,566	938,355	802,653	(12)%	16.9 %	19.7 %	24.7 %	19.6 %	24.1 %
Total Sales by Company-operated restaurants	2,932,609	3,162,256	2,803,334	(7.3)%	12.8 %	1,244.5 %	21.4 %	1,270.4 %	22.2 %
Franchised-sales:(3)									
Brazil	773,908	815,184	630,706	(5.1)%	29.2 %	8.1 %	19.5 %	2.3 %	9.0 %
Caribbean division	120,702	127,599	96,646	(5.4)%	32.0 %	30,277.9 %	279.2 %	30,716.2 %	283.3 %
NOLAD	159,180	142,657	132,745	11.6 %	7.5 %	13.5 %	7.8 %	6.8 %	7.5 %
SLAD	146,322	165,166	130,123	(11.4)%	26.9 %	31.3 %	38.9 %	22.3 %	31.7 %
Total Franchised sales	1,200,112	1,250,606	990,220	(4.0)%	26.3 %	3,100.2 %	45.9 %	2,983.0 %	36.9 %
Systemwide sales:									
Brazil	2,025,366	2,211,595	1,885,390	(8.4)%	17.3 %	4.3 %	8.4 %	1.6 %	6.3 %
Caribbean division	588,054	584,632	493,453	0.6 %	18.5 %	13,299.2 %	123.2 %	13,557.8 %	123.4 %
NOLAD	547,414	513,114	481,935	6.7 %	6.5 %	8.3 %	7.8 %	6.5 %	7.0 %
SLAD	971,887	1,103,521	932,776	(11.9)%	18.3 %	21.4 %	26.7 %	20.1 %	25.3 %
Total Systemwide sales	**4,132,721**	**4,412,862**	**3,793,554**	**(6.3)%**	**16.3 %**	**1,770.4%**	**27.8%**	**1,778.1%**	**26.3%**

	Sales			Number of restaurants				Average restaurant sales		
	For the Years Ended December 31,			For the Years Ended December 31,				For the Years Ended December 31,		
	2018	2017	2016	2018	2017	2016	2015	2018 (1)	2017 (2)	2016
	(in thousands of U.S. dollars, except for number of restaurants)									
Sales by Company-operated restaurants	$2,932,609	$3,162,256	$2,803,334	1,540	1,546	1,553	1,588	$ 1,901	$ 2,041	$ 1,785
Franchised sales(3)	$1,200,112	$1,250,606	$ 990,220	683	642	603	553	$ 1,811	$ 2,009	$ 1,713
Systemwide sales	**$4,132,721**	**$4,412,862**	**$3,793,554**	**2,223**	**2,188**	**2,156**	**2,141**	**$ 1,874**	**$ 2,032**	**$ 1,766**

(1) Our ARS decreased in 2018 due to the negative impact of the depreciation of currencies, mainly in Venezuela, Argentina and Brazil, against the U.S. dollar. This was partially offset by comparable sales growth of 1,778.1%, mainly driven by Venezuela's hyperinflation.

(2) Our ARS increased in 2017 due to the comparable sales growth of 26.3%, mainly as a result of hyperinflation in Venezuela and the appreciation of the Brazilian real against the U.S. dollar, partially offset by the depreciation of currencies, mainly in Venezuela and Argentina, against the U.S. dollar.

(3) Franchised sales correspond to sales generated by franchised restaurants, which we do not collect. Revenues from franchised restaurants primarily derive from rental income.

Year Ended December 31, 2018 Compared to Year Ended December 31, 2017

Set forth below are our results of operations for the years ended December 31, 2018 and 2017.

	For the Years Ended December 31,		% Increase (Decrease)
	2018	2017	
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants	$ 2,932,609	$ 3,162,256	(7.3)%
Revenues from franchised restaurants	$ 148,962	$ 157,269	(5.3)%
Total revenues	**$ 3,081,571**	**$ 3,319,525**	**(7.2)%**
Company-operated restaurant expenses:			
Food and paper	$ (1,030,499)	$ (1,110,240)	(7.2)%
Payroll and employee benefits	$ (607,793)	$ (683,954)	(11.1)%
Occupancy and other operating expenses	$ (803,539)	$ (842,519)	(4.6)%
Royalty fees	$ (157,886)	$ (163,954)	(3.7)%
Franchised restaurants – occupancy expenses	$ (67,927)	$ (69,836)	(2.7)%
General and administrative expenses	$ (229,324)	$ (244,664)	(6.3)%
Other operating (expenses) income, net	$ (61,145)	$ 68,577	(189.2)%
Total operating costs and expenses	**$ (2,958,113)**	**$ (3,046,590)**	**(2.9)%**
Operating income	**$ 123,458**	**$ 272,935**	**(54.8)%**
Net interest expense	$ (52,868)	$ (68,357)	(22.7)%
Loss from derivative instruments	$ (565)	$ (7,065)	(92.0)%
Foreign currency exchange results	$ 14,874	$ (14,265)	(204.3)%
Other non-operating income (expenses), net	$ 270	$ (435)	(162.1)%
Income before income taxes	**$ 85,169**	**$ 182,813**	(53.4)%
Income tax expense	$ (48,136)	$ (53,314)	(9.7)%
Net income	**$ 37,033**	**$ 129,499**	(71.4)%
Less: Net income attributable to non-controlling interests	$ (186)	$ (333)	(44.1)%
Net income attributable to Arcos Dorados Holdings Inc	**$ 36,847**	**$ 129,166**	**(71.5)%**

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2018 and 2017.

Systemwide Restaurants	For the Years Ended December 31,	
	2018	2017
Systemwide restaurants at beginning of period	2,188	2,156
Restaurant openings	70	50
Restaurant closings	(35)	(18)
Systemwide restaurants at end of period	2,223	2,188

Company-Operated Restaurants	For the Years Ended December 31,	
	2018	2017
Company-operated restaurants at beginning of period	1,546	1,553
Restaurant openings	42	31
Restaurant closings	(28)	(16)
Net conversions of franchised restaurants to Company-operated restaurants	(20)	(22)
Company-operated restaurants at end of period	1,540	1,546

Franchised Restaurants	For the Years Ended December 31,	
	2018	2017
Franchised restaurants at beginning of period	642	603
Restaurant openings	28	19
Restaurant closings	(7)	(2)
Net conversions of franchised restaurants to Company-operated restaurants	20	22
Franchised restaurants at end of period	683	642

Revenues

	For the Years Ended December 31,		
	2018	2017	% Increase
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants			
Brazil	$ 1,251,458	$ 1,396,411	(10.4)%
Caribbean division	$ 467,352	$ 457,033	2.3%
NOLAD	$ 388,233	$ 370,457	4.8%
SLAD	$ 825,566	$ 938,355	(12.0)%
Total	**$ 2,932,609**	**$ 3,162,256**	**(7.3)%**
Revenues from franchised restaurants			
Brazil	$ 93,995	$ 100,162	(6.2)%
Caribbean division	$ 16,391	$ 17,789	(7.9)%
NOLAD	$ 18,615	$ 16,417	13.4%
SLAD	$ 19,961	$ 22,901	(12.8)%
Total	**$ 148,962**	**$ 157,269**	**(5.3)%**
Total revenues			
Brazil	$ 1,345,453	$ 1,496,573	(10.1)%
Caribbean division	$ 483,743	$ 474,822	1.9%
NOLAD	$ 406,848	$ 386,874	5.2%
SLAD	$ 845,527	$ 961,256	(12.0)%
Total	**$ 3,081,571**	**$ 3,319,525**	**(7.2)%**

Sales by Company-operated Restaurants

Total sales by Company-operated restaurants decreased by $229.7 million, or 7.3%, from $3,162.3 million in 2017 to $2,932.6 million in 2018. In Brazil and Argentina, sales by Company-operated restaurants decreased by $281.1 million mainly due to depreciation of currencies against the U.S. dollar, which caused sales to decrease by $466.6 million. This was partially offset by comparable sales growth of 9.0%, which caused sales in these two markets to increase by $175.0 million, mostly due to price increases related to the hyperinflation in Argentina. Additionally, the sharp currency depreciation in Venezuela caused a $21.0 million net negative impact on sales by Company-operated restaurants in 2018 compared to 2017. Moreover, in the other markets, sales by Company-operated restaurants increased by $72.4 million mainly due to comparable sales growth of 6.9%, which caused sales to increase by $71.9 million.

In Brazil, sales by Company-operated restaurants decreased by $145.0 million, or 10.4%, to $1,251.5 million. This was primarily a consequence of the depreciation of the Brazilian real against the U.S. dollar, which caused sales to decrease by $173.6 million. This was partially offset by 32 net restaurants openings since January 1, 2017, partially offset by the conversion of 32 Company-operated restaurants into franchised restaurants since January 1, 2017, which caused sales to increase by $13.3 million. Additionally, comparable sales growth of 1.1%, caused sales to increase by $15.3 million and was mainly driven by traffic increase.

In the Caribbean division, sales by Company-operated restaurants increased by $10.3 million, or 2.3%, to $467.4 million. The hyperinflationary environment in Venezuela caused a $21.0 million net negative impact on sales by Company-operated restaurants in 2018 compared to 2017. In the other markets in the Caribbean division, sales by Company-operated restaurants increased by $31.3 million mainly due to comparable sales growth of 7.8%, which caused sales to increase by $28.3 million, and due to appreciation of currencies against the U.S. dollar, which caused sales to increase by $3.4 million.

In NOLAD, sales by Company-operated restaurants increased by $17.8 million, or 4.8%, to $388.2 million. This was a consequence of comparable sales growth of 6.4%, driven by traffic increase, which contributed $22.9 million to the increase in sales, and 4 net restaurant openings, partially offset by the conversion of 7 Company-operated restaurants into franchised restaurants since January 1, 2017, which contributed $0.8 million to sales. This was partially offset by the depreciation of local currencies, which had a negative impact of $5.9 million in sales.

In SLAD, sales by Company-operated restaurants decreased by $112.8 million, or 12.0%, to $825.6 million. This was a consequence of the depreciation of currencies against the U.S. dollar, in particular the Argentine peso, which caused sales to decrease by $298.2 million. This was partially offset by 19.6% growth in comparable sales, which caused sales to increase by $180.4 million, driven by an increase in average check, mainly related with Argentine inflation. Additionally, the opening of 15 restaurants, partially offset by the conversion of 3 Company-operated restaurants into franchised restaurants and the closing of 7 restaurants since January 1, 2017, contributed $5.0 million to the increase in sales.

Revenues from Franchised Restaurants

Our total revenues from franchised restaurants decreased by $8.3 million, or 5.3%, from $157.3 million in 2017 to $149.0 million in 2018. In Brazil and Argentina, revenues from franchised restaurants decreased by $9.7 million mainly due to depreciation of currencies against the U.S. dollar, which caused sales to decrease by $22.6 million. This was partially offset by comparable sales growth of 5.6%, which caused sales in these two markets to increase by $7.3 million, along with the conversion of 34 Company-operated restaurants into franchised restaurants and the net opening of 36 franchised restaurants since January 1, 2017, which caused revenues from franchised restaurants to increase by $7.3 million. Additionally, sharp currency depreciation in Venezuela caused a $1.7 million net negative impact on revenues from franchised restaurants. Moreover, in the other markets, revenues from franchised restaurants increased by $3.1 million mainly due to comparable sales growth of 8.7%, which caused sales to increase by $2.5 million.

In Brazil, revenues from franchised restaurants decreased by $6.2 million, or 6.2%, to $94.0 million primarily due to depreciation of the real against the U.S. dollar that decreased revenues by $13.0 million, and a decrease in rental income as a percentage of sales, which resulted in a decrease in revenues of $1.2 million. This was partially offset by the conversion of 32 Company-operated restaurants into a franchised restaurants and the net opening of 34 franchised restaurants, since January 1, 2017, which caused revenues from franchised restaurants to increase in $5.6 million, and comparable sales growth of 2.3%, which increased sales by $2.4 million.

In the Caribbean division, revenues from franchised restaurants decreased by $1.4 million, or 7.9%, to $16.4 million. The hyperinflationary environment in Venezuela caused a $1.7 million net negative impact on revenues from franchised restaurants. In Puerto Rico, the other market in this division with franchised restaurants, revenues increased by $0.3 million mainly due to comparable sales growth of 12.9%, which contributed to increase in sales by $0.9 million. This was partially offset by a decrease in rental income as percentage of sales, which caused sales to decrease by $0.5 million.

In NOLAD, revenues from franchised restaurants increased by $2.2 million, or 13.4%, to 18.6 million. This increase was a result of comparable sales growth of 6.8%, which resulted in a $1.2 million increase in revenues, coupled with the conversion of 7 Company-operated restaurants into franchised restaurants and the net opening of 3 restaurants since January 1, 2017, which caused revenues to increase in $1.0 million.

In SLAD, revenues from franchised restaurants decreased by $2.9 million, or 12.8%, to $20.0 million. This decrease is explained by the depreciation of the Argentine peso against the U.S. dollar, which represented a decrease in revenues of $9.6 million. This was partially offset by comparable sales growth of 22.3%, which resulted in a $5.3 million increase in revenues, driven by an increase in average check strongly related with the inflation in Argentina, coupled with the opening of 2 restaurants and the conversion of 3 Company-operated restaurants into franchised restaurants since January 1, 2017, which caused revenues to increase by $1.7 million.

Operating Costs and Expenses

Food and Paper

Our total food and paper costs decreased by $79.7 million, or 7.2%, to $1,030.5 million in 2018, as compared to 2017. As a percentage of our total sales by Company-operated restaurants, food and paper costs remained unchanged at 35.1%.

In Brazil, food and paper costs decreased by $53.1 million, or 11.6% to $406.4 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.4 percentage points to 32.5%, primarily as a result of cost increases below price increases, both below inflation mainly in beef and potatoes.

In the Caribbean division, food and paper costs increased by $0.5 million, or 0.3%, to $170.2 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.7 percentage points to 36.4%, primarily due to price increases above cost increases and operational efficiencies in Colombia.

In NOLAD, food and paper costs increased by $7.0 million, or 4.9%, to $151.1 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs remained unchanged at 38.9%.

In SLAD, food and paper costs decreased by $34.2 million, or 10.1%, to $302.8 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 0.8 percentage points to 36.7%, mainly due to price increases below cost increases, related to the effect of the depreciation of the Argentine peso against the U.S. dollar in imported products and an increase in the cost of beef.

Payroll and Employee Benefits

Our total payroll and employee benefits costs decreased by $76.2 million, or 11.1%, to $607.8 million in 2018, as compared to 2017. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.9 percentage points to 20.7%. The decrease is mostly attributable to lower contingencies in Brazil, tax reform in Argentina and operational efficiencies in almost all markets.

In Brazil, payroll and employee benefits costs decreased by $46.8 million, or 14.5%, to $275.7 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 1.1 percentage points to 22.0%, mainly as a result of lower contingencies in response to legal reforms that are expected to discourage the bringing of claims by employees as well as reforms relating to efficiencies in managing certain labor claims. In addition, there were operational improvements.

In the Caribbean division, payroll and employee benefits costs increased by $3.0 million, or 3.5%, to $88.3 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 0.2 percentage points to 18.9%, mainly due to lower income related to government benefits in Colombia. This was partially offset by operational improvements in Colombia and Puerto Rico, along with higher sales increase as compared to salaries increase in Venezuela.

In NOLAD, payroll and employee benefits costs increased by $2.9 million, or 4.7%, to $63.8 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.1 percentage points to 16.4%.

In SLAD, payroll and employee benefits costs decreased by $35.3 million, or 16.4%, to $180.0 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits decreased by 1.1 percentage points to 21.8% mainly as a result of tax benefits in Argentina and Uruguay.

Occupancy and Other Operating Expenses

Our total occupancy and other operating expenses decreased by $39.0 million, or 4.6%, to $803.5 million in 2018, as compared to 2017. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 0.8 percentage points to 27.4%, mainly due to higher delivery costs, utilities and

IT expenses in Brazil and Argentina. Additionally, there were higher depreciation and amortization expenses in Brazil, Argentina and Uruguay related to the reinvestment plan, along with restaurants and dessert centers openings.

In Brazil, occupancy and other operating expenses decreased by $29.1 million, or 8.0%, to $336.7 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.7 percentage points to 26.9%, explained by a decrease in sales, which was higher than the decrease in costs. In addition, higher depreciation and amortization related to the reinvestment plan and to restaurants and dessert centers openings, along with higher utilities, IT expenses and delivery costs which also contributed to the increase.

In the Caribbean division, occupancy and other operating expenses increased by $1.3 million, or 1.0%, to $134.2 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased 0.4 percentage points to 28.7%, mainly due to lower depreciation and amortization expenses in Puerto Rico and Venezuela, along with lower maintenance and repairs costs in Venezuela, Colombia and Puerto Rico. This was partially offset by higher insurance expenses in Venezuela and higher utilities expenses in Colombia.

In NOLAD, occupancy and other operating expenses increased by $6.6 million, or 5.6%, to $124.6 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.2 percentage points to 32.1% due to delivery costs, partially offset by lower depreciation and amortization expenses in Mexico.

In SLAD, occupancy and other operating expenses decreased by $21.5 million, or 8.9%, to $219.9 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.9 percentage points to 26.6%, explained by a decrease in sales, which was higher than the decrease in costs. Higher depreciation and amortization expenses in Argentina and Uruguay, coupled with higher utilities and IT expenses in Argentina, also contributed to the increase.

Royalty Fees

Our total royalty fees decreased by $6.1 million, or 3.7%, to $157.9 million in 2018, as compared to 2017. As a percentage of sales, royalty fees increased by 0.2 percentage points to 5.4% due to the scheduled increase in the royalty fees we owe to McDonald's under the MFA agreement effective as of August 2017, partially offset by the growth support funding that Mc Donald's began providing us in August 2017.

In Brazil, royalty fees decreased by $7.6 million, or 10.2%, to $66.6 million in 2018. As a percentage of sales, royalty fees remained unchanged at 5.3%.

In the Caribbean division, royalty fees increased by $0.04 million, or 0.2%, to $22.1 million in 2018, as compared to 2017. As a percentage of sales, royalty fees decreased by 0.1 percentage points to 4.7%, as a result of a waiver of royalty fees for our Venezuela operations granted by McDonald's in June, 2018, partially offset by the scheduled increase in royalty fees we owe to McDonald's in all our markets under the MFA agreement as of August 2017.

In NOLAD, royalty fees increased by $3.1 million, or 16.0%, to $22.7 million in 2018, as compared to 2017. As a percentage of sales, royalty fees increased by 0.5 percentage points to 5.8%, due to the scheduled increase in royalty fees we owe to McDonald's under the MFA agreement as of August 2017.

In SLAD, royalty fees decreased by $1.7 million, or 3.5%, to $46.5 million in 2018, as compared to 2017. As a percentage of sales, royalty fees increased by 0.5 percentage points to 5.6%, as a result of the scheduled increase in royalty fees under the MFA agreement as of August 2017. This was partially offset by growth support funding that McDonald's Corporation began providing in August 2017.

Franchised Restaurants—Occupancy Expenses

Occupancy expenses from franchised restaurants decreased by $1.9 million or 2.7%, to $67.9 million in 2018, as compared to 2017, mainly due to depreciation of currencies, mainly in Venezuela, Brazil and Argentina, against the U.S. dollar. This was partially offset by higher rent expenses for leased properties, as a consequence of the

increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings.

In Brazil, occupancy expenses from franchised restaurants decreased by $2.9 million, or 6.2%, to $44.4 million in 2018, as compared to 2017, primarily due to depreciation of the Brazilian *real* against de U.S. dollar. This was partially offset by higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings.

In the Caribbean division, occupancy expenses from franchised restaurants increased by $0.1 million, or 1.3% to $10.9 million. This was mainly due to higher rent expenses for leased properties, as a consequence of the increase in sales from franchised restaurants, caused by the hyperinflation in Venezuela, coupled with higher allowances for doubtful accounts in Puerto Rico. This was offset by the depreciation of the Venezuelan *bolivar* against the U.S. dollar.

In NOLAD, occupancy expenses from franchised restaurants increased by $0.6 million, or 7.6%, to $8.5 million in 2018, as compared to 2017, mainly due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants and the conversion of Company-operated restaurants into franchised restaurants and stores openings. This was partially offset by the depreciation of the Mexican *peso* against the U.S. dollar.

In SLAD, occupancy expenses from franchised restaurants decreased by $0.3 million, or 5.4%, to $5.5 million in 2018, as compared to 2017, mainly due to the depreciation of the Argentinean *peso* against the U.S. dollar. This was partially offset by higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants and store openings.

Set forth below are the margins for our franchised restaurants in 2018, as compared to 2017. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	For the Years Ended December 31,	
	2018	**2017**
Brazil	52.8%	52.8%
Caribbean Division	33.2%	39.3%
NOLAD	54.3%	51.9%
SLAD	72.3%	74.5%
Total	**54.4%**	**55.6%**

General and Administrative Expenses

General and administrative expenses decreased by $15.3 million, or 6.3%, to $229.3 million in 2018. In Corporate and Argentina, general and administrative expenses decreased by $20.6 million, due to depreciation of the Argentine peso against the U.S. dollar, which represented a decrease of $29.4 million, coupled with lower bonuses and other variable compensation provisions, for an amount of $7.8 million. This was partially offset by higher payroll amounting to $7.5 million, along with higher occupancy, outside services, travel and other expenses related to the hyperinflation in Argentina, which represented an increase of $6.4 million. Furthermore, in Corporate and Argentina there were severance payment of $2.7 million. The sharp currency depreciation in Venezuela also caused general and administrative expenses to decrease by $1.4 million. Moreover, in the other markets, general and administrative expenses increased by $6.7 million mainly due to severance payment of $10.1 million, higher payroll for an amount of $5.5 million and higher occupancy and travel expenses amounting to $3.9 million. This was partially compensated by depreciation of currencies against the U.S. dollar, mainly the Brazilian real, for an amount of $11.2 million, along with lower bonuses and other variable compensation provisions amounting to $1.3 million.

In Brazil, general and administrative expenses increased by $3.1 million, or 4.2%, to $77.2 million in 2018, as compared to 2017. The increase resulted from severance payment and higher payroll amounting to $6.1 million and $4.3 million, respectively, higher occupancy expenses for an amount of $2.6 million and outside services and travel expenses amounting to $2.1 million. This was partially offset by depreciation of the Brazilian real against the U.S. dollar amounting to $10.9 million and by a decrease of $1.2 million in bonuses and other variable compensation.

In the Caribbean division, general and administrative expenses increased by $0.2 million, or 0.6%, to $32.6 million in 2018. The sharp currency depreciation in Venezuela caused general and administrative expenses to decrease by $1.4 million. Moreover, in the other markets in this division, general and administrative expenses increased by $1.6 million as compared to 2017 mainly due to severance payments of $1.9 million and higher bonuses and other variable compensation for an amount of $0.4 million, which was partially offset by a decrease of $0.8 million in outside services.

In NOLAD, general and administrative expenses increased by $1.4 million, or 5.9%, to $25.2 million in 2018, as compared to 2017. This increase is a result of severance payment for an amount of $1.4 million and higher payroll amounting to $0.4 million. This was partially offset by the depreciation of the Costa Rica colón and the Mexican peso against the U.S. dollar amounting to $0.4 million.

In SLAD, general and administrative expenses decreased by $2.4 million, or 6.8%, to $32.4 million in 2018, as compared to 2017. This decrease was mostly due to the depreciation of the Argentine peso and Uruguayan peso against the U.S. dollar amounting to $8.9 million, and lower bonuses and other variable compensation for an amount of $1.0 million. This was partially offset by higher payroll, mainly as a result of inflation in Argentina, coupled with severance payment amounting to $3.8 million and $2.6 million, respectively. In addition, there were higher outside services and travel expenses for an amount of $1.0 million.

General and administrative expenses for Corporate and others decreased by $17.7 million, or 22.2%, to $62.0 million in 2018, as compared to 2017. This decrease was mostly due to the depreciation of the Argentine peso against the U.S. dollar amounting to $20.8 million, coupled with lower bonuses and other variable compensation provisions, for an amount of $7.5 million. This was partially offset by higher payroll related to Argentina’s inflation, as a portion of our corporate expenses are located in Argentina, amounting to $4.5 million. Additionally, higher occupancy, other and travel expenses for an amount of $5.3 million and severance payment for an amount of $0.8 million.

Other Operating (Expense) Income, net

Other operating (expenses) income, net decreased by $129.7 million, to a loss of $61.1 million in 2018 from a gain of $68.6 million in 2017. This decrease was primarily attributable to lower sales of properties related to our asset monetization plan of approximately $91.5 million in 2017 and higher inventory write down in Venezuela of approximately $56.9 million.

Operating Income

	For the Years Ended December 31,		
	2018	2017	% Decrease
	(in thousands of U.S. dollars)		
Brazil	$ 159,511	$ 160,608	(0.7)%
Caribbean division	$ (49,567)	$ 1,538	(3,322.8)%
NOLAD	$ 7,726	$ 99,152	(92.2)%
SLAD	$ 53,777	$ 71,718	(25.0)%
Corporate and other and purchase price allocation	$ (47,989)	$ (60,081)	(20.1)%
Total	**$ 123,458**	**$ 272,935**	**(54.8)%**

Operating income decreased by $149.5 million, or 54.8%, to $123.5 million in 2018, as compared to 2017, as a result of the foregoing.

Net Interest Expense

Net interest expense decreased by $15.5 million, or 22.7%, to $52.9 million in 2018, as compared to 2017. The decrease was primarily explained by higher expenses in 2017 related to the restructuring of our long-term debt, amounting to $15.0 million.

Loss from Derivative Instruments

Loss from derivative instruments decreased by $6.5 million to $0.6 million in 2018, as compared to $7.1 million in 2017, mainly attributable to higher losses related to the ineffective portion of derivative instruments amounting to $4.9 million in 2017.

Foreign Currency Exchange Results

Foreign currency exchange results increased by $29.1 million to a gain of $14.9 million in 2018 from a loss of $14.3 million in 2017. The variation is primarily attributable to (i) a gain of $9.3 million related to the devaluation of the Venezuelan bolívar against U.S dollars that was over 2,000,000% year over year; (ii) the impact of a slight appreciation of the Mexican peso in 2018 in comparison with a significant depreciation in 2017 on intercompany receivables denominated in U.S. dollars that represented a gain of $7.6 million; and (iii) the depreciation of approximately 13% in the Uruguayan peso that impacted intercompany receivables denominated in U.S. dollars, leading to a gain of $6.3 million.

Other Non-operating Income (Expenses), Net

Other non-operating income (expenses), net increased by $0.7 million to a $0.3 million gain in 2018, as compared to a $0.4 million loss in 2017.

Income Tax Expense

Income tax expense decreased by $5.2 million, from $53.3 million in 2017 to $48.1 million in 2018. The consolidated effective tax rate was 56.5% in 2018, as compared to 29.2% in 2017, primarily explained by Venezuela remeasurement and inflationary impacts (amounting to $16.9 million) and expiration and changes in tax loss carryforwards (amounting to $18.6 million, mainly generated by certain holding companies of the group and the Caribbean division); each representing an increase in the consolidated effective tax rate of 19.8% and 21.8% in 2018 with respect to the weighted-average statutory income tax rate, compared to an increase of 1.5% and 7% in 2017, respectively.

See Note 16 to our consolidated financial statements for additional information

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests for 2018 decreased by $0.1 million to $0.2 million.

Net Income Attributable to Arcos Dorados Holdings Inc.

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. decreased by $92.3 million, or 71.5% from $129.2 million in 2017 to $36.8 million in 2018.

Year Ended December 31, 2017 Compared to Year Ended December 31, 2016

Set forth below are our results of operations for the years ended December 31, 2017 and 2016.

	For the Years Ended December 31,		% Increase
	2017	2016	(Decrease)
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants	$ 3,162,256	$ 2,803,334	12.8%
Revenues from franchised restaurants	$ 157,269	$ 125,296	25.5%
Total revenues	**$ 3,319,525**	**$ 2,928,630**	**13.3%**
Company-operated restaurant expenses:			
Food and paper	$ (1,110,240)	$ (1,012,976)	9.6%
Payroll and employee benefits	$ (683,954)	$ (607,082)	12.7%
Occupancy and other operating expenses	$ (842,519)	$ (752,428)	12.0%
Royalty fees	$ (163,954)	$ (142,777)	14.8%
Franchised restaurants – occupancy expenses	$ (69,836)	$ (55,098)	26.7%
General and administrative expenses	$ (244,664)	$ (221,075)	10.7%
Other operating income, net	$ 68,577	$ 41,386	65.7%
Total operating costs and expenses	**$ (3,046,590)**	**$ (2,750,050)**	**10.8%**
Operating income	**$ 272,935**	**$ 178,580**	**52.8%**
Net interest expense	$ (68,357)	$ (66,880)	2.2%
Loss from derivative instruments	$ (7,065)	$ (3,065)	130.5%
Foreign currency exchange results	$ (14,265)	$ 32,354	(144.1)%
Other non-operating income (expenses), net	$ (435)	$ (2,360)	(81.6)%
Income before income taxes	**$ 182,813**	**$ 138,629**	**31.9%**
Income tax expense	$ (53,314)	$ (59,641)	(10.6)%
Net income	**$ 129,499**	**$ 78,988**	**63.9%**
Less: Net income attributable to non-controlling interests	$ (333)	$ (178)	87.1%
Net income attributable to Arcos Dorados Holdings Inc.	**$ 129,166**	**$ 78,810**	**63.9%**

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2017 and 2016.

Systemwide Restaurants	For the Years Ended December 31, 2017	2016
Systemwide restaurants at beginning of period	2,156	2,141
Restaurant openings	50	33
Restaurant closings	(18)	(18)
Systemwide restaurants at end of period	2,188	2,156

Company-Operated Restaurants	For the Years Ended December 31, 2017	2016
Company-operated restaurants at beginning of period	1,553	1,588
Restaurant openings	31	17
Restaurant closings	(16)	(11)
Net conversions of franchised restaurants to Company-operated restaurants	(22)	(41)
Company-operated restaurants at end of period	1,546	1,553

Franchised Restaurants	For the Years Ended December 31, 2017	2016
Franchised restaurants at beginning of period	603	553
Restaurant openings	19	16
Restaurant closings	(2)	(7)
Net conversions of franchised restaurants to Company-operated restaurants	22	41
Franchised restaurants at end of period	642	603

Revenues

	For the Years Ended December 31, 2017	2016	% Increase
	(in thousands of U.S. dollars)		
Sales by Company-operated restaurants			
Brazil	$ 1,396,411	$ 1,254,684	11.3%
Caribbean division	$ 457,033	$ 396,807	15.2%
NOLAD	$ 370,457	$ 349,190	6.1%
SLAD	$ 938,355	$ 802,653	16.9%
Total	**$ 3,162,256**	**$ 2,803,334**	**12.8%**
Revenues from franchised restaurants			
Brazil	$ 100,162	$ 78,553	27.5%
Caribbean division	$ 17,789	$ 12,864	38.3%
NOLAD	$ 16,417	$ 14,775	11.1%
SLAD	$ 22,901	$ 19,104	19.9%
Total	**$ 157,269**	**$ 125,296**	**25.5%**
Total revenues			
Brazil	$ 1,496,573	$ 1,333,237	12.3%
Caribbean division	$ 474,822	$ 409,671	15.9%
NOLAD	$ 386,874	$ 363,965	6.3%
SLAD	$ 961,256	$ 821,757	17.0%
Total	**$ 3,319,525**	**$ 2,928,630**	**13.3%**

Sales by Company-operated Restaurants

Total sales by Company-operated restaurants increased by $358.9 million, or 12.8%, from $2,803.3 million in 2016 to $3,162.3 million in 2017, mainly due to 22.2% growth in comparable sales, which caused sales to increase by $603.9 million. This increase in comparable sales was mostly due to the hyperinflation in Venezuela, partially offset by the depreciation of currencies, mainly in Venezuela and Argentina, against the U.S. dollar ($240.2 million) and the net conversion of 63 Company-operated restaurants into franchised restaurants, partially offset by 21 net restaurant openings since January 1, 2016, which caused sales to decrease by $4.8 million.

In Brazil, sales by Company-operated restaurants increased by $141.7 million, or 11.3%, to $1,396.4 million. This was a consequence of the appreciation of the *real* against the U.S. dollar, which caused sales to increase by $106.7 million, and comparable sales growth of 4.8%, or $57.7 million, which was driven by average check and traffic increases. This was partially offset by the conversion of 54 Company-operated restaurants into franchised restaurants (partially offset by 18 net restaurant openings) since January 1, 2016, which caused sales to decrease by $22.7 million.

In the Caribbean division, sales by Company-operated restaurants increased by $60.2 million, or 15.2%, to $457.0 million. This was a consequence of 84.6% growth in comparable sales, mainly resulting from a higher average check, related to Venezuela's hyperinflation, which caused sales to increase by $333.3 million. Additionally, the opening of 3 restaurants, partially offset by the closing of 7 restaurants since January 1, 2016, contributed $5.0 million to sales increase. This increase was partially offset by the depreciation of the Venezuelan *bolivar* against the U.S. dollar, which caused sales to decrease by $278.1 million, and the negative impact of hurricanes in Puerto Rico, St. Thomas and St. Croix, during September 2017.

In NOLAD, sales by Company-operated restaurants increased by $21.3 million, or 6.1%, to $370.5 million. This was a consequence of comparable sales growth of 6.8%, driven by traffic increase, which contributed $23.3 million to the increase in sales, and 3 net restaurant openings, partially offset by the conversion of 4 Company-operated restaurants into franchised restaurants since January 1, 2016, which contributed $4.1 million to sales increase. This was partially offset by the depreciation of local currencies, which caused sales to decrease by $6.2 million.

In SLAD, sales by Company-operated restaurants increased by $135.7 million, or 16.9%, to $938.4 million. This was a consequence of 24.1% growth in comparable sales, which caused sales to increase by $189.6 million, driven by an increase in average check, mainly related with Argentine inflation, and traffic increase. Additionally, the opening of 9 restaurants, partially offset by the conversion of 5 Company-operated restaurants into franchised restaurants and the closing of 5 restaurants since January 1, 2016, contributed $8.7 million to the increase in sales. This was partially offset by the depreciation of the Argentine *peso* against the U.S. dollar, which caused sales to decrease by $62.6 million.

Revenues from Franchised Restaurants

Our total revenues from franchised restaurants increased by $32.0 million, or 25.5%, from $125.3 million in 2016 to $157.3 million in 2017. The main contributor to this increase was comparable sales growth of 36.9%, mainly due to Venezuela's hyperinflation, which resulted in an increase in revenues of $52.7 million, coupled with the conversion of 63 Company-operated restaurants into franchised restaurants and the net opening of 26 franchised restaurants since January 1, 2016, which caused revenues from franchised restaurants to increase by $8.3 million. This was partially offset by the depreciation of currencies, mainly in Venezuela and Argentina, against the U.S. dollar, by $28.0 million and lower rental income as a percentage of sales, which decreased from 12.7% in 2016 to 12.6% in 2017 and contributed $1.0 million to the decrease in revenues.

In Brazil, revenues from franchised restaurants increased by $21.6 million, or 27.5%, to $100.2 million primarily as a result of the conversion of 54 Company-operated restaurants into franchised restaurants and the net opening of 28 franchised restaurants, since January 1, 2016, which caused revenues from franchised restaurants to increase by $7.7 million, and comparable sales growth of 9.0%, which contributed $7.5 million of the increase. In addition, the appreciation of the real against the U.S. dollar made a positive impact on revenues in the region by $7.5 million. This was partially offset by a decrease in rental income as a percentage of sales, which resulted in a decrease in revenues of $1.1 million.

In the Caribbean division, revenues from franchised restaurants increased by $4.9 million, or 38.3%, to $17.8 million. This increase was driven by comparable sales growth of 283.3%, mainly affected by Venezuela's hyperinflation, resulting in $37.8 million increase in revenues, and an increase in rental income as a percentage of sales, which contributed $0.6 million. This was partially offset by the depreciation of the Venezuelan bolivar against the U.S. dollar and the closing of 2 restaurants since January 1, 2016, negatively affecting revenues by $33.3 million and $0.2 million, respectively. Franchised sales were also negatively affected by the impact of hurricanes in Puerto Rico, during September 2017.

In NOLAD, revenues from franchised restaurants increased by $1.6 million, or 11.1%, to 16.4 million. This increase was a result of comparable sales growth of 7.5%, which resulted in a $1.2 million increase in revenues, and an increase in rental income as a percentage of sales, which contributed $0.5 million to the increase. These effects were partially offset by the depreciation of the Mexican peso against the U.S. dollar, which caused revenues to decrease by $0.1 million. In addition, the conversion of 4 franchised restaurants into Company-operated restaurants was partially offset by the net closing of 2 restaurant since January 1, 2016.

In SLAD, revenues from franchised restaurants increased by $3.8 million, or 19.9%, to $22.9 million. This increase resulted mainly from comparable sales growth of 31.7%, which accounted for $6.3 million increase in revenues, coupled with the opening of 2 restaurants and the conversion of 5 Company-operated restaurants into franchised restaurants since January 1, 2016, which caused revenues to increase by $0.7 million. This was partially offset by the depreciation of the Argentine *peso* against the U.S. dollar and lower rental income as a percentage of sales, which represented a decrease in revenues of $2.2 million and $1.1 million, respectively. The growth in comparable sales was driven by an increase in average check, mainly related to Argentinean inflation and traffic increase.

Operating Costs and Expenses

Food and Paper

Our total food and paper costs increased by $97.3 million, or 9.6%, to $1,110.2 million in 2017, as compared to 2016. As a percentage of our total sales by Company-operated restaurants, food and paper costs decreased by 1.0 percentage points to 35.1%, primarily as a result of raw materials cost increases below price increases and operational efficiencies in Brazil and SLAD.

In Brazil, food and paper costs increased by $25.9 million to $459.5 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 1.7 percentage points to 32.9%, primarily as a result of raw materials cost increases below price increases, mainly with respect to beef, coupled with operational efficiencies.

In the Caribbean division, food and paper costs increased by $20.9 million, or 14.0%, to $169.7 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.4 percentage points to 37.1%, primarily due to a favorable change in the product mix in Venezuela.

In NOLAD, food and paper costs decreased by $10.1 million, or 7.5%, to $144.1 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 0.5 percentage points to 38.9%, resulting primarily from lower price increases as compared to cost increases related to the Company's focus on promotional activities in order to regain traffic in Mexico.

In SLAD, food and paper costs increased by $40.4 million, or 13.6%, to $337.0 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 1.0 percentage points to 35.9%, mainly due to raw materials cost increases below price increases and operational efficiencies.

Payroll and Employee Benefits

Our total payroll and employee benefits costs increased by $76.9 million, or 12.7%, to $684.0 million in 2017, as compared to 2016. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.1 percentage points to 21.6%. The decrease is mostly attributable to higher sales increase as compared to salaries increase in Venezuela. This was partially offset by higher contingencies in Brazil and salaries increase in SLAD, related to Argentina's inflation.

In Brazil, payroll and employee benefits costs increased by $35.9 million, or 12.5%, to $322.4 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 0.3 percentage points to 23.1%, mainly as a result of higher contingencies in response to the increased efficiency of Brazilian courts in managing certain labor claims, which was partially offset by operational efficiencies.

In the Caribbean division, payroll and employee benefits costs decreased by $0.3 million, or 0.3%, to $85.3 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 2.9 percentage points to 18.7%, as a result of higher sales increase as compared to salaries increase in Venezuela and higher government incentives for employers. Moreover, in connection with the negative impact of the hurricanes in Puerto Rico in September 2017, and like many other companies in the region, we recorded lower bonuses in Puerto Rico.

In NOLAD, payroll and employee benefits costs increased by $4.3 million, or 7.5%, to $61.0 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increase by 0.2 percentage points to 16.5% as a result of higher bonuses in Mexico.

In SLAD, payroll and employee benefits costs decreased by $37.0 million, or 20.8%, to $215.2 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits increased by 0.7 percentage points to 22.9% as a result of salaries increase related to Argentina's inflation.

Occupancy and Other Operating Expenses

Our total occupancy and other operating expenses increased by $90.1 million, or 12.0%, to $842.5 million in 2017, as compared to 2016. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses decreased 0.2 percentage points to 26.6%, mainly due to lower depreciation and amortization expenses in Venezuela, coupled with lower outside services and utilities in Brazil. Additionally, insurance payments related to the hurricanes that occurred in September 2017 in Puerto Rico, St. Croix and St. Thomas also contributed.

In Brazil, occupancy and other operating expenses increased by $35.5 million, or 10.7%, to $365.8 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased by 0.1 percentage points to 26.2%, mainly due to lower outside services and utilities.

In the Caribbean division, occupancy and other operating expenses increased by $12.6 million, or 10.4%, to $132.9 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased 1.3 percentage points to 29.1%, mainly due to lower depreciation and amortization expenses in Venezuela and lower advertising and promotion expenses at the division level. Additionally, occupancy and other operating expenses includes insurance payments related to the hurricanes that occurred in September 2017 in Puerto Rico, St. Croix and St. Thomas.

In NOLAD, occupancy and other operating expenses increased by $6.8 million, or 6.1%, to $118.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses remained unchanged at 31.9%.

In SLAD, occupancy and other operating expenses increased by $35.2 million, or 17.1%, to $241.4 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses remained unchanged at 25.7%.

Royalty Fees

Our total royalty fees increased by $21.2 million, or 14.8%, to $164.0 million in 2017, as compared to 2016. As a percentage of sales, royalty fees increased by 0.1 percentage points to 5.2% due to the scheduled increase in the royalty fees we owe to McDonald's under the MFA agreement effective as of August 2017, partially offset by the growth support funding that McDonald's began providing us in August 2017.

In Brazil, royalty fees increased by $7.0 million, or 10.5%, to $74.2 million in 2017. As a percentage of sales, royalty fees decreased by 0.1 percentage points to 5.3% as a result of growth support funding that McDonald's began providing us in August 2017, partially offset by the scheduled increase in royalty fees we owe to McDonald's under the MFA agreement as of August 2017.

In the Caribbean division, royalty fees increased by $2.4 million, or 12.5%, to $22.1 million in 2017, as compared to 2016. As a percentage of sales, royalty fees decreased by 0.1 percentage points to 4.8% as a result of a waiver granted by McDonald's Corporation in Venezuela, partially offset by the scheduled increase in royalty fees we owe to McDonald's under the MFA agreement as of August 2017.

In NOLAD, royalty fees increased by $2.6 million, or 15.5%, to $19.5 million in 2017, as compared to 2016. As a percentage of sales, royalty fees increased by 0.4 percentage points to 5.3%, due to the scheduled increase in royalty fees we owe to McDonald's under the MFA agreement as of August 2017.

In SLAD, royalty fees increased by $9.1 million, or 23.2%, to $48.2 million in 2017, as compared to 2016. As a percentage of sales, royalty fees increased by 0.3 percentage points to 5.1%, as a result of the scheduled increase in royalty fees under the MFA agreement as of August 2017. This was partially offset by growth support funding that McDonald's began providing in August 2017.

Franchised Restaurants—Occupancy Expenses

Occupancy expenses from franchised restaurants increased by $14.7 million, or 26.7%, to $69.8 million in 2017, as compared to 2016, mainly due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings. This was partially offset by the depreciation of a number of local currencies in the Territories against the U.S. dollar.

In Brazil, occupancy expenses from franchised restaurants increased by $10.5 million, or 28.6%, to $47.3 million in 2017, as compared to 2016, primarily due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants, store openings and the negative effect of the appreciation of the Brazilian real against de U.S. dollar.

In the Caribbean division, occupancy expenses from franchised restaurants increased by $2.9 million, or 36.9%, to $10.8 million. This was mainly due to higher rent expenses for leased properties, as a consequence of the increase in sales from franchised restaurants caused by Venezuela's hyperinflation, coupled with higher allowances for doubtful accounts in Puerto Rico. This was partially offset by the depreciation of the Venezuelan bolivar against the U.S. dollar.

In NOLAD, occupancy expenses from franchised restaurants increased by $0.2 million, or 1.9%, to $7.9 million in 2017, as compared to 2016, mainly due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants and the conversion of Company-operated restaurants into franchised restaurants. This was partially offset by the depreciation of the Mexican peso against the U.S. dollar.

In SLAD, occupancy expenses from franchised restaurants increased by $1.3 million, or 29.6%, to $5.8 million in 2017, as compared to 2016, mainly due to higher rent expenses for leased properties, as a consequence of the increase in comparable sales from franchised restaurants, the conversion of Company-operated restaurants into franchised restaurants and store openings. This was partially offset by the depreciation of the Argentine *peso* against the U.S. dollar.

Set forth below are the margins for our franchised restaurants in 2017, as compared to 2016. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	For the Years Ended December 31,	
	2017	**2016**
Brazil	52.8%	53.2%
Caribbean Division	39.3%	38.7%
NOLAD	51.9%	47.5%
SLAD	74.5%	76.4%
Total	**55.6%**	**56.0%**

General and Administrative Expenses

General and administrative expenses increased by $23.6 million, or 10.7%, to $244.7 million in 2017. This increase was mostly due to higher payroll, mainly related to inflation, amounting to $17.5 million and higher bonuses and other variable compensation provisions amounting to $10.6 million, coupled with higher outside services and higher travel expenses, amounting to $7.5 million and $2.5 million, respectively. A decrease of management fees charged to McDonald's Corporation for services rendered to other markets that do not involve Arcos Dorados, amounting to $1.2 million, also contributed. This was partially offset by depreciation of currencies in the Territories against the U.S. dollar, mainly the Venezuelan bolivar, amounting to $11.3 million and lower severance payment amounting to $5.3 million.

In Brazil, general and administrative expenses increased by $6.7 million, or 9.9%, to $74.1 million in 2017, as compared to 2016. The increase resulted from the appreciation of the Brazilian *real* against the U.S. dollar amounting to $5.7 million, higher payroll amounting to $1.8 million and higher bonuses and other variable compensation amounting $0.5 million. This was partially offset by a decrease in outside services amounting to $1.0 million.

In the Caribbean division, general and administrative expenses increased by $0.1 million, or 0.3%, to $32.4 million in 2017, as compared to 2016 mainly as a result of Venezuela's hyperinflation. The increase resulted from higher payroll, amounting to $5.7 million, higher travel expenses, amounting to $1.9 million, bonuses and other variable compensation, amounting to $1.6 million, higher other expenses, amounting to $1.0 million, outside services, amounting to $0.6 million, and occupancy expenses, amounting to $0.3 million. This was offset by the depreciation of the Venezuelan *bolívar* and other currencies in the division against the U.S. dollar, amounting to $11.0 million.

In NOLAD, general and administrative expenses increased by $2.1 million, or 9.7%, to $23.8 million in 2017, as compared to 2016. This increase is a result of lower management fees charged to McDonald's Corporation for services rendered to other markets that do not involve Arcos Dorados, amounting to $0.9 million, higher payroll amounting to $0.8 million and higher bonuses and other variable compensation amounting to $0.5 million. Higher outside services amounting to $0.4 million also contributed. This was partially offset by the depreciation of the Costa Rica *colón* and the Mexican peso against the U.S. dollar amounting to $0.3 million.

In SLAD, general and administrative expenses increased by $3.7 million, or 12.0%, to $34.7 million in 2017, as compared to 2016. This increase was mostly due to higher payroll, mainly as a result of Argentina's inflation, amounting to $3.9 million, and higher bonuses and other variable compensation, amounting to $1.6 million. This was partially offset by the depreciation of the Argentine peso against the U.S. dollar amounting to $1.6 million coupled with lower outside services and travel expenses, amounting to $0.3 million and $0.2 million, respectively.

General and administrative expenses for Corporate and others increased by $11.0 million, or 16.1%, to $79.7 million in 2017, as compared to 2016. This increase was mostly due to higher outside services amounting to $7.8 million. In addition, higher bonuses and other variable compensation provisions, amounting to $6.4 million, higher payroll linked to Argentina's inflation, as a portion of our corporate expenses are located in Argentina, amounting to $5.4 million and higher travel expenses amounting to $0.9 million, also contributed. This was partially offset by lower severance payment amounting to $5.3 million and the depreciation of the Argentine peso against the U.S. dollar amounting to $4.1 million.

Other Operating Income, net

Other operating income, net increased by $27.2 million, to $68.6 million in 2017, as compared to 2016. This increase was primarily attributable to $37.0 million related to our asset monetization plan, offset by higher impairment of long-lived assets and goodwill of $5.0 million.

Operating Income

	For the Years Ended December 31,		% Increase
	2017	2016	(Decrease)
	(in thousands of U.S. dollars)		
Brazil	$ 160,608	$ 122,636	31.0%
Caribbean division	$ 1,538	$ (12,392)	(112.4)%
NOLAD	$ 99,152	$ 45,145	119.6%
SLAD	$ 71,718	$ 66,359	8.1%
Corporate and other and purchase price allocation	$ (60,081)	$ (43,168)	39.2%
Total	**$ 272,935**	**$ 178,580**	**52.8%**

Operating income increased by $94.4 million, or 52.8%, to $272.9 million in 2017, as compared to 2016.

Net Interest Expense

Net interest expense increased by $1.5 million, or 2.2%, to $68.4 million in 2017, as compared to 2016. The increase was primarily explained by the net impact of restructuring our long-term debt ($11.5 million related to 2027 notes, offset by lower interest expenses, amounting to $10.5 million, related to the repayment of the 2016 Secured Loan Agreement).

Loss from Derivative Instruments

Loss from derivative instruments increased by $4.0 million to $7.1 million in 2017, as compared to $3.1 million in 2016 attributable to higher losses related to the ineffective portion of derivative instruments amounting to $2.6 million and the results of derivatives that are not designated for hedge accounting amounting to $1.4 million.

Foreign Currency Exchange Results

Foreign currency exchange results decreased by $46.6 million, from a gain of $32.4 million in 2016 to a loss of $14.3 million in 2017, mainly due to the fluctuation of the Brazilian *real* and the Mexican *peso* . The Brazilian *real* had a significant appreciation during previous year in contrast to a slight depreciation in 2017 (gain of $20.1 million and loss of $0.5, respectively). The Mexican peso had a significant depreciation in 2016 in contrast to an appreciation in 2017 (loss of $7.4 million and gain of $13.8 million, respectively).

Other Non-operating Income (Expenses), Net

Other non-operating income (expenses), net decreased by $1.9 million to a $0.4 million loss in 2017, as compared to a $2.4 million loss in 2016, primarily related to a decrease in asset tax results.

Income Tax Expense

Income tax expense decreased by $6.3 million, from $59.6 million in 2016 to $53.3 million in 2017. The consolidated effective tax rate was 29.2% in 2017, as compared to 43.0% in 2016, mainly explained by lower withholding tax expenses in 2017 due to lower payments of intercompany financial balances due from operating subsidiaries to holding companies in the group related to the repayment of the 2016 Notes, amounting to $18.2 million (representing an increase in the consolidated effective tax rate of 3.7% in 2017 as compared to 16.1% in 2016).

See Note 16 to our consolidated financial statements for additional information.

Net Income Attributable to Non-controlling Interests

Net income attributable to non-controlling interests for 2017 decreased by $0.2 million to $0.3 million.

Net Income Attributable to Arcos Dorados Holdings Inc.

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. increased by $50.4 million, or 63.9%, from $78.8 million in 2016 to $129.2 million in 2017.

B. Liquidity and Capital Resources

Our financial condition and liquidity are and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we pay on this indebtedness;
- our dividend policy;
- changes in exchange rates which will impact our generation of cash flows from operations when measured in U.S. dollars; and
- our capital expenditure requirements.

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. Under the 2017-2019 restaurant opening and reinvestment plan, we are required to open 180 restaurants and to reinvest $292 million in existing restaurants. However, for the same three-year period, we now expect to open at least 200 new restaurants and to reinvest at least $390 million in existing restaurants. Total capital expenditures for 2017 to 2019 are now expected to be approximately $660 million. We expect to fund these commitments using cash flow from operations. However, we cannot assure you that we will generate enough cash flow from operations to fund these commitments, and their satisfaction may require us to incur future debt and/or equity financing.

Our management believes in our ability to obtain the sources of liquidity and capital resources that are necessary in this challenging economic environment and also believes that our liquidity and capital resources, including working capital, are adequate for our present requirements and business operations and will be adequate to satisfy our currently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs.

Overview

Net cash provided by operations decreased by $75.4 million, from $255.2 million in 2017 to $179.7 million in 2018. Cash used in our investing activities was $163.8 million in 2018, compared to $124.5 million in 2017. Cash used in financing activities was $73.4 million in 2018, compared to $3.4 million in 2017. Cash used in financing activities was primarily used for the purchase of treasury stock amounting to $46.0 million and the payments of dividends of $20.9 million.

Net cash provided by operations increased by $91.0 million, from $164.2 million in 2016 to $255.2 million in 2017. Cash used in our investing activities was $124.5 million in 2017, compared to an inflow of $23.0 million in 2016. Cash used in financing activities was $3.4 million in 2017, compared to $113.0 million in 2016. Cash used in financing activities was primarily used for the repayment in 2017 of the 2016 Secured Loan Agreement, repayment of $48.9 million of the 2023 notes in connection with the 2017 Tender Offer, the repayment of the 2016 notes during 2016 and an increase in net payments of derivative instruments of $34.6 million, partially offset by cash inflows of $265.0 million from the issuance of the 2027 notes in 2017.

At December 31, 2018, our total financial debt was $589.8 million, consisting of (i) $630.3 million in long-term debt (of which $346.1 million related to the 2023 notes, including the original issue discount, $265.0 million related to 2027 notes, $16.7 million in other long-term borrowings, and $6.5 million in capital lease obligations) the amount of which was offset by $40.9 million related to the fair market value of our outstanding derivative instruments, (ii) $4.0 million related to deferred financing costs and (iii) $0.4 million in short-term debt.

At December 31, 2017, our total financial debt was $621.5 million, consisting of $633.5 million in long-term debt (of which $345.7 million related to the 2023 notes, including the original issue discount, $265.0 million related to 2027 notes, $22.9 million in other long-term borrowings and $4.5 million in capital lease obligations) the amount of which was offset by $12.0 million related to the fair market value of our outstanding derivative instruments and $4.6 million related to deferred financing costs.

Cash and cash equivalents were $197.3 million at December 31, 2018 and $308.5 million at December 31, 2017.

Comparative Cash Flows

The following table sets forth our cash flows for the periods indicated:

	For the Years Ended December 31,		
	2018	**2017**	**2016**
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	$ 179,731	$ 255,170	$ 164,189
Net cash (used in) provided by investing activities	(163,784)	(124,480)	23,018
Net cash used in financing activities	(73,442)	(3,353)	(112,995)
Effect of exchange rate changes on cash and cash equivalents	(53,714)	(13,649)	8,072
(Decrease) increase in cash and cash equivalents	**(111,209)**	**113,688**	**82,284**

Operating Activities

	For the Years Ended December 31,		
	2018	**2017**	**2016**
	(in thousands of U.S. dollars)		
Net income attributable to Arcos Dorados Holdings Inc.	$ 36,847	$ 129,166	$ 78,810
Non-cash charges and credits	121,448	60,926	29,160
Changes in assets and liabilities	21,436	65,078	56,219
Net cash provided by operating activities	**179,731**	**255,170**	**164,189**

For the year ended December 31, 2018, net cash provided by operating activities was $179.7 million, compared to $255.2 million in 2017. The $75.4 million decrease is attributable to the decrease in net income and non-cash charges of $31.8 million and a negative change in assets and liabilities of $43.6 million.

For the year ended December 31, 2017, net cash provided by operating activities was $255.2 million, compared to $164.2 million in 2016. The $91.0 million increase is mainly attributable to the increase in net income, non-cash charges of $82.1 million and the positive change in assets and liabilities of $8.9 million.

Investing Activities

Investments in new restaurants and the modernization of existing restaurants are primarily concentrated in markets with opportunities for long-term growth and returns on investment above a pre-defined threshold that is significantly above our cost of capital. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market and are affected by foreign currency fluctuations. These costs, which include land, buildings and equipment, are managed through the use of optimally sized restaurants, construction and design efficiencies and the leveraging of best practices.

The following table presents our cash (used in) provided by investing activities by type:

	For the Years Ended December 31,		
	2018	2017	2016
	(in thousands of U.S. dollars)		
Property and equipment expenditures	$ (197,041)	$ (174,766)	$ (92,282)
Purchases of restaurant businesses paid at acquisition date	—	(870)	—
Proceeds from sales of property and equipment and related advances	2,891	61,983	88,380
Proceeds from sales of restaurant businesses and related advances	10,158	10,407	25,090
Recovery (acquisitions) of short-term investments	19,588	(19,588)	—
Others, net	620	(1,646)	1,830
Net cash (used in) provided by investing activities	**(163,784)**	**(124,480)**	**23,018**

The following table presents our property and equipment expenditures by type:

	For the Years Ended December 31,		
	2018	2017	2016
	(in thousands of U.S. dollars)		
New restaurants	$ 55,982	$ 41,557	$ 27,756
Existing restaurants	107,202	105,396	47,198
Other(1)	33,857	27,813	17,328
Total property and equipment expenditures	**197,041**	**174,766**	**92,282**

(1) Primarily corporate equipment and other office expenditures.

In 2018, net cash used in investing activities was $163.8 million, compared to $124.5 million in 2017. This $39.3 million increase was primarily attributable to an increase in property and equipment expenditures of $22.3 million, a decrease in proceeds from sales of property and equipment and related advances of $59.1 million, partially offset by the collection of short-term investments, made during 2017, amounting to $39.2 million.

Property and equipment expenditures increased by $22.3 million, from $174.8 million in 2017 to $197.0 million in 2018. The increase in property and equipment expenditures is explained by an increase in investment in new restaurants of $14.4 million, as well as in existing restaurants, $1.8 million, and an increase in corporate equipment and other office expenditures of $6.0 million. In 2018, we opened 70 restaurants and closed 35 restaurants.

Proceeds from sales of property and equipment and related advances decreased by $59.1 million to $2.9 million in 2018, as compared to 2017, primarily as a consequence of a decrease in sales from the Company’s asset monetization plan.

In 2017, net cash used in investing activities was $124.5 million, compared to an inflow of $23.0 million in 2016. This $147.5 million increase was primarily attributable to an increase in property and equipment expenditures of $82.5 million, the acquisition of short-term investment amounting to $19.6 million, the purchases of restaurant businesses in 2017 for $0.9 million, a decrease in proceeds from sales of property and equipment and related advances of $26.4 million, a decrease in proceeds from sale of restaurant businesses and related advances of $14.7 million, a decrease in collection from loans of related parties of $1.8 million and a decrease in other investing activities of $1.7 million.

Property and equipment expenditures increased by $82.5 million, from $92.3 million in 2016 to $174.8 million in 2017. The increase in property and equipment expenditures is explained by an increase in investment in new restaurants of $13.8 million, as well as in existing restaurants, $46.2 million, and an increase in corporate equipment and other office expenditures of $22.5 million. In 2017, we opened 50 restaurants and closed 18 restaurants.

Proceeds from sales of restaurant businesses and related advances decreased $14.7 million, mainly as a result of a lower rate of conversion of Company-operated restaurants into franchised restaurants in 2017 compared with 2016.

Proceeds from sales of property and equipment and related advances decreased $26.4 million to $62.0 million in 2017, as compared to 2016, primarily as a consequence of advances received in 2016 for sales performed in 2017.

Financing Activities

	For the Years Ended December 31,		
	2018	2017	2016
	(in thousands of U.S. dollars)		
(Repayment of) / proceeds from 2016 Secured Loan Agreement	$ —	$ (169,511)	$ 167,262
Dividend payments to Arcos Dorados Holdings Inc. shareholders	(20,937)	—	—
Net (payment) collection of derivative instruments	—	(40,822)	(6,268)
Purchase of 2023 Notes	—	(48,885)	(80,800)
Purchase and repayment of 2016 Notes	—	—	(181,156)
Issuance of 2027 notes	—	265,000	—
Treasury stock purchases	(46,035)	—	—
Other financing activities	(6,470)	(9,135)	(12,033)
Net cash used in financing activities	**(73,442)**	**(3,353)**	**(112,995)**

Net cash used in financing activities was $73.4 million in 2018, compared to $3.4 million used in 2017. The $70.1 million increase in the amount of cash used in financing activities was primarily attributable to the purchase of treasury stock amounting to $46.0 million and the payments of dividends of $20.9 million.

Net cash used in financing activities was $3.4 million in 2017, compared to $113.0 million used in 2016. The $109.6 million decrease in the amount of cash used in financing activities was primarily attributable to the repayment in 2017 of the 2016 Secured Loan Agreement, repayment of $48.9 million of the 2023 notes in connection with the 2017 Tender Offer, the repayment of the 2016 notes during 2016 and an increase in net payments of derivative instruments of $34.6 million, partially offset by cash inflows of $265.0 million from the issuance of the 2027 notes in 2017.

The 2016 Secured Loan Agreement

On March 29, 2016, our Brazilian subsidiary, Arcos Dourados Comércio de Alimentos Ltda. (“Arcos Comércio”), entered into a secured loan agreement with Citibank N.A., Bank of America N.A., Itau BBA International plc, JPMorgan Chase Bank, N.A. and Banco Santander (Brasil) S.A., Cayman Islands Branch, as initial lenders, under which Arcos Comércio received total proceeds of $167.3 million (R$613.9 million as of the signing date). Each loan under the 2016 Secured Loan Agreement bore interest at the following annual interest rates:

Lender	Annual Interest Rate
Citibank N.A.	3M LIBOR + 2.439%
Itau BBA International plc	5.26%
Banco Santander (Brasil) S.A., Cayman Islands Branch	4.7863%
Bank of America N.A.	3M LIBOR + 4.00%
JPMorgan Chase Bank, N.A.	3M LIBOR + 3.92%

In order to fully convert each loan under the second loan agreement into Brazilian *reais* , Arcos Comércio entered into five cross-currency interest rate swap agreements with the local subsidiaries of the same lenders, to fully hedge the principal and interest cash flows of each of the loans under the secured loan agreement. Consequently, the loan was fully converted into Brazilian *reais* at a rate of 3.67 *reais* per U.S. dollar, amounting to R$613.9 million. All the terms of the cross-currency interest rate swap agreements matched the terms of the secured loan agreement. Considering the cross currency interest rate swap agreements, the final interest rate of the secured loan agreement was the Interbank Market reference interest rate (or “CDI” in Brazil), plus 4.50% per year. Interest payments were made quarterly, beginning June 2016.

The loan was fully and unconditionally guaranteed on a senior secured basis by certain subsidiaries, and secured by (i) certain credit and debit card receivables arising from sales in certain Brazilian restaurants operated by Arcos Comércio; and (ii) the positive mark to market of the cross currency interest rate swap agreements.

The loan proceeds were primarily used to repay the Company's 2016 notes. We incurred $3.2 million of financing costs related to the 2016 Secured Loan Agreement, which were capitalized as deferred financing costs and are being amortized over the life of the loan. For more information on the 2016 notes, see "—The 2016 Notes".

On April 11, 2017, we repaid the Secured Loan Agreement, plus accrued and unpaid interest and certain transaction costs for a total of $169.7 million. In addition, on April 13, 2017 and April 17, 2017, we unwound the related derivative instruments for a total of R$122.7 million. These payments were made using the proceeds of the offering of the 2027 notes. For more information on the 2027 notes, see "—The 2027 Notes".

Revolving Credit Facilities

Arcos Dorados B.V. entered into revolving credit facilities in order to borrow money from time to time to cover our working capital needs and for other lawful general corporate purposes. Interest on each loan under these facilities is payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date on which the applicable loan was made.

On August 3, 2011, our subsidiary, Arcos Dorados B.V., entered into a committed revolving credit facility with Bank of America, N.A., as lender, for $50 million. On July 30, 2015, we renewed this facility for $50 million maturing on August 3, 2016. On August 1, 2016, we renewed this revolving credit facility for $25 million maturing on August 3, 2017. On August 1, 2017, we renewed this revolving credit facility for $25 million maturing on August 3, 2018. On August 3, 2018, we renewed this facility again for $25 million maturing on August 3, 2019, with an annual interest rate equal to LIBOR plus 2.40%.

As a result of the Company's decision to change the exchange rates used for remeasurement of its bolivar-denominated assets and liabilities and operating results in Venezuela, we were not in compliance with the indebtedness to EBITDA ratio under the revolving credit facility as of June 30, 2014. At such date our consolidated indebtedness to EBITDA ratio was 2.73. However, on July 28, 2014, we reached an agreement with Bank of America, N.A. to change the consolidated net indebtedness to EBITDA ratio from 2.5 to 1 to 3.0 to 1. On July 30, 2015, we further amended the Revolving Credit Facility to change such ratio from 3.0 to 1 to 3.5 to 1.

On November 10, 2016, Arcos Dorados B.V. entered into a revolving credit facility with JPMorgan Chase Bank, N.A. for up to $25 million maturing on November 10, 2017. On November 1, 2017, we renewed this revolving credit facility again for $25 million maturing on November 10, 2018 and on November 1, 2018, we extended the maturity date to November 10, 2019. Each loan made to Arcos Dorados B.V. under this agreement will bear interest at an annual rate equal to LIBOR plus 2.25%.

The obligations of Arcos Dorados B.V. under the revolving credit facilities are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. Furthermore, the agreements include customary covenants including, among others, restrictions on the ability of Arcos Dorados B.V., the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) engage in transactions that violate certain anti-terrorism laws; and (vii) permit the consolidated net indebtedness to EBITDA ratio to be greater than 3.0 to 1 as of the last day of the fiscal quarter ended December 31, 2016 and thereafter. The revolving credit facilities provide for customary events of default, which, if any of them occurs, would permit or require the relevant lender to terminate its obligation to provide loans under the relevant revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of December 31, 2018, the mentioned ratio was 0.97 and thus we are currently in compliance with the ratio under both revolving credit facilities.

2016 Notes

In July 2011, we issued R$400 million aggregate principal amount of notes due 2016 bearing interest of 10.25% per year, payable in U.S. dollars, which we refer to as the 2016 notes. In addition, on April 24, 2012, we issued an

additional R$275 million aggregate principal amount of the 2016 notes at a price of 102.529%. The 2016 notes are denominated in reais, but payment of principal and interest will be made in U.S. dollars. The 2016 notes matured on July 13, 2016. Interest was paid semiannually in arrears on January 13 and July 13 of each year.

The 2016 notes were listed on the Luxembourg Stock Exchange and traded on the Euro MTF Market.

During November 2015 and January 2016, we redeemed a portion of the outstanding principal amount of its 2016 notes. Furthermore, on April 8, 2016, we launched a cash tender offer for any and all of the outstanding 2016 notes at a redemption price equal to 97%, which expired on May 5, 2016. The holders who tendered their 2016 notes prior to April 21, 2016 received a redemption price equal to 100%. The results related to the cash tender offer and the accelerated amortization of the related to deferred financing cost were recognized as interest expense in the income statement. On July 13, 2016, the remaining 2016 notes matured and we paid the outstanding principal amount of R$200,991 (equivalent to $60,965) plus accrued and unpaid interest amounting to R$10,301 (equivalent to $3,124) related to the Notes.

The following table presents information related to the purchase and repayments of the principal of the 2016 Notes:

Date	Redemption price	Amount	
		R$	$
November 25, 2015	93.75%	40,000	9,995
November 30, 2015	93.75%	7,039	1,715
January 29, 2016	97.75%	1,180	288
April 21, 2016	100.00%	421,765	118,797
May 5, 2016	97.00%	4,025	1,106
July 13, 2016	100.00%	200,991	60,965
Total		**675,000**	**192,866**

2023 Notes

In September 2013, we issued senior notes for an aggregate principal amount of $473.8 million under an indenture dated September 27, 2013, which we refer to as the 2023 notes. The total aggregate principal amount of the 2023 notes consists of $375 million issued for cash and $98.8 million issued in exchange for the 7.5% senior notes due 2019 issued by Arcos Dorados B.V. in October 2009 (the “2019 notes”) that were properly tendered (and not validly withdrawn) pursuant to a tender offer, exchange offer and consent solicitation we launched in September 2013 (the “2013 Tender and Exchange Offer”). The 2023 notes mature on September 27, 2023 and bear interest of 6.625% per year. Interest is paid semiannually on March 27 and September 27. The proceeds from the issuance of the 2023 notes were used to pay the principal and premium on the 2019 notes in connection with the 2013 Tender and Exchange Offer, to repay certain of the short-term indebtedness we had with Banco Itaú BBA S.A., to unwind a cross-currency interest rate swap with Bank of America, N.A. and for general corporate purposes.

The 2023 notes are redeemable at our option at any time at the applicable redemption price set forth in the indenture.

The 2023 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2023 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors’ existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors’ existing and future secured indebtedness to the extent of the assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2023 notes limits our and our subsidiaries’ ability to, among other things, (i) create certain liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2023 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2023 notes to be due and payable immediately.

On June 1, 2016, we launched a cash tender offer to purchase up to $80 million of the outstanding 2023 Notes (the “2016 Tender Offer”) at a redemption price equal to 98%, which expired on June 28, 2016. The holders who tendered their 2023 Notes prior to June 14, 2016 received a redemption price equal to 101%. As a result of the 2016 Tender Offer, we redeemed 16.89% of the outstanding principal amount of the 2023 notes. The total payment was $80.8 million (including $0.8 million of early tender payment) plus accrued and unpaid interest. The results related to the 2016 Tender Offer and the accelerated amortization of the related deferred financing cost were recognized as interest expense in the income statement.

On March 16, 2017, we announced the commencement of a second tender offer to purchase for cash up to $80 million aggregate principal amount of the properly tendered (and not validly withdrawn) outstanding 2023 notes (the “2017 Tender Offer”). As a result of the early settlement of the 2017 Tender Offer, we repurchased $45.3 million of the 2023 notes on April 5, 2017. The 2017 Tender Offer expired on April 12, 2017. As a result of the final settlement of the 2017 Tender Offer, we repurchased an additional $0.4 million of the 2023 notes on April 19, 2017. As of December 31, 2018, $348.1 million aggregate principal amount of the 2023 notes was outstanding.

The 2023 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2023 notes from time to time pursuant to the indenture governing the 2023 notes.

2027 Notes

In April 2017, we issued senior notes for an aggregate principal amount of $265.0 million under an indenture dated April 4, 2017, which we refer to as the 2027 notes. The 2027 notes mature on April 4, 2027 and bear interest of 5.875% per year. Interest is paid semiannually on April 4 and October 4, commencing on October 4, 2017. The proceeds from the issuance of the 2027 notes were used to repay the 2016 Secured Loan Agreement and unwind the related derivative instruments, to pay the principal and premium on the 2023 notes in connection with the 2017 Tender Offer and for general corporate purposes.

The 2027 notes are redeemable at our option under certain circumstances as set forth in the indenture at the applicable redemption prices set forth therein.

The 2027 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2027 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors’ existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors’ existing and future secured indebtedness to the extent of the assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2027 notes limits our and our subsidiaries’ ability to, among other things, (i) incur additional indebtedness; (ii) make certain restricted payments; (iii) create certain liens; (iv) enter into sale and lease-back transactions; and (v) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2027 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2027 notes to be due and payable immediately.

C. Research and Development, Patents and Licenses, etc.

We have not had significant research and development activities for the past three years because we rely primarily on McDonald’s research and development. McDonald’s operates research and development facilities in the United States, Europe and Asia, and independent suppliers also conduct research activities that benefit McDonald’s and us. Nevertheless, we have developed certain menu items, such as Almuerzos Colombianos in Colombia or McPicanha in Brazil, to better tailor our product offerings to local tastes and to provide our customers with additional food options.

D. Trend Information

Our business and results of operations have recently experienced the following trends, which we expect will continue in the near term:

- *Social upward mobility in Latin America and the Caribbean:* Historically, our sales have benefited, and we expect to continue to benefit, from our Territories' population size, younger age profile and improving socio-economic conditions when compared to more developed markets. This has led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, leading to greater demand for our products. While consumer behavior will continue to be cyclical and dependent on macroeconomic activity, we expect to continue to benefit from this trend in the long term.

- *Decline in free time:* More single-parent and dual-earner households have increased the demand for the convenience offered by eating out and takeout food.

- *Product offerings:* Our beverages, core meals, desserts, breakfast, reduced calorie and sodium products, and value menu item offerings have been popular among customers and—combined with our revenue management—have helped us remain relevant with our customers.

- *Increased competition in some markets:* The popularity of the QSR concept in Latin America has attracted new competitors. Even though we have been able to protect our market share in many of these markets, we have seen a reduction in pricing flexibility and have increased the focus of our marketing efforts on value offerings.

- *Macroeconomic deterioration and increasing uncertainty in Latin America and the Caribbean:* Our business and results of operations have been impacted by increasingly negative macroeconomic and consumer trends in some of our main markets. The lower rate of economic growth and reduced rates of consumption are expected to continue in the short term.

- *Inflationary environment:* Over the last few years, we have been able through our revenue management strategy to partially mitigate cost increase tied to inflation. However, inflation has been, and will continue to be, an important factor affecting our results of operations, specifically impacting our labor costs, food and paper costs, occupancy and other operating expenses and general administrative expenses.

- *Increased volatility of foreign exchange rates and impact of currency controls:* Our results of operations have been impacted by increased volatility in foreign exchange rates in many of the Territories, particularly the significant devaluation of local currencies against the U.S. dollar. We expect that foreign exchange rates will continue to be an important factor affecting our foreign currency exchange results and the "Accumulated other comprehensive loss" component of shareholders' equity and, consequently, our results of operations and financial condition.

E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

F. Tabular Disclosure of Contractual Obligations

The following table presents information relating to our contractual obligations as of December 31, 2018.

	Payment Due by Period						
Contractual Obligations	**Total**	**2019**	**2020**	**2021**	**2022**	**2023**	**Thereafter**
	(in thousands of U.S. dollars)						
Capital lease obligations [1]	$ 10,983	$ 1,396	$ 887	$ 815	$ 942	$ 441	$ 6,502
Operating lease obligations	$ 975,865	$ 143,476	$ 128,253	$ 111,188	$ 93,447	$ 80,036	$ 419,465
Contractual purchase obligations [2]	$ 124,268	$ 63,774	$ 19,416	$ 15,348	$ 11,793	$ 8,357	$ 5,580
2023 and 2027 notes [1] [3]	$ 860,705	$ 38,629	$ 38,629	$ 38,629	$ 38,629	$ 386,698	$ 319,491
Other long-term borrowings [1]	$ 21,368	$ 4,348	$ 4,082	$ 3,795	$ 3,520	$ 3,249	$ 2,374
Derivative instruments	$ -40,857	$ 10,687	$ 9,371	$ 7,731	$ 6,116	$ -48,870	$ -25,892
Total	**$ 1,952,332**	**$ 262,310**	**$ 200,638**	**$ 177,506**	**$ 154,447**	**$ 429,911**	**$ 727,520**

(1) Includes interest payments.

(2) Includes automatic annual renewals, which contains only enforceable and legally binding unconditional obligations corresponding to prevailing agreements without considering future undefined renewals when the agreement is cancellable by us. This type of purchase obligation represents $23.2 million of contractual obligations for 2019 only.

(3) Does not include the impact of the deferred financing costs and the net discount related to the issue of the 2023 notes.

The table set forth above excludes projected payments on our restaurant opening and reinvestment plans pursuant to the MFAs in respect of which we do not yet have any contractual commitments.

G. Safe Harbor

See "Forward-Looking Statements."

ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

A. Directors and Senior Management

Board of Directors

Our Board of Directors currently consists of nine members, three of whom are independent directors. We have one additional seat on the Board of Directors which is currently vacant, as further described below. In case of a tie vote by the Board of Directors, the Executive Chairman will have the deciding vote. Our memorandum and articles of association authorize us to have eight members, and the number of authorized members may be increased or decreased by a resolution of shareholders or by a resolution of directors.

Pursuant to our articles of association, our Board of Directors is divided into three classes. There is no distinction in the voting or other powers and authorities of directors of different classes. The members of each class serve staggered, three-year terms. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. At our most recent annual general meeting of shareholders, held on April 22, 2019, our shareholders re-elected Mr. Hernández-Artigas and Mrs. Franqui to serve as Class II directors.

The classes are currently composed as follows:

- Mr. Woods Staton, Mr. Gutiérrez, Mr. Alonso and Mr. Francisco Staton are Class I directors, whose term will expire at the annual meeting of shareholders to be held in 2021;
- Mr. Hernández-Artigas and Mrs. Franqui are Class II directors, whose term will expire at the annual meeting of shareholders to be held in 2022; and
- Mr. Chu, Mr. Vélez and Mr. Fernández are Class III directors, whose term will expire at the annual meeting of shareholders to be held in 2020.

Any additional directorships resulting from an increase in the number of directors and any directors elected to fill vacancies on the board will be distributed among the three classes so that, as nearly as possible, each class will consist of one third of our directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control of our company. Any director may be removed, with or without cause, by a resolution of shareholders or a resolution of directors. Our directors do not have a retirement age requirement under our memorandum and articles of association.

The following table presents the names of the members of our Board of Directors:

Name	Position	Age
Woods Staton	Executive Chairman	69
Sergio Alonso	CEO	55
Annette Franqui	Director	57
Carlos Hernández-Artigas	Director	54
Michael Chu	Director	70
José Alberto Vélez	Director	69
José Fernández	Director	56
Ricardo Gutiérrez Muñoz	Director	75
Francisco Staton	Director	38

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay (CP 11300) and Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB).

Woods Staton. Mr. Staton is our Executive Chairman. He was our Chairman and Chief Executive Officer from 2007 through October 2015. Mr. Staton holds an MBA from the International Institute for Management Development (IMD) in Switzerland and a Bachelor's degree in economics from Emory University in Atlanta. As McDonald's joint venture partner, Mr. Staton opened the first McDonald's restaurant in Argentina in 1986 and later served as President of McDonald's South Latin American Division. He founded Arcos Dorados in 2007 when he led a consortium of investors in the purchase of McDonald's operations in Latin America. Mr. Staton is co-founder of Endeavor Argentina, an organization for promoting entrepreneurship. He is a member of the Latin America Advisory Board of Harvard Business School and is also a Board Member of the IMD Foundation in Lausanne, Switzerland. In addition, he serves as Chair of the Advisory Board of the Latin American Program at the Woodrow Wilson International Center for Scholars, and is also on the Chairman's International Advisory Council of the Americas Society/Council of the Americas.

Sergio Alonso. Mr. Alonso is our Chief Executive Officer since 2015 and was, prior to his appointment as such, our Chief Operating Officer. Prior to that, he was McDonald's Divisional President in Brazil. He graduated with a degree in Accounting from Universidad de Buenos Aires in 1986. He began his career at McDonald's as Accounting Manager and subsequently moved to the operations area, eventually being promoted to Vice President of Operations in six years. From 1999 until 2003, Mr. Alonso was involved in the development of the Aroma Café brand in Argentina. In addition, in July 2017, Mr. Alonso was appointed as a member of the board of directors of Loma Negra Compañía Industrial Argentina S.A., a leading cement producer in Argentina.

Annette Franqui. Mrs. Franqui has been a member of our board of directors since 2007 and is a member of the Compensation and Nomination Committee. She graduated with a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania in 1984 and an MBA from the Stanford Graduate School of Business in 1986. She is also a Chartered Financial Analyst. Mrs. Franqui began her career in 1986 with J.P. Morgan and joined Goldman Sachs in 1989. In 1994, she returned to J.P. Morgan where she became a Managing Director and the Head of the Latin America Research Department. Mrs. Franqui joined Panamco in 2001 as Vice President of Corporate Finance and became the Chief Financial Officer in 2002. She is one of the founding partners of Forrestal Capital and is a board member of many of its portfolio companies as well as of LatAm, LLC, and, on a volunteer basis, AARP.

Carlos Hernández-Artigas. Mr. Hernández-Artigas has been a member of our board of directors since 2007 and is a member of the Compensation and Nomination Committee. He graduated from the Escuela de Derecho at Universidad Panamericana, in 1987 and University of Texas at Austin, School of Law in 1988. He received an MBA from IPADE in Mexico City in 1996. Mr. Hernández-Artigas worked as a lawyer for several years in Mexico and as a foreign attorney in Dallas, Texas and New York. He served as the General Counsel, Chief Legal Officer and Secretary of Panamco for ten years. He is an advisor at Big Sur Partners in Miami, Florida and is currently a board member of MAC Hospitales in Mexico and a technology company in Anaheim, California.

Michael Chu. Mr. Chu has been an independent member of our board of directors since April 2011 and is a member of our Audit Committee. He graduated with honors from Dartmouth College in 1968 and received an MBA with highest distinction from the Harvard Business School in 1976. From 1989 to 1993, Mr. Chu served as an executive and limited partner in the New York office of the private equity fund Kohlberg Kravis Roberts & Co. From 1993 to 2000, Mr. Chu was with ACCION International, a nonprofit corporation dedicated to microfinance, where he served as President and CEO and participated in the founding and governance of various banks in Latin America. Mr. Chu currently holds an appointment as Senior Lecturer at the Harvard Business School, where he is the Faculty Chair for Latin America, and is Managing Director and cofounder of the IGNIA Fund, an investment firm dedicated to investing in commercial enterprises serving the emerging middle class and low-income populations in Mexico. He was a founding partner of, and continues to serve as Senior Advisor to, Pegasus Group, a private equity firm in Buenos Aires. He also serves on the board of Sealed Air Corporation (NYSE:SEE) and Takeoff Technologies, Inc, a private company in Boston, Massachusetts.

José Alberto Vélez . Mr. Vélez has been an independent member of our board of directors since June 2011 and is a member of our Audit Committee. Mr. Vélez received a Master of Science degree in Engineering from the University of California, Los Angeles, and a degree in Administrative Engineering from Universidad Nacional de Colombia. Mr. Vélez previously served as the CEO of Suramericana de Seguros, the leading insurance company in Colombia, and as the CEO of Inversura, a holding company that integrates the leading insurance and social security companies in Colombia. He was the Chief Executive Officer of Cementos Argos S.A. between 2003 and 2012. From 2012 until March 2016, he was the President of Grupo Argos, a holding group with investments in cement, energy and infrastructure concessions (roads and airports). He is currently a member of the Boards of Directors of Grupo Crystal and Grupo Daabon in Colombia. He also is Chairman of the Board of Trustees of the Universidad EAFIT. In addition, he is member of the Latin American Chapter of the Wilson Center in Washington D.C.

José Fernández. Mr. Fernandez has been a member of our board of directors since October 1, 2013 and is a member of the Compensation and Nomination Committee. Mr. Fernández was the Divisional President of operations for SLAD until 2013. Mr. Fernández is a Mechanical Engineer from Instituto Tecnológico Buenos Aires and began his career at McDonald's in 1986. He held the positions of Development Director, Development Vice President and Managing Director of McDonald's Argentina before becoming the Divisional President of operations of SLAD.

Ricardo Gutiérrez Muñoz **.** Mr. Gutiérrez Muñoz is an independent member of our board of directors since July 1, 2016 and is a member of our Audit Committee. He graduated with a Bachelor's Degree in Accounting from the Instituto Politécnico Nacional (Mexico City) and a Master's Degree in Financing from the Universidad Lasalle (Mexico City). He also pursued postgraduate studies in Mexico and in the USA. Mr. Gutiérrez Muñoz was CEO of Mexichem from 1994 to 2010. Before joining Mexichem, he was Vice-President of Empresas Lanzagorta, CEO and board member of Industrias Synkro and CFO of the Indetel/Alcatel Company. Currently he is the CEO of the CP Latina Company, a drilling Pemex contractor. In addition, he is also board member of Grupo Kaluz, Cinépolis (Organización Ramírez), Empresas ICA, Genommalab e Industria Mexicana del Aluminio (IMASA).

Francisco Staton . Mr. Francisco Staton has been a member of our board of directors since April 2018. Mr. Francisco Staton is Arcos Dorados' Managing Director for Colombia, Aruba, Curaçao and Trinidad & Tobago. He joined the Arcos Dorados executive team in 2013 as Senior Manager of Business Development for our NOLAD Division. Prior to serving as Senior Manager of Business Development for our NOLAD Division, he held different operating roles within the organization and also worked as a consultant at the Boston Consulting Group office in Buenos Aires. He completed his undergraduate studies at Princeton University in 2003, and subsequently earned an MBA from Columbia Business School in 2010. He has served on the board of Princeton in Latin America since 2015. Mr. Francisco Staton is the son of our Executive Chairman, Woods Staton.

Executive Officers

Our executive officers are responsible for the management and representation of our company. We have a strong centralized management team led by Mr. Alonso, our CEO, with broad experience in development, revenue, supply chain management, operations, finance, marketing, legal affairs, human resources, communications and training. Most of our executive officers have worked in the food service industry for several years. Many of the members of the management team have a long history with McDonald's operations in Latin America and the Caribbean and with Mr. Alonso, and have worked together as a team for many years. Our executive officers were appointed by our Board of Directors for an indefinite term.

The following table lists our current executive officers:

Name	Position	Initial Year of Appointment	At Arcos Dorados Since
Sergio Alonso	Chief Executive Officer	2015	1987
Marcelo Rabach	Chief Operating Officer	2015	1990
Mariano Tannenbaum	Chief Financial Officer	2017	2008
Juan David Bastidas	Chief Legal Counsel	2010	2010
Paulo Camargo	Divisional President—Brazil	2015	2011
Alejandro Yapur	Divisional President—SLAD	2013	1986
Rogério Barreira	Divisional President—NOLAD	2015	1984
Luis Raganato	Divisional President—Caribbean	2014	1991
Sebastian Magnasco	Vice President of Development	2007	1994
Santiago Blanco	Chief Marketing and Digital Officer	2019	2019
Diego Benenzon	Vice President of Human Resources	2014	2009
José Valledor Rojo	Vice President of Supply Chain	2015	1990
Marlene Fernandez del Granado	Vice President of Government Relations	2011	2009
David Grinberg	Vice President of Corporate Communications and Investor Relations	2018	2010

The following is a brief summary of the business experience of our executive officers who are not also directors. Unless otherwise indicated, the current business addresses for our executive officers is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Dr. Luis Bonavita 1294, Office 501, WTC Free Zone, Montevideo, Uruguay.

Marcelo Rabach. Mr. Rabach, 49, is our Chief Operating Officer, and prior to his appointment as such in August 2015, Divisional President for NOLAD since 2013, Vice President of Operations Development since 2012 and Divisional President in Brazil since 2008. He graduated with a degree in Business Administration from Universidad Argentina de la Empresa in 2002. He began his career at McDonald's Argentina in 1990 and has over 17 years of line operations experience, starting as a crew employee and steadily advancing into larger operational roles. From 1999 until his appointment as McDonald's Chief Operating Officer in Venezuela in 2005, Mr. Rabach was responsible for the operations, real estate, construction, human resources, local store marketing, and training and franchising of a region within Argentina, holding the positions of Operations Manager and Operations Director. He was the Chief Operating Officer in Venezuela from 2005 until 2008.

Mariano Tannenbaum. Mr. Tannenbaum, 45, is our Chief Financial Officer. He joined Arcos Dorados in 2008 and has held several positions at the corporate level, with his last position being Senior Director of Corporate Finance. Previously, Mr. Tannenbaum had a long international career in Europe and the United States. He worked for the IFG Group in Switzerland, for Tyco International in Switzerland and Princeton, New Jersey and for Sabre Holdings in London. He began his career working for an economic consulting firm in Argentina as well as for the Argentine government, as part of the Ministry of Treasury and Public Finances. Mr. Tannenbaum has an economics degree from the Universidad de Buenos Aires, a Master's in finance from the Universidad Torcuato Di Tella and an MBA with a concentration in finance from the London Business School.

Juan David Bastidas. Mr. Bastidas, 51, is our Chief Legal Counsel. He attended Universidad Pontificia Bolivariana in Colombia, where he received a Law Degree in 1989. He graduated in 1990 as a Business Law Specialist from the same university. He also pursued postgraduate studies in Business Administration at New York University, which he completed in 1994, International Business at Eafit University, which he completed in 2000 and Senior Management at Los Andes University, which he completed in 2009 in Colombia. He also attended the Executive Directors Training Program from IAE Business School in Argentina (2017). Mr. Bastidas worked from 1994 to 1995 as an international operations lawyer for Banco Industrial Colombiano (Bancolombia). He served as Chief Legal Counsel and Secretary of the board of directors of Interconexión Electrica S.A. E.S.P.–ISA from 1995 to 2010 before joining us in July 2010.

Paulo Camargo. Mr. Camargo, 50, was appointed Divisional President for Brazil in October 2015. Prior to Mr. Camargo's promotion, he served as Vice President of Operations for the Brazil Division for four years. Mr. Camargo has over 20 years of experience in the consumer, retail and services industry. He has worked for companies such as PepsiCo, FASA Corporation and Iron Mountain across a variety of geographies. Before joining Arcos Dorados in 2011, he was President of the Spain Division at Iron Mountain. Mr. Camargo holds a postgraduate degree in Business Administration from Mackenzie University in São Paulo, and also holds an MBA from Universidad Europea de Madrid.

Alejandro Yapur. Mr. Yapur, 50, was appointed Divisional President of SLAD in July 2013. He began his career in 1986 as a crew member at the first McDonald's restaurant in Argentina and had the opportunity to serve as Manager in the Marketing, Operations and Corporate Communications areas of Arcos Dorados in Argentina. In 2005 he was promoted to Managing Director of Uruguay and in 2007 became responsible for the Company's Chilean operations. In 2011, Mr. Yapur became Regional Managing Director for the Southern Cone Region (Argentina, Chile and Uruguay) until 2013 when he was promoted to his current position. He holds a Master's degree in Communications from Universidad Austral in Buenos Aires, Argentina. He has also received executive

training from IAE Business School in Argentina, IPADE Business School in Mexico and IESE Business School in Spain.

Rogério Barreira. Mr. Barreira, 50, was appointed Divisional President for NOLAD in October 2015. Prior to Mr. Barreira's promotion, he served as Vice President of Operations for the Brazil Division for four years. Mr. Barreira has over 32 years of experience in Arcos Dorados, acting in different key positions role in Brazil. Mr. Barreira has a Master in Business Administration from Foundation Getulio Vargas in Brazil and, and also holds a degree in Marketing and Business Planning from Anhembi-Morumbi University in Brazil.

Luis Raganato. Mr. Raganato, 49, is our Divisional President for the Caribbean. Prior to his appointment as such, he was the General Director of Arcos Dorados in Peru. Mr. Raganato began his career at Arcos Dorados in 1991 as a Trainee in the Nuevocentro Shopping location in the province of Córdoba, Argentina and has held various positions in Operations Management over the years. Mr. Raganato holds a Bachelor's degree in Business Administration from Instituto Aeronáutico de Argentina and a Master's degree in Marketing and Business Development from Escuela Superior de Estudios de Marketing de Madrid.

Sebastian Magnasco. Mr. Magnasco, 49, is our Vice President of Development and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Engineering from Instituto Tecnológico Buenos Aires, in 1990. He began his career at McDonald's in 1994 and held the positions of Real Estate & Equipment Director of Argentina and IT, Real Estate and Equipment Director of Argentina until his appointment as Vice President of Development of SLAD in 2005.

Santiago Blanco . Mr. Blanco, 49, is our Chief Marketing and Digital Officer. He joined the company in 2019 and is responsible for designing and implementing the marketing and digital strategy. Prior to joining Arcos Dorados, he served as Chief Marketing, Digital & Communications Officer at ALSEA from 2017 to 2019. Mr. Blanco holds a Bachelor's degree in Marketing from the Instituto Tecnológico de Monterrey and an MBA from University of Texas at Austin.

Diego Benenzon . Mr. Benenzon, 52, is our Vice President for Human Resources. He joined the Company in June 2009. He has extensive experience as an executive of high responsibility in multinational companies. He has also served as a senior consultant to various large companies and NGOs and has teaching experience. Mr. Benenzon graduated with a degree in psychology from Universidad John F. Kennedy and holds postgraduate degrees on strategic consultancy and organizational behavior from the Universidad de Buenos Aires and Management Development Program at IAE Business School.

José Valledor. Mr. Valledor, 52, is our Vice President of Supply Chain. Prior to his appointment as such, he was Divisional President in Brazil. He joined us in 1990 as an assistant in the accounting department, and four years later he became Manager of that department. In 2005, he became Regional Operations Director, responsible for the markets of Uruguay, Paraguay and Argentina. Two years later, he became Argentina's General Director while continuing to supervise the market operations in Uruguay, Chile and Paraguay. Mr. Valledor Rojo has a degree in Business Administration and a postgraduate degree from the Instituto de Altos Estudios (IAE) in Buenos Aires, Argentina.

Marlene Fernandez. Ms. Fernandez, 57, is Corporate Vice President for Government Relations. Prior to joining Arcos Dorados in 2009, she served as an elected Member of the House of Representatives in Bolivia where she held various leadership positions, including Ambassador of Bolivia to the United States of America, Ambassador to the Organization of American States, Ambassador to the Government of Italy and Representative of Bolivia to different specialized agencies of the United Nations. She was also Bureau Chief and Main Political Correspondent for CNN Spanish in Washington, D.C. Ms. Fernandez holds a Master of Science in Broadcast Journalism from Boston University, graduated Summa Cum Laude from the Universidad Argentina John. F. Kennedy and has completed courses in Finance for Executives, Strategic Communications, Conflict Resolution and Negotiations in Conflict at Harvard University.

David Grinberg . Mr. Grinberg, 40, is our Vice President of Corporate Communications and Investor Relations. Mr. Grinberg joined Arcos Dorados in 2010, after leading the Communications division at Samsung and serving as Sports Marketing Head and, later, as Corporate Communications Director, Brazil Division of Nike. Mr. Grinberg holds a Bachelor's Degree in Social Communication from FIAM and a Master's Degree in Corporate Communication & Public Affairs from the Cásper Líbero Foundation.

B. Compensation

Long-term and Equity Incentive Plans

Long-term Incentive Plan

We implemented a long-term incentive plan in 2008 (the "2008 long-term incentive plan") to reward certain employees for the success of our business. In accordance with this plan, we historically granted phantom equity units, called CADs, annually to certain employees, pursuant to which such employees are entitled to receive, upon vesting, a cash payment equal to the appreciation in the fair value of the award over the base value of the award. In 2011, our Board approved the use of the Company's market capitalization following our initial public offering as the metric used to determine the Company's fair market value under this incentive plan in place of the existing formula used to determine the current value of the awards. Due to an extension granted in April 2014, the exercise rights for any outstanding CADs under this plan expired in May 2017 or May 2018, depending on their grant date.

As of December 31, 2018, no CADs were outstanding, as compared to 324,861 CADs as of December 31, 2017. During 2018, all outstanding CADs were exercised, and the total amount paid for these exercises was $0.8 million.

Equity Incentive Plan

In March 2011, we adopted our Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of our business. This plan replaces our 2008 long-term incentive plan discussed above. Like our 2008 long-term incentive plan, the 2011 Plan is being used to reward certain employees for the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board.

The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 Class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011. In 2018, 494,775 Class A shares were issued pursuant to the 2011 Plan.

We carried out a special grant of stock options and restricted share units in 2011 in connection with our initial public offering, which are fully vested. We also made recurring grants of stock options and restricted share units in each of the fiscal years from 2011 to 2018 (from 2015 to 2018 only restricted share units). Units granted from 2011 to 2013 are fully vested. Both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. In the event of death, disability or retirement of the employee, any unvested portion of the annual award will fully vest. For all grants, each stock option granted represents the right to acquire one Class A share at it's a strike price equal to fair market value, while each restricted share unit represents the right to receive one Class A share when vested.

The following table shows unvested restricted share units and stock options as of December 31, 2018:

Date of the grant	Restricted share units	Stock options
May 10, 2014	317,351	247,475
May 8, 2015	923,213	-
May 10, 2016	865,291	-
May 10, 2017	497,960	-
May 10, 2018	520,393	-

We issued 494,775 class A shares during 2018 in connection with the partial vesting of outstanding restricted share units. An additional 8,528 class A shares were issued to date in 2019 in connection with the vesting of restricted share units.

On June 28, 2016, 1,117,380 stock options were converted into liability awards, maintaining the original conditions of the 2011 Plan. There were no incremental compensation costs resulting from the modification and only 104 employees were affected.

See Note 17 to our consolidated financial statements for additional information.

We intend to make the 2019 annual grant under the 2011 Plan during the second quarter of 2019.

Compensation of Directors and Officers

General

The approximate aggregate annual total cash compensation for our 14 officers was $11.1 million in 2018. In 2018, we approved annual compensation for our non-executive directors of $140,000 each, payable 100% in cash. The cash payments corresponding to services performed in 2018 were paid $105,000 each in 2018 and $35,000 each in 2019, except for Mr. Velez's compensation, which was paid in full in 2018. We have not entered into any service contracts with our directors to provide for benefits upon termination of employment.

C. Board Practices

Our Committees

Audit Committee

Our audit committee consists of three directors, Mr. Chu, Mr. Vélez and Mr. Gutiérrez, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our Board of Directors has determined that Mr. Chu, Mr. Vélez and Mr. Gutiérrez are also "audit committee financial experts" as defined by the SEC.

The charter of the audit committee states that the purpose of the audit committee is to assist the Board of Directors in its oversight of:

- the integrity of our financial statements;
- the annual independent audit of our financial statements, the engagement of the independent auditor and the evaluation of the qualifications, independence and performance of our independent auditor;
- the performance of our internal audit function; and
- our compliance with legal and regulatory requirements.

Compensation and Nomination Committee

Our compensation and nomination committee consists of Mr. Hernández-Artigas, Ms. Franqui and Mr. José Fernández. Pursuant to its charter, the compensation and nomination committee is responsible for, among other things:

- approving corporate goals and objectives relevant to compensation, evaluating the performance of executives in light of such goals and objectives and recommending compensation based on such evaluation, recommending any long-term incentive component of compensation and approving the compensation of our executive officers;
- reviewing and reporting to the board of directors on our management succession plan and on compensation for directors;
- evaluating our compensation and benefits policies;
- evaluating the structure of our board of directors;
- nominating candidates to executive positions and to the board of directors; and
- reporting to the board periodically.

D. Employees

Our employees are a crucial component of our customers' restaurant service experience. As such, we consistently train our employees to deliver fast and friendly service through a series of training programs. We support our McDonald's-based training programs with an extensive set of quality controls throughout production, processing and distribution and also in our restaurants, where we monitor restaurant managers' performance and use ongoing external customer satisfaction opportunity reports that analyze key operating indicators.

Our employees can be divided into three different categories: crew, restaurant managers and professional staff. Due to the different tasks of each of these categories of employees, turnover rates differ significantly. Crew turnover is considerably higher than turnover for managers and professional staff.

As of December 31, 2018, we had a total of approximately 78,691 employees in Company-operated restaurants and staff throughout the Territories. Of this number, 82% were crew, 15% were restaurant managers and the remainder were professional staff. Approximately 40% of our employees were located in Brazil.

We have various types of employment arrangements with our employees in Brazil. Some of our employees receive monthly wages whereas others are paid by the hour, and all of our employees have fixed work schedules due to a settlement signed with Labor Prosecutor Office of the State of Pernambuco. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation." Most of our employees in Brazil, in particular students and minors, work schedules of less than 180 hours per month. Brazilian law requires that employers provide a minimum monthly wage, which, in the case of employees who are paid by the hour, is prorated in terms of wages per hour.

The following table illustrates the distribution of our employees by division and employee category as of December 31, 2018.

Division	Crew	Restaurant Managers	Professional Staff	Total
Brazil	25,146	5,616	500	31,262
Caribbean division	7,886	1,673	266	9,825
NOLAD	8,200	1,945	245	10,390
SLAD	23,632	3,013	235	26,880
Corporate and other	—	—	334	334
Total	**64,864**	**12,247**	**1,580**	**78,691**

Restaurant managers are responsible for the daily management of our restaurants. As such, we have a comprehensive training program for them that is focused on customer management practices, food preparation and other operational procedures. Standards are taught and continuously reinforced through the use of such training programs. We also use performance measurements on a continual basis, both internally and externally in connection with all our restaurants. Our internal on-site visit restaurant operations improvement process evaluates operational standards, which are compared globally to assure continuous improvement. We also contract third parties, which we refer to as third-party shoppers, to visit our restaurants anonymously and report on our performance. Our external third-party shopper measurements and customer satisfaction opportunity reports help maintain our competitiveness. In addition, Hamburger University provides restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of our business. In 2018, approximately 1,533 people attended different courses or events organized by Hamburger University in areas such as restaurant and customer management, sales and accounting.

The role performed by our crew is of critical importance in our interactions with our customers. Employee relations are thus key to maintaining the level of motivation and enthusiasm on the part of our crew that help differentiate our restaurants from those of our competitors. We have been recognized by many independent organizations for being a "great place to work."

Although we have unions in some of our most important markets, including Brazil, Argentina and Mexico, the unions only have an active role in our Brazil restaurants, and going forward, our Argentine restaurants due to the

unionization of restaurant managers in 2018. In these markets, the restaurant industry is unionized by law. However, in Brazil every employee and company are necessarily represented by unions. Workers unions can negotiate directly with companies through Collective Bargaining Agreements, or CBAs, or with the company's union through Collective Convention. Under Brazilian law, employees or groups of employees cannot opt-out of the terms under union agreements, which integrate the employment contract for all legal purposes. In Brazil, the CBA or the Collective Convention should provide, on a yearly basis, the salary adjustment to be afforded by all employees, and may also provide certain additional guarantees or rights, to be applicable to all employees, regardless of their unit or position in the company, during a certain term (maximum of two years). All collective agreements are mandatory in Brazil.

On November 11, 2017, an overhaul in the labor laws in Brazil (the "Labor Overhaul") entered into effect and brought significant changes to labor relations and labor law itself. Prior to the Labor Overhaul, the Consolidated Labor Statutes governed labor relations in Brazil. The Labor Overhaul introduces and changes several articles of the Consolidated Labor Statutes aiming to give more flexibility and legal certainty to the legal framework around labor relations thus meeting current demands of modern society. Out of several changes made in the Labor Overhaul, the most relevant for us is a change providing that collective labor agreements (CBAs or Collective Convention) will now prevail over statutory law in certain circumstances, giving priority to what has been agreed over what has been legislated and providing greater autonomy to the parties.

E. Share Ownership

The following table presents the beneficial ownership of our shares owned by our directors and officers as of the date of this annual report. Other than those persons listed below, none of our directors or officers beneficially own any of our shares.

Shareholder	Class A Shares	Percentage of Outstanding Class A Shares (1)	Class B Shares	Percentage of Outstanding Class B Shares (1)	Total Economic Interest (1)	Total Voting Interest (1) (2)
Los Laureles Ltd. (3)(4)	—	—	80,000,000	100.00%	39.29%	76.39%
Woods Staton (4)	7,992,444	6.47%	—	—	3.93%	1.53%
Sergio Alonso	*	*	—	—	*	*
Annette Franqui	*	*	—	—	*	*
Carlos Hernández-Artigas	*	*	—	—	*	*
Juan David Bastidas	*	*	—	—	*	*
José Valledor Rojo	*	*	—	—	*	*
José Fernandez	*	*	—	—	*	*
Marcelo Rabach	*	*	—	—	*	*
Mariano Tannenbaum	*	*	—	—	*	*
Sebastian Magnasco	*	*	—	—	*	*
Diego Benenzon	*	*	—	—	*	*
Marlene Fernandez	*	*	—	—	*	*
Luis Raganato	*	*	—	—	*	*
Rogério Barreira	*	*	—	—	*	*
Alejandro Yapur	*	*	—	—	*	*
Paulo Camargo	*	*	—	—	*	*
Dan Gertsacov (5)	*	*	—	—	*	*
Santiago Blanco	*	*	—	—	*	*
David Grinberg	*	*	—	—	*	*
Francisco Staton	*	*	—	—	*	*

* Each of these directors and officers beneficially owns less than 1% of the total number of outstanding class A shares.

(1) Percentages are based on 123,608,999 Class A shares issued and outstanding as of the date of this annual report and exclude 7,993,602 Class A shares issued and held in treasury.

(2) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.

(3) Los Laureles Ltd. is beneficially owned by Mr. Woods Staton, our Executive Chairman. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd."

(4) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Woods Staton beneficially owns 7,992,444 class A shares (includes 131,484 shares of common stock issuable upon exercise of stock options and 162,347 restricted share units) directly, and indirectly through Chablais Investments S.A. (" Chablais "). Of these 7,992,444 class A shares, Chablais has pledged an aggregate of 7,698,563 shares for the benefit of JPMorgan Chase Bank, N.A., in connection with a financing transaction, and has entered into a cash-settled put transaction with respect to 1,000,000 of these pledged shares. On a combined basis, Mr. Woods Staton is the beneficial owner of an aggregate of 43.22% of the total economic interests of Arcos Dorados and 77.92% of its total voting interests. The address of Mr. Woods Staton is Mantua No. 6575 (esquina Potosí), Montevideo, Uruguay 11500. The address of Chablais is Level 1, Palm Grove House, Wickham's Cay 1, Road Town, Tortola, BVI.

(5) Resigned from his role effective March 1, 2019.

As of the date of this annual report, our 14 officers had been granted (i) a total of 1,490,289 restricted share units, 478,578 options at an exercise price of $21.20 per share, 127,647 stock options at an exercise price of $14.35 per share and 74,499 stock options at an exercise price of $14.31 per share pursuant to the 2011 Plan. For more information, see "—B. Compensation—Long-term and Equity Incentive Plans" above. Our non-executive directors had been granted a total of 53,652 stock options at an exercise price of $21.20 per share, 66,888 stock options at an exercise price of $14.35 and 176,768 stock options at an exercise price of $14.31 per share per share pursuant to the 2011 Plan.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

A. Major Shareholders

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue a maximum of 420,000,000 class A shares, no par value per share, and 80,000,000 class B shares, no par value per share. Each of our class A shares entitles its holder to one vote. Each of our class B shares entitles its holder to five votes. Los Laureles Ltd., our controlling shareholder, owns 38.98% of our issued and outstanding share capital, and 76.16% of our voting power by virtue of its ownership of 100% of our class B shares. The following table presents the beneficial ownership of our shares as of the date of this annual report:

Shareholder	Class A Shares	% of Outstanding Class A Shares	Class B Shares (1)	% of Outstanding Class B Shares (1)	Total Economic Interest (1)	Total Voting Interest (1) (2)
Los Laureles Ltd (3)(4)	—	—	80,000,000	100.0%	39.29%	76.39%
Woods Staton (4)	7,992,444	6.47%	—	—	3.93%	1.53%
William H. Gates III (5)	11,641,400	9.42%	—	—	5.72%	2.22%
Invesco Ltd. (6)	8,299,532	6.71%	—	—	4.08%	1.59%
TIAA-CREF Investment Management, LLC (7)	11,336,903	9.17%	—	—	5.57%	2.17%
Teachers Advisors, LLC (8)	9,619,888	7.78%	—	—	4.72%	1.84%
International Value Advisers, LLC (9)	9,642,572	7.80%			4.74%	1.84%
Public	65,076,260	52.65%	—	—	31.96%	12.43%
Total (11)	**123,608,999**	**100.00%(10)**	**80,000,000**	**100.00%**	**100.00%**	**100.00%(10)**

(1) Percentages are based on 123,608,999 Class A shares issued and outstanding as of the date of this annual report and exclude 7,993,602 Class A shares issued and held in treasury.

(2) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.

(3) The address of Los Laureles Ltd. is 325 Waterfront Drive, Omar Hodge Building, 2nd Floor, Wickham's Cay 1, Road Town, Tortola, British Virgin Islands. Los Laureles Ltd. is beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See "—Los Laureles Ltd."

(4) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Woods Staton beneficially owns 7,992,444 class A shares (includes 131,484 shares of common stock issuable upon exercise of stock options and 162,347 restricted share units) directly, and indirectly through Chablais Investments S.A. (" Chablais "). Of these 7,992,444 class A shares, Chablais has pledged an aggregate of 7,698,563 shares for the benefit of JPMorgan Chase Bank, N.A., in connection with a financing transaction, and has entered into a cash-settled put transaction with respect to 1,000,000 of these pledged shares. On a combined basis, Mr. Woods Staton is the beneficial owner of an aggregate of 43.22% of the total economic interests of Arcos Dorados and 77.92% of its total voting interests. The address of Mr. Woods Staton is Mantua No. 6575 (esquina Potosí), Montevideo, Uruguay 11500. The address of Chablais is Level 1, Palm Grove House, Wickham's Cay 1, Road Town, Tortola, BVI.

(5) William H. Gates III ("Mr. Gates") indirectly owns Class A shares through Cascade Investment, LLC ("Cascade") and the Bill & Melinda Gates Foundation Trust (the "Trust"). Cascade, the Trust, Mr. Gates and Melinda French Gates ("Mrs. Gates") filed with the SEC a Schedule 13G/A dated February 13, 2015. Based solely on the disclosure set forth in such Schedule 13G/A, (i) Cascade has sole voting power with respect to 8,580,900 class A shares and sole dispositive power with respect to 8,580,900 class A shares; (ii) the Trust has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares; (iii) Mr. Gates has, through Cascade, sole voting power and sole dispositive power with respect to 8,580,900 class A shares and has, through the Trust, shared voting power and shared dispositive power with respect to 3,060,500 class A shares; and (iv) Mrs. Gates has, through the Trust, shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares. The address of Cascade Investment, LLC is 2365 Carillon Point, Kirkland, Washington 98033. The address of the Trust and Mrs. Gates is 500 Fifth Avenue North, Seattle, Washington 98119. The address of Mr. Gates is One Microsoft Way, Redmond, Washington 98052.

(6) Invesco Ltd. filed with the SEC a Schedule 13G dated February 4, 2019. Based solely on the disclosure set forth in such Schedule 13G, Invesco Ltd. has sole voting power with respect to 8,299,532 class A shares and sole dispositive power with respect to 8,299,532 class A shares. The address of Invesco Ltd. is 1555 Peachtree Street NE, Suite 1800, Atlanta, GA 30309.

(7) TIAA-CREF Investment Management, LLC filed with the SEC a Schedule 13G/A dated February 14, 2019. Based solely on the disclosure set forth in such Schedule 13G/A, TIAA-CREF Investment Management, LLC has sole voting power with respect to 11,336,903 class A shares and sole dispositive power with respect to 11,336,903 class A shares. The address of TIAA-CREF Investment Management, LLC is 730 Third Avenue, New York, NY 10017-3206.

(8) Teachers Advisors, LLC filed with the SEC a Schedule 13G/A dated February 14, 2019. Based solely on the disclosure set forth in such Schedule 13G/A, Teachers Advisors, LLC is the investment adviser to three registered investment companies and has sole voting power with respect to 9,619,888 class A shares and sole dispositive power with respect to 9,619,888 class A shares. The address of Teachers Advisors, LLC is 730 Third Avenue, New York, NY 10017-3206.

(9) International Value Advisers, LLC filed with the SEC a Schedule 13G dated February 13, 2019. Based solely on the disclosure set forth in such Schedule 13G, International Value Advisers, LLC has sole voting power with respect to 9,140,301 class A shares and sole dispositive power with respect to 9,642,572 class A shares. The address of International Value Advisers, LLC is 717 Fifth Avenue, 10th Floor, New York, New York, 10022.

(10) Numbers do not sum to 100% due to the effects of rounding.

(11) Excludes 7,993,602 Class A shares issued and held in treasury.

As of April 26, 2019, there were 6 class A shareholders of record. We believe the number of beneficial owners is substantially greater than the number of record holders because a large portion of class A shares is held in “street name” by brokers.

Los Laureles Ltd.

Los Laureles Ltd. is our controlling shareholder and is beneficially owned by Mr. Woods Staton, our Executive Chairman. Los Laureles Ltd. currently owns 39.29% of the economic interests of Arcos Dorados and 76.39% of its voting interests. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. The voting trust exercises the vote of the class B shares through a voting committee, which consists of only Mr. Woods Staton. The decision of the voting committee must be approved by Los Laureles (PTC) Limited, a British Virgin Islands company that is a wholly owned subsidiary of Los Laureles Limited. Mr. Woods Staton is the sole director of Los Laureles (PTC) Limited. Without the consent of McDonald’s, Mr. Woods Staton may add any one or more of his descendants, certain other relatives, any board member of Arcos Dorados and the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados to the committee.

Following Mr. Woods Staton’s death or during Mr. Woods Staton’s incapacity, the voting committee will consist of (1) certain officers or directors of Arcos Dorados, (2) certain descendants of Mr. Woods Staton or their representatives, and (3) other persons appointed by Los Laureles (PTC) Limited, subject to McDonald’s consent if such person is not one of Mr. Woods Staton’s descendants and is not the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados. For the first five years from the date of the execution of the voting trust, the officers and directors of Arcos Dorados on the voting committee will have the tie-breaking vote (if any). Thereafter, Mr. Woods Staton’s descendants will have the tie-breaking vote.

B. Related Party Transactions

Our Board of Directors has created and adopted a related party transactions policy for the purpose of assisting the Board of Directors in reviewing, approving and ratifying related party transactions. This Policy is intended to supplement, and not to supersede, our other policies that may be applicable to or involve transactions with related parties, such as our Standards of Business Conduct.

Axionlog Split-off

In March 2011, we effected a split-off of Axionlog (formerly known as Axis) to our principal shareholders. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its principal shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of $15.4 million and an equity contribution that was made to the Axionlog holding company amounting to $29.8 million. Following the split-off, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates). The split-off of Axionlog did not have a material effect on our results of operations or financial condition.

In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog provides us with distribution inventory, storage (dry, frozen and chilled) and transportation services in Argentina, Chile, Colombia, Ecuador, Mexico, Venezuela, Uruguay and Peru. Pricing under the agreement is determined pursuant to an agreed upon formula that is considered standard in the distribution services industry. Additionally, Axionlog must comply with McDonald's quality program, the Distributor Quality Management System (DQMP) and other supplier requirements to maintain its status as a McDonald's-approved supplier pursuant to the MFA. The pricing formula considers certain variables to determine the applicable fees, including (i) cost inputs (i.e., transportation expenses and salaries); (ii) time required for completion; (iii) storage requirements; (iv) merchandise volume; and (v) inflation and exchange rate adjustments. We use similar pricing formulas with our other distribution service providers in the territories not covered by Axionlog. Under the terms of the agreement, the pricing formula is reviewed on a yearly basis. During these reviews, we share information in order to find potential cost efficiencies and savings. In addition, we or Axionlog may request a renegotiation of the pricing formula in the event that, due to factors outside of our or their control, the formula is substantially altered based on changes to its variable inputs.

On November 9, 2011, we entered into a revolving loan agreement as a creditor with Axionlog B.V. (formerly known as Axis Distribution B.V.), a holding company of the Axionlog business, pursuant to which we agreed to lend Axionlog up to a total amount of $12.0 million at an interest rate of LIBOR plus 6%, in line with the interest rates prevailing in the market at the time of the agreement, the loan facility matured on November 7, 2016. As of December 31, 2016 and 2015, Axionlog B.V. had borrowed $1.8 million and $11.5 million, respectively, from us in connection with this revolving loan facility. Notwithstanding the fact that the loan maturity date was November 7, 2016 the parties decided to terminate the agreement as of May 27, 2016. As a result, we collected the outstanding principal amount of $1.8 million on May 27, 2016.

During 2018, we incurred $41.6 million in total distribution fees payable to Axionlog, which accounted for approximately 4.0% of our total food and paper costs.

See Note 25 to our consolidated financial statements for details of the outstanding balances and transactions with related parties as of December 31, 2018 and 2017 and for the fiscal years ended December 31, 2018, 2017 and 2016.

Employment of Francisco Staton

Mr. Francisco Staton, Woods Staton's son, is Arcos Dorados' managing director for Colombia, Aruba, Curaçao and Trinidad & Tobago. In this position, Francisco Staton reports to Luis Raganato, President of the Caribbean Division. He has a bachelor's degree from Princeton University and a Master's in Business Administration from Columbia Business School. Prior to working at Arcos Dorados, he worked as a consultant for the Boston Consulting Group. At Arcos Dorados, Francisco Staton has completed the Company's operational training programs in São Paulo and Bogotá, and has also held other positions at the Company, including serving as a restaurant manager as well as serving as a Senior Development Manager for new business projects in the NOLAD Division, in Mexico. For his services as managing director in Colombia, Francisco Staton receives customary compensation and benefits commensurate with his level of responsibility within the Company. His compensation package is aligned with the compensation packages of similar positions in other companies in Colombia, according to external compensation surveys. Francisco Staton was appointed as a Board Member, Class I, at our AGM held on April 24, 2018.

C. Interests of Experts and Counsel

Not applicable.

ITEM 8. FINANCIAL INFORMATION

A. Consolidated Statements and Other Financial Information

Financial statements

See "Item 18. Financial Statements," which contains our financial statements prepared in accordance with U.S. GAAP.

Legal Proceedings

Puerto Rican Franchisees

In January 2007, several Puerto Rican franchisees filed a lawsuit against McDonald's Corporation and certain subsidiaries, which the Company purchased during the acquisition of the LatAm business (the "Puerto Rican franchisees lawsuit"). The lawsuit seeks declaratory judgment and damages in the amount of $66.7 million plus plaintiffs' attorney's fees in connection with the alleged breach by the Company of the Dealers' Act of Puerto Rico, which limits the grounds under which a principal may refuse to renew or terminate a distribution contract. The complaint also seeks preliminary and permanent injunctions to restrict the Company from declining to renew the plaintiffs' agreements except for just cause, and to prohibit the Company from opening restaurants or kiosks within a three-mile radius of a franchisee's restaurant. In September 2008, the Company filed a counter-suit requesting the termination of the franchise agreements with these franchisees due to several material breaches. The case went to trial in the Court of First Instance in 2012 and at the end of 2014 the plaintiffs finalized their presentation of evidence. At that time, the Company filed a Motion of Non Suit seeking to dismiss the case. We believe that after analyzing all the evidence presented during such process, the Commissioner hearing our case should issue a recommendation of resolution in our favor, and as a result, we have not recorded a provision for this lawsuit as we believe the probability of loss is remote. As of today, we have not been notified of any resolution made by the Commissioner assigned to this case.

During 2014, another franchisee filed a complaint (the "related Puerto Rican franchisee lawsuit") against us and McDonald's USA, LLC (a wholly owned subsidiary of McDonald's Corporation), asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim seeks declaratory judgment and damages in the amount of $30 million plus plaintiff's attorney's fees. We also believe that the probability of a loss is remote due to its close resemblance to the Puerto Rican franchisees lawsuit and have therefore not recorded a provision for this lawsuit.

Furthermore, on March 26, 2010, we filed a collection claim against Puerto Rico Owner Operator's Association ("PROA"), an association integrated by our franchisees that meets periodically to coordinate the development of promotional and marketing campaigns, for the reimbursement of the monetary contribution made during August 2007. On June 15, 2010, PROA, also known as the cooperative, filed a third party complaint and counterclaim (the "PROA claim") against us and other third party defendants in the amount of $31 million. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the Court entered a "Partial Summary Judgment and Resolution" in favor of PROA, before initiating the discovery phase, finding that we must participate and contribute funds to the association. However, the Court did not specify any amount for which we should be held liable due to its preliminary and interlocutory nature and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. By means of a Motion to Reconsider, we opposed such determination. In December 2018, the First Instance Court confirmed his determination and we filed a Certiorari in the Court of Appeals. We continue to oppose this determination vigorously, we believe that there is no legal basis for considering: (i) the obligation to contribute is not directed towards a cooperative, (ii) the franchise agreement does not contain a provision that makes it mandatory to participate in the cooperative, and (iii) PROA's by-laws state that participation in the cooperative is voluntary, among other arguments. We believe that the probability of a loss is remote and, consequently, no provision has been recorded.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisees lawsuit. Pursuant to the MFA, the Company indemnifies McDonald's for the related Puerto Rican franchisee lawsuit and the PROA claim.

Brazilian Labor Litigation

In August 2012, the Labor Prosecutor's Office of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) in order to (i) compel us to change the variable work schedule applicable to our 14 restaurants in Pernambuco, a state in northeastern Brazil, to a fixed work schedule, (ii) seek fines of R$3,000 per employee per month for alleged noncompliance with labor laws related to, for example, overtime payment, breaks between workdays, night shift premiums, duration of breaks and weekly rest time, (iii) seek a penalty of R$20,000 related to the non-exhibition of documentation relating to audit labor inspections and (iv) seek collective damages of R$30,000,000 related to the variable work schedule practices in Pernambuco in recent years. In February 2013, the Labor Prosecutor's Office of Pernambuco filed an additional petition seeking the extension of the original complaint throughout Brazil and increasing the amount of collective damages requested from R$30,000,000 to R$50,000,000. The Labor Prosecutor's Office of the State of Pernambuco also added a demand that all employees should be allowed to bring their own meals for consumption during breaks in our restaurants.

We settled all of the pending claims with the Labor Prosecutor's Office in March 2013, other than the claim to guarantee the payment of the minimum wage independently of working hours.

In parallel with the judicial case, in December 2016, an administrative assessment of compliance with our 2013 settlement was initiated by a team composed of Labor Prosecutors. An additional audit of the company's compliance with the settlement for such period occurred in May 2017. In each of these audits, the Labor Prosecutor claimed noncompliance with the settlement. In March 2017 and December 2017, we submitted petitions and documents defending our compliance with the settlement. In early 2018, we attended a series of hearings with the Labor Prosecutors to discuss the audit report and Arcos' petition in order to verify if the settlement was complied with. On August 23, 2018, Arcos signed a new settlement agreement with the Labor Prosecutor's Office in which it agreed to pay a R$7 million fine for noncompliance with some of its obligations under the 2013 settlement. In exchange, the Labor Prosecutor agreed to reduce previous commitments and the fines assumed by us for future investigation. The settlement agreement was ratified by the courts and we paid this fine of R$7 million in November and December 2018. The courts also dismissed the previously pending claim with respect to payment of minimum wage independently of working hours.

The Labor Prosecutor subsequently began a new investigation to verify our compliance with the 2018 settlement agreement and requested documents related to the working hours of all employees related to the period of April, 2017 to July, 2018. We already presented documents and we are waiting the analysis of those documents by the Labor Prosecutor.

Sinthoresp – Brasília

On February 23, 2015, a coalition of labor unions filed a lawsuit against us, alleging that we have defaulted on our obligations to our employees with a variety of inadequate working conditions such as an unhealthy working environment, failure to pay the legal minimum wage or wages established through collective bargaining agreements, time-card fraud, failure to grant legally-mandated meal and rest periods and failure to pay corresponding overtime, among other claims.

The plaintiffs have requested an order requiring: (i) immediate rectification of the alleged practices; (ii) an injunction against opening any new restaurants until compliance with the labor practices is demonstrated; (iii) damages for pain and suffering equal to an amount between 1% and 30% of gross income; (iv) that the Economic Defense Administrative Council – CADE be placed on notice of these conditions; and (v) service of process to the Labor Prosecutor to require it to follow up on the lawsuit.

The lawsuit is currently before the 22nd DF Labor Court in Brasilia. On March 27, 2017, the Labor Court entered a judgment rejecting all claims made by the coalition of labor unions and affirmed that the coalition was not able to prove its allegations. The coalition filed an appeal against it, and the Regional Labor Court determined to reopen the discovery phase in order for the parties to take depositions of witnesses, after which the 22nd DF Labor Court in Brasilia (first instance) will judge the claim again. We presented an appeal against this decision, which is pending.

Civil Complaint 0528900-98.2006.5.02.0080

On December 13, 2006, a civil complaint was filed by the Labor Prosecutor's Office in São Paulo, questioning our compliance with rules related to sanitary surveillance, workers' health and safety, work ergonomics and working hours. After a preliminary injunction was granted for compliance with issues related to relevant rules cited in the complaint, an agreement (the "TAC") was entered into between the Company and the Labor Prosecutor's Office that provides for a daily fine of R$5,000 for non-compliance with the TAC provisions. The full contents of the TAC were ratified by the Labor Court on March 16, 2007.

On October 18, 2010, we entered into a new agreement with the Labor Prosecutor's Office in São Paulo, which maintained the previous commitments assumed by us in the TAC, but also included an obligation to annually pay R$1,300,000 (as adjusted on a yearly basis from 2011 to 2019) towards the financing of campaigns against child labor and to make a one-time contribution in the amount of R$1,500,000 to the São Paulo's Medical University's Foundation. Furthermore, according to the agreement, the company was required to file a schedule for the compliance with the obligations set forth in the TAC. The company has been in compliance with this agreement, which will remain in effect through 2019.

In parallel with the judicial lawsuit's developments, the Labor Prosecutor's Office initiated an administrative audit regarding the company's compliance with the TAC. On November 2016, the Labor Prosecutor's Office claimed that it had identified violations of the TAC and demanded R$13 million in connection with such violations. On April 3, 2017, we submitted a petition and documents as evidence that we have complied with the settlement, rejecting the Labor Prosecutor's claims. We attended a series of hearings with the Labor Prosecutor's Office to discuss TAC compliance, Arcos' petition, and the possibility of entering into a new settlement in order to reduce the previous commitments and the fines assumed by us. A new hearing is expected to be scheduled soon.

Retained Lawsuits and Contingent Liabilities

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. As of December 31, 2018 we maintained a provision for contingencies amounting to $42.1 million ($46 million as of December 31, 2017), which is disclosed net of judicial deposits amounting to $13.6 million ($18.1 million as of December 31, 2017) that we were required to make in connection with the proceedings. As of December 31, 2018, the net amount of $28.5 million included $26.1 million as a non-current liability. See Note 18 to our consolidated financial statements for more details.

Pursuant to the Acquisition, McDonald's Corporation indemnifies us for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisee lawsuit. As of December 31, 2018, the provision for contingencies included $4.0 million ($2.5 million as of December 31, 2017) related to Brazilian claims that are covered by the indemnification agreement. As a result, we have recorded a current asset and non-current asset in respect of McDonald's Corporation's indemnity in our consolidated balance sheet. The current asset in respect of McDonald's Corporation's indemnity represents the amount of cash to be received as a result of settling certain Brazilian labor and tax contingencies.

Several of these proceedings have already been resolved successfully, either by a judicial decision or a cash settlement. The cash settlements were made pursuant to the reopening of a 2009 amnesty granted by the Brazilian federal government, in which McDonalds opted to participate. The amnesty was originally granted in 2009 as a way to reduce litigation with federal authorities and increase tax collection during the financial crisis. The amnesty allowed Brazilian taxpayers to settle federal tax debts under favorable conditions, including reduced penalties and interest and the ability to pay principal in up to 180 installments. In 2014, pursuant to an additional amnesty, such outstanding Brazilian federal tax debts were paid in full using mainly applicable tax loss carryforwards. The remaining retained proceedings are pending a final decision.

As of December 31, 2018, there are certain matters related to the interpretation of tax and labor law for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of $188 million and $196 million.

Other Proceedings

In addition to the matters described above, we are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these

pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition, or results of operations. However, in light of the uncertainties involved in these claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of our income for that period.

Dividends and Dividend Policy

Our Board of Directors considers the legal requirements with regard to our net income and retained earnings and our cash flow generation, targeted leverage ratios and debt covenant requirements in determining the amount of dividends to be paid, if any. Dividends may only be paid in accordance with the provisions of our memorandum and articles of association and Section 57 of the BVI Business Companies Act, 2004 (as amended) and after having fulfilled our capital expenditures program and after satisfying our indebtedness and liquidity thresholds, in that order. Pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company.

Since the Acquisition, we declared the following dividends (all dividends shown in the aggregate for all outstanding shares, other than per share figures):

- a $10,180,449.95 million paid on April 12, 2019 and dividends of $0.03 per share to be paid on each of August 14, 2019 and December 12, 2019;
- a $10.6 million and a $10.4 million dividend in 2018;
- four $12.5 million dividends in 2014;
- four $12.5 million dividends in 2013;
- four $12.5 million dividends in 2012;
- four $12.5 million dividends in 2011; and
- a $40 million dividend with respect to our results of operations for fiscal year 2009.

The amounts and dates of future dividend payments, if any, will be subject to, among other things, the discretion of our Board of Directors. Accordingly, there can be no assurance that any future distributions will be made, or, if made, as to the amount of such distributions.

B. Significant Changes

None.

ITEM 9. THE OFFER AND LISTING

A. Offering and Listing Details

See “—C. Markets”

B. Plan of Distribution

Not applicable.

C. Markets

Our class A shares have been listed on the NYSE, since April 14, 2011 under the symbol “ARCO.”

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issue

Not applicable.

ITEM 10. ADDITIONAL INFORMATION

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association

General

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act.

Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges. Our registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

The transfer agent and registrar for our class A and class B shares is Continental Stock Transfer & Trust Company, which maintains the share registrar for each class in New York, New York.

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue up to 420,000,000 class A shares and 80,000,000 class B shares. As of the date of this annual report, 123,608,999 class A shares and 80,000,000 class B shares are issued, fully paid and outstanding. In addition, 7,993,602 Class A shares are issued and being held in treasury.

The maximum number of shares that we are authorized to issue may be changed by resolution of shareholders amending our memorandum and articles of association. Shares may be issued from time to time only by resolution of shareholders.

Our class A shares are listed on the NYSE under the symbol “ARCO.”

The following is a summary of the material provisions of our memorandum and articles of association.

Class A Shares

Holders of our class A shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class A shares:

- each holder of class A shares is entitled to one vote per share on all matters to be voted on by shareholders generally, including the election of directors;

- holders of class A shares vote together with holders of class B shares;

- there are no cumulative voting rights;

- the holders of our class A shares are entitled to dividends and other distributions, *pari passu* with our class B shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;

- upon our liquidation, dissolution or winding up, the holders of class A shares will be entitled to share ratably, *pari passu* with our class B shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities; and

- the holders of class A shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions.

Class B Shares

All of our class B shares are owned by Los Laureles Ltd. Holders of our class B shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class B shares:

- each holder of class B shares is entitled to five votes per share on all matters to be voted on by shareholders generally, including the election of directors;

- holders of class B shares vote together with holders of class A shares;

- class B shares may not be listed on any U.S. or foreign national or regional securities exchange or market;

- there are no cumulative voting rights;

- the holders of our class B shares are entitled to dividends and other distributions, *pari passu* with our class A shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;

- upon our liquidation, dissolution or winding up, the holders of class B shares will be entitled to share ratably, *pari passu* with our class A shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities;

- the holders of class B shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions;

- each class B share is convertible into one class A share at the option of the holder at any time, subject to the prior written approval of McDonald’s; and

- each class B share will convert automatically into one class A share at such time as the holders of class B shares cease to hold, directly or indirectly, at least 20% of the aggregate number of outstanding class A and class B shares.

Limitation on Liability and Indemnification Matters

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent director would exercise in comparable circumstances. Our memorandum and articles of association provide that, to the fullest extent permitted by British Virgin Islands law or any other applicable laws, our directors will not be personally liable to us or our shareholders for any acts or omissions in the performance of their duties. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

Our memorandum and articles of association provide that we shall indemnify any of our directors or anyone serving at our request as a director of another entity against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings or suits. We may pay any expenses, including legal fees, incurred by any such person in defending any legal, administrative or investigative proceedings in advance of the final disposition of the proceedings. If a person to be indemnified has been successful in defense of any proceedings referred to above, the director is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by the director or officer in connection with the proceedings.

We may purchase and maintain insurance in relation to any of our directors, officers, employees, agents or liquidators against any liability asserted against them and incurred by them in that capacity, whether or not we have or would have had the power to indemnify them against the liability as provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

Shareholders' Meetings and Consents

The following summarizes certain relevant provisions of British Virgin Islands law and our articles of association in relation to our shareholders' meetings:

- the directors of the Company may convene meetings of shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable; provided that at least one meeting of shareholders be held each year;

- upon the written request of shareholders entitled to exercise 30 percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors are required to convene a meeting of the shareholders. Any such request must state the proposed purpose of the meeting;

- the directors convening a meeting must give not less than ten days' notice of a meeting of shareholders to: (i) those shareholders whose names on the date the notice is given appear as shareholders in the register of members of our company and are entitled to vote at the meeting, and (ii) the other directors;

- a meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares that such shareholder holds;

- a shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder;

- a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50 percent of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders to be considered at the meeting;

- if within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall be adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other date, time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the matters to be considered by the meeting, those present shall constitute a quorum, but otherwise the meeting shall be dissolved. Notice of the adjourned meeting need not be given if the date, time and place of such meeting are announced at the meeting at which the adjournment is taken;

- a resolution of shareholders is valid (i) if approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the shares entitled to vote thereon which were present at the meeting and were voted, or (ii) if it is a resolution consented to in writing by a majority of the votes of shares entitled to vote thereon; and

- an action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing by a majority of the votes of shares entitled to vote thereon, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

We held our most recent annual shareholder meeting on April 22, 2019 in Montevideo, Uruguay.

Compensation of Directors

The compensation of our directors is determined by our Board of Directors, and there is no requirement that a specified number or percentage of "independent" directors must approve any such determination.

Differences in Corporate Law

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands in many respects are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt a memorandum of association and articles of association that will provide shareholders with rights that, except as described in this annual report, do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws applicable to companies incorporated in Delaware and their shareholders.

Director's Fiduciary Duties

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

British Virgin Islands law provides that every director of a British Virgin Islands company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances, taking into account the nature of the company, the nature of the

decision and the position of the director and his responsibilities. In addition, British Virgin Islands law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes British Virgin Islands law or the memorandum association or articles of association of the company.

Amendment of Governing Documents

Under Delaware corporate law, with very limited exceptions, a vote of the shareholders is required to amend the certificate of incorporation. In addition, Delaware corporate law provides that shareholders have the right to amend the bylaws, and the certificate of incorporation also may confer on the directors the right to amend the bylaws. Our memorandum of association may only be amended by a resolution of shareholders, provided that any amendment of the provision related to the prohibition against listing our class B shares must be approved by not less than 50% of the votes of the class A shares entitled to vote that were present at the relevant meeting and voted. Our articles of association may also only be amended by a resolution of shareholders.

Written Consent of Directors

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Similarly, under our articles of association, a resolution of our directors in writing shall be valid only if consented to by all directors or by all members of a committee of directors, as the case may be.

Written Consent of Shareholders

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of shareholders of a corporation may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shareholders entitled to vote were present and voted. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum and articles of association provide that shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon.

Shareholder Proposals

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested. Any such request must state the proposed purpose of the meeting.

Sale of Assets

Under Delaware corporate law, a vote of the shareholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the Company's total assets by value are being disposed of or sold if not made in the usual or regular course of the business carried out by the company. Under our memorandum and articles of association, the directors may by resolution of directors determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by us and such determination is, in the absence of fraud, conclusive.

Dissolution; Winding Up

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved in writing by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum and articles of association, we may be voluntarily

liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities or we are able to pay our debts as they fall due.

Redemption of Shares

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option, at the option of the holders of that stock or upon the happening of a specified event, provided shares with full voting power remain outstanding. The stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of the stock. As permitted by British Virgin Islands law and our memorandum and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. However, the consent of the shareholder whose shares are to be repurchased, redeemed or otherwise acquired must be obtained, except as described under "—Compulsory Acquisition" below. Moreover, our directors must determine that immediately following the redemption or repurchase we will be able to pay our debts as they become due and that the value of our assets will exceed our liabilities.

Compulsory Acquisition

Under Delaware General Corporation Law § 253, in a process known as a "short form" merger, a corporation that owns at least 90% of the outstanding shares of each class of stock of another corporation may either merge the other corporation into itself and assume all of its obligations or merge itself into the other corporation by executing, acknowledging and filing with the Delaware Secretary of State a certificate of such ownership and merger setting forth a copy of the resolution of its board of directors authorizing such merger. If the parent corporation is a Delaware corporation that is not the surviving corporation, the merger also must be approved by a majority of the outstanding stock of the parent corporation. If the parent corporation does not own all of the stock of the subsidiary corporation immediately prior to the merger, the minority shareholders of the subsidiary corporation party to the merger may have appraisal rights as set forth in § 262 of the Delaware General Corporation Law.

Under the BVI Act, subject to any limitations in a Company's memorandum or articles, members holding 90% of the votes of the outstanding shares entitled to vote, and members holding 90% of the votes of the outstanding shares of each class of shares entitled to vote, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of such written instruction, the company shall redeem the shares specified in the written instruction, irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. A member whose shares are to be so redeemed is entitled to dissent from such redemption, and to be paid the fair value of his shares, as described under "—Shareholders' Rights under British Virgin Islands Law Generally" below.

Variation of Rights of Shares

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law and our memorandum of association, we may vary the rights attached to any class of shares only with the consent in writing of holders of not less than 50% of the issued shares of that class and of holders of not less than 50% of the issued shares of any other class which may be adversely affected by such variation.

Removal of Directors

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Our memorandum and articles of association provide that directors may be removed at any time, with or without cause, by a resolution of shareholders or a resolution of directors.

In addition, directors are subject to rotational retirement every three years. The initial terms of office of the Class I, Class II and Class III directors have been staggered over a period of three years to ensure that all directors of the company do not face reelection in the same year.

Mergers

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law § 251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.

Under the BVI Act, two or more BVI companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent BVI company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. One or more BVI companies may also merge or consolidate with one or more companies incorporated under the laws of jurisdictions outside the BVI, if the merger or consolidation is permitted by the laws of the jurisdictions in which the companies incorporated outside the BVI are incorporated. In respect of such a merger or consolidation a BVI company is required to comply with the provisions of the BVI Act, and a company incorporated outside the BVI is required to comply with the laws of its jurisdiction of incorporation.

Shareholders of BVI companies not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum of association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

Inspection of Books and Records

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation’s stock ledger, list of shareholders and other books and records. Under British Virgin Islands law, members of the general public, on payment of a nominal fee, can obtain copies of the public records of a company available at the office of the British Virgin Islands Registrar of Corporate Affairs which will include the company’s certificate of incorporation, its memorandum and articles of association (with any amendments) and records of license fees paid to date, and will also disclose any articles of dissolution, articles of merger and a register of registered charges if such a register has been filed in respect of the company.

A member of a company is entitled, on giving written notice to the company, to inspect:

(a) the memorandum and articles;

(b) the register of members;

(c) the register of directors; and

(d) the minutes of meetings and resolutions of members and of those classes of members of which he is a member; and to make copies of or take extracts from the documents and records referred to in (a) to (d) above. Subject to the memorandum and articles, the directors may, if they are satisfied that it would be contrary to the company’s interests to allow a member to inspect any document, or part of a document, specified in (b), (c) or (d) above, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company is required to keep at the office of its registered agent the memorandum and articles of the company; the register of members maintained or a copy of the register of members; the register of directors or a copy of the register of directors; and copies of all notices and other documents filed by the company in the previous ten years.

Where a company keeps a copy of the register of members or the register of directors at the office of its registered agent, it is required to notify any changes to the originals of such registers to the registered agent, in writing, within 15 days of any change; and to provide the registered agent with a written record of the physical address of the place or places at which the original register of members or the original register of directors is kept. Where the place at which the original register of members or the original register of directors is changed, the company is required to provide the registered agent with the physical address of the new location of the records within fourteen days of the change of location.

A company is also required to keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors determine, the minutes of meetings and resolutions of members and of classes of members; and the minutes of meetings and resolutions of directors and committees of directors. If such records are kept at a place other than at the office of the company’s registered agent, the company is required to provide the registered agent with a written record of the physical address of the place or places at which the records are kept and to notify the registered agent, within 14 days, of the physical address of any new location where such records may be kept.

A company is further required to:

(a) keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors may determine, the records and underlying documentation of the company;

(b) retain the records and underlying documentation for a period of at least five years from the date: (i) of completion of the transaction to which the records and underlying documentation relate; or (ii) the company terminates the business relationship to which the records and underlying documentation relate; and

(c) provide its registered agent without delay any records and underlying documentation in respect of the company that the registered agent requests pursuant to the entitlement of the company’s registered agent to make such a request where the registered agent is required to do so by the British Virgin Islands Financial Services Commission or any other competent authority in the British Virgin Islands acting pursuant to the exercise of a power under an enactment.

The records and underlying documentation of the company are required to be in such form as:

(a) are sufficient to show and explain the company’s transactions; and

(b) will, at any time, enable the financial position of the company to be determined with reasonable accuracy.

Where the records and underlying documentation of a company are kept at a place or places other than at the office of the company’s registered agent, the company is required to provide the registered agent with a written:

(a) record of the physical address of the place at which the records and underlying documentation are kept; and

(b) record of the name of the person who maintains and controls the company’s records and underlying documentation.

Where the place or places at which the records and underlying documentation of the company, or the name of the person who maintains and controls the company’s records and underlying documentation, change, the company must within 14 days of the change, provide:

(a) its registered agent with the physical address of the new location of the records and underlying documentation; or

(b) the name of the new person who maintains and controls the company's records and underlying documentation.

For the foregoing purposes:

(a) "business relationship" means a continuing arrangement between a company and one or more persons with whom the company engages in business, whether on a one-off, regular or habitual basis; and

(b) "records and underlying documentation" includes accounts and records (such as invoices, contracts and similar documents) in relation to: (i) all sums of money received and expended by the company and the matters in respect of which the receipt and expenditure takes place; (ii) all sales and purchases of goods by the company; and (iii) the assets and liabilities of the company.

Conflict of Interest

Under Delaware corporate law, a contract between a corporation and a director or officer, or between a corporation and any other organization in which a director or officer has a financial interest, is not void as long as the material facts as to the director's or officer's relationship or interest are disclosed or known and either a majority of the disinterested directors authorizes the contract in good faith or the shareholders vote in good faith to approve the contract. Nor will any such contract be void if it is fair to the corporation when it is authorized, approved or ratified by the board of directors, a committee or the shareholders.

The BVI Act provides that a director shall, forthwith after becoming aware that he is interested in a transaction entered into or to be entered into by the company, disclose that interest to the board of directors of the company. The failure of a director to disclose that interest does not affect the validity of a transaction entered into by the director or the company, so long as the director's interest was disclosed to the board prior to the Company's entry into the transaction or was not required to be disclosed because the transaction is between the company and the director himself and is otherwise in the ordinary course of business and on usual terms and conditions. As permitted by British Virgin Islands law and our memorandum and articles of association, a director interested in a particular transaction may vote on it, attend meetings at which it is considered and sign documents on our behalf which relate to the transaction, provided that the disinterested directors consent.

Transactions with Interested Shareholders

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by that statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that the person becomes an interested shareholder. An interested shareholder generally is a person or group that owns or owned 15% or more of the target's outstanding voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

British Virgin Islands law has no comparable provision. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although British Virgin Islands law does not regulate transactions between a company and its significant shareholders, it does provide that these transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

Independent Directors

There are no provisions under Delaware corporate law or under the BVI Act that require a majority of our directors to be independent.

Cumulative Voting

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the Company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

Shareholders' Rights under British Virgin Islands Law Generally

The BVI Act provides for remedies which may be available to shareholders. Where a company incorporated under the BVI Act or any of its directors engages in, or proposes to engage in, conduct that contravenes the BVI Act or the Company's memorandum and articles of association, the BVI courts can issue a restraining or compliance order. Shareholders cannot also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for members' remedies has also been incorporated into the BVI Act: where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminatory or unfairly prejudicial to him, he may apply to the court for an order based on such conduct.

Any shareholder of a company may apply to court for the appointment of a liquidator of the company and the court may appoint a liquidator of the company if it is of the opinion that it is just and equitable to do so.

The BVI Act provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation, if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Virgin Islands or their individual rights as shareholders as established by the Company's memorandum and articles of association.

C. Material Contracts

The MFAs

We received exclusive master franchising rights from McDonald's for the Territories on August 3, 2007 when Mr. Woods Staton, our Executive Chairman and controlling shareholder and our founding private equity shareholders purchased McDonald's LatAm business for $698.1 million (including $18.7 million of acquisition costs) and entered into the MFAs. Prior to the Acquisition, Mr. Woods Staton had been the joint venture partner of McDonald's Corporation in Argentina for over 20 years and had served as President of McDonald's South Latin American division since 2004.

McDonald's has a long-standing presence in Latin America and the Caribbean dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its footprint across the region as consumer markets and opportunities arose, opening its first restaurants in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010, June 3, 2011 and March 17, 2016, entered into by us, LatAm, LLC (the "Master Franchisee"), our wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V., certain subsidiaries of the Master Franchisee,

Los Laureles, Ltd. and McDonald's. On March 21, 2018, Arcos Dorados Group B.V. (together with Arcos Dorados B.V. and us, the "Owner Entities") replaced Arcos Dorados Coöperatieve U.A. as party to the MFA. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008.

The MFAs set forth McDonald's and our rights and obligations in respect of the ownership and operation of the McDonald's-branded restaurants located in the Territories. The MFAs do not include the following Latin American and Caribbean countries and territories, among others: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bolivia, the British Virgin Islands, the Cayman Islands, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guiana, Haiti, Honduras, Jamaica, Montserrat, Nicaragua, Paraguay, Suriname, St. Barthélemy, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Turks & Caicos Islands and the U.S. Virgin Islands, with the exception of St. Croix and St. Thomas.

The material provisions of the MFAs are set forth below.

Term

The initial term of the franchise granted pursuant to the MFAs is 20 years for all of the Territories other than French Guiana, Guadeloupe and Martinique. After the expiration of the initial term, McDonald's may grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years. The initial term of the franchise for French Guiana, Guadeloupe and Martinique was 10 years. Under the MFA, we had the right to extend the term of the MFA with respect to French Guiana, Guadeloupe and Martinique for an additional term of 10 years. On June 27, 2016, we exercised this right and McDonald's granted us an extension of the initial term for the franchises in French Guiana, Guadeloupe and Martinique for a period of 10 years, expiring August 2, 2027.

Our Right to Own and Operate McDonald's-Branded Restaurants

Under the MFAs, in the Territories, we have the exclusive right to (i) own and operate, directly or indirectly, McDonald's restaurants, (ii) license and grant franchises with respect to McDonald's-branded restaurants, (iii) adopt and use, and to grant the right and license to franchisees to adopt and use, the McDonald's operations system in our restaurants, (iv) advertise to the public that we are a franchisee of McDonald's, and (v) to use, and to sublicense to our franchisees the right to use the McDonald's intellectual property solely in connection with the development, ownership, operation, promotion and management of our restaurants, and to engage in related advertising, promotion and marketing programs and activities.

Under the MFAs, McDonald's cannot grant the rights described in clauses (i), (ii) and (iii) of the preceding paragraph to any other person while the MFAs are in effect. Notwithstanding the foregoing, McDonald's has reserved, with respect to the McDonald's restaurants located in the Territories, all rights not specifically granted to us, including the right, directly or indirectly, to (i) use and sublicense the McDonald's intellectual property for all other purposes and means of distribution, (ii) sell, promote or license the sale of products or services under the intellectual property and (iii) use the intellectual property in connection with all other activities not prohibited by the MFAs.

In addition, under the MFAs, McDonald's provides us with know-how and new developments, techniques and improvements in the areas of restaurant management, food preparation and service, and operations manuals that contain the standards and procedures necessary for the successful operation of McDonald's-branded restaurants.

Franchise Fees

Under the MFAs, we are responsible for the payment to McDonald's of initial franchise fees, continuing franchise fees and transfer fees.

The initial franchise fee is payable upon the opening of a new restaurant and the extension of the term of any existing franchise agreement. For Company-operated restaurants, the initial fee is based on the term remaining under the MFAs for the country in which the restaurant is located. For franchised restaurants, we receive an initial fee from the franchisee based on the term of the franchise agreement (generally 20 years), and pay 50% of this fee to McDonald's.

The continuing franchise fee is paid, with respect to each calendar month, to McDonald's in an amount generally equal to 7% of the U.S. dollar equivalent of the gross sales, as defined therein, of each of the McDonald's restaurants in the Territories for that calendar month, minus, as applicable, a brand building adjustment. During the first 10 years of the MFAs, the brand building adjustment is 2% of the gross sales, for a net continuing franchise fee payment of 5% of the gross sales. During years 11 through 15 of the MFAs, the brand building adjustment will be 1% of the gross sales, for a net continuing franchise fee payment of 6%; and the brand building adjustment will be 0% thereafter, for a net continuing franchise fee payment of 7% of the gross sales. In addition, on January 25, 2017, McDonald's Corporation agreed to provide growth support for the same period. The impact of this support resulted in an effective royalty rate of 5.4% in 2018, and we project that it could result in an effective royalty rate of 5.9% in 2019.

We are responsible for collecting the continuing franchise fee from our franchisees and must pay that amount to McDonald's. In the event that a franchisee does not pay the full amount of the fee or any of our subsidiaries are unable to transfer funds to us due to currency restrictions or otherwise, we are responsible for any resulting shortfall. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements" and "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—We are subject to significant foreign currency exchange controls and depreciation in certain countries in which we operate."

In the event of a voluntary or involuntary transfer of any of the McDonald's restaurants located in the Territories to a person other than a subsidiary of ours or an affiliate of one of our franchisees, we must charge a transfer fee of not less than $10,000 and must pay to McDonald's an amount equal to 50% of the fee charged.

All payments to McDonald's must be made in U.S. dollars, but are based on local currency exchange rates at the time of payment.

Material Breach

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations under the MFAs (not cured within 30 days after receipt of notice thereof from McDonald's) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories. The following events, among others, constitute a material breach under the MFAs: our noncompliance with anti-terrorism or anti-corruption policies and procedures required by applicable law; our bankruptcy, insolvency, voluntary filing or filing by any other person of a petition in commercial insolvency; our conviction or that of our subsidiaries, or of our or our subsidiaries' agents or employees for a crime or offense that is punishable by incarceration for more than one year or a felony, or a crime or offense or the indictment on charges thereof that, in the determination of McDonald's, is likely to adversely affect the reputation of such person, any franchised restaurant or McDonald's; the entry of any judgment against us or our subsidiaries in excess of $1,000,000 that is not duly paid or otherwise discharged within 30 days (unless such judgment is being contested on appeal in good faith); our failure to maintain certain quarterly financial ratios and not cure any non-compliance within 30 days; our failure to achieve (a) at least 80% of the targeted openings during any one-calendar year of any restaurant opening plan; or (b) at least 90% of the targeted openings during the three-calendar year term of any restaurant opening plan; and our failure to comply with at least 80% of the funding requirements of any reinvestment plan with respect to any Territory for a period of one year.

Business of the Company and the Other Owner Entities

In addition to the payment of franchise fees described above, we and the other Owner Entities are subject to a variety of obligations and restrictions under the MFAs.

Under the MFAs, we cannot, directly or indirectly, enter into any other QSR business or any business other than the operation of McDonald's-branded restaurants in the Territories. Neither we nor any of the other Owner Entities can engage in a business other than holding, directly or indirectly, our equity interests. In addition, neither we nor any of the other Owner Entities can engage in any activity or participate in any business that competes with McDonald's business.

Under the MFAs, Los Laureles Ltd., a British Virgin Islands company beneficially owned by Mr. Woods Staton, our Executive Chairman and controlling shareholder, is required to own not less than 40% of our economic interests and 51% of our voting interests. The MFAs do provide an exception for any dilution following an initial public offering, so long as such dilution does not cause Los Laureles Ltd. to be diluted below 30% of our economic interests. Also, under the MFAs, we are required to own, directly or indirectly, 100% of the equity interests of our subsidiaries and cannot enter into any partnership, joint venture or similar arrangement without McDonald's consent. In addition, at least 50% of all McDonald's-branded restaurants in the Territories must be Company-operated restaurants.

Real Estate

Under the MFAs, we must own or lease the real estate property where all of our Company-operated restaurants are located. In addition, we cannot transfer or encumber a significant portion of the real estate properties that we own without McDonald's consent. Due to the geographic and commercial importance of certain restaurants, we may not sell certain "iconic" properties without the prior written consent of McDonald's. For certain of these selected properties, we have already perfected a first priority lien in favor of McDonald's.

Under the MFAs, no more than 50% of the total number of restaurants in each Territory, and no more than 10% of the total number of restaurants in all the Territories, can be located on real estate property that is owned, held or leased by our franchisees.

In addition, the MFA lists 25 restaurants that we are prohibited from selling or otherwise transferring without McDonald's consent.

Transfer of Equity Interests or Significant Assets

Under the MFAs, neither we nor any of the other Owner Entities can transfer or pledge the equity interests of any of our subsidiaries, or any significant portion of our assets, without McDonald's consent.

Operational Control

Under the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and our chief operating officer.

In the event that McDonald's modifies its standards applicable to technology and related equipment, we must purchase any new or modified technology, software, hardware or equipment necessary to comply with the modified standards.

Restaurant Opening Plan and Reinvestment Plan

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimaging or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. We may also propose, subject to McDonald's prior written consent, amendments to any restaurant opening plan or reinvestment plan to adapt to changes in economic or political conditions.

As part of the 2017-2019 restaurant opening and reinvestment plan, we have committed to open 180 new restaurants and to reinvest $292 million in existing restaurants from 2017 through 2019. See "Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures and Divestitures." In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan.

Advertising and Promotion Plan

Under the MFAs, we must develop and implement a marketing plan with respect to each Territory that must be approved in advance by McDonald's. The MFAs require us to spend at least 5% of our gross sales on advertisement and promotion activities. Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage in order to drive sales.

Insurance

Under the MFAs, we are required to acquire and maintain a variety of insurance policies with certain minimum coverage limits, including commercial general liability, workers compensation, "all risk" property and business interruption insurance, among others.

Call Option Right and Security Interest in Equity Interests of the Company

Under the MFAs, McDonald's has the right, or Call Option, to acquire our non-public shares or our interests in one or more Territories upon: (i) the expiration of the initial term of the MFAs on August 2, 2027 if the initial term is not extended, (ii) the occurrence of a material breach of the MFAs or (iii) during the period of 12 months following the earlier of (x) the 18th month anniversary of the death or permanent incapacity of Mr. Woods Staton or (y) the receipt by McDonald's of notice from Mr. Woods Staton's heirs that they have elected to have the period of 12 months commence as of the date specified in the notice. McDonald's generally has the right either to exercise the Call Option with respect to all of the Territories, or, in its sole discretion, with respect to the Territory or Territories identified by McDonald's as being affected by such material breach or to which such material breach may be attributable except upon the occurrence of an initial material breach relating to any Territory or Territories in which there are less than 100 restaurants in operation. In such case, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory or Territories. As of December 31, 2018, we had more than 100 restaurants in operation in each of Argentina, Brazil, Mexico, Puerto Rico and Venezuela. No other Territory had more than 85 restaurants in operation.

If McDonald's exercises the Call Option upon the occurrence of the events described in clause (i) or (iii) of the preceding paragraph, it must pay a purchase price equal to 100% of the fair market value of our non-public shares. If the Call Option is exercised upon the occurrence of a material breach, however, the purchase price is reduced to 80% of the fair market value of all of our non-public shares or of all of the equity interests of the subsidiaries operating restaurants in the Territory related to such material breach, as applicable. The purchase price paid by McDonald's upon exercise of the Call Option is, in all events, reduced by the amount of debt and contingencies and increased by the amount of cash attributable to the entity whose equity interests are being acquired pursuant to the Call Option. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

If McDonald's exercises the Call Option with respect to any of our subsidiaries (but not all of them) and the amount of debt and contingencies (minus cash) attributable to the equity interests of those subsidiaries is greater than the fair market value of those equity interests, we must, at our election, either (i) assume the debts and contingencies (minus cash) and deliver the equity interests to McDonald's free of any obligations with respect thereto or (ii) pay to McDonald's the absolute value of that amount. The fair market value of any of the equity interests is to be determined by internationally recognized investment banks without taking into consideration the debt, contingencies or cash attributable to the equity interests.

In order to secure McDonald's right to exercise the Call Option, McDonald's was granted a perfected security interest in the equity interests of the Master Franchisee, the Brazilian Master Franchisee and our subsidiaries other than our subsidiaries organized in Costa Rica, Mexico, French Guiana, Guadeloupe and Martinique. The equity interests of our subsidiaries organized in Costa Rica and Mexico were transferred to a trust for the benefit of McDonald's. McDonald's does not have a security interest in the equity interests of our subsidiaries organized in French Guiana, Guadeloupe and Martinique.

The equity interests were transferred to Citibank, N.A., acting as escrow agent. Subject to the terms of the Escrow Agreement and the Intercreditor Agreement, upon McDonald's exercise of the Call Option and its payment of the respective purchase price, the escrow agent must transfer the equity interests, free of any liens or encumbrances, to McDonald's.

Limitations on Indebtedness

Under the MFAs, we cannot incur any indebtedness secured by the collateral pledged by us and certain of our subsidiaries in connection with the letters of credit or amend or waive any of the terms related to the collateral, without McDonald's consent. The pledged collateral includes the equity interests of certain of our subsidiaries, certain of our rights under certain of the Acquisition documents, franchise document payment rights, and our intercompany debt and notes.

Under the MFAs, we must maintain a fixed charge coverage ratio (as defined therein) at least equal to 1.50 and a leverage ratio (as defined therein) not in excess of 4.25. Mainly as a result of the adoption of new exchange rates used for remeasurement of our bolivar-denominated assets and liabilities and operating results in Venezuela in 2013 and 2014, we were not in compliance with these ratio requirements for certain periods during 2014, 2015 and 2016. We initially became non-compliant for the quarter ended June 30, 2014, at which time our Leverage Ratio and Fixed Charge Coverage Ratio was 4.38 and 1.48, respectively. Please refer to the table below for disclosure of our Leverage Ratio and Fixed Charge Coverage Ratio as of December 31, 2016 and for the other periods of our non-compliance with the requirements under the MFA. As of December 31, 2016, our Fixed Charge Coverage Ratio was 1.56 and our Leverage Ratio was 4.40. For that reason, McDonald's granted us limited waivers through and including June 20, 2016, during which time we were not required to comply with these financial ratios. We have been in compliance with these quarterly ratios since the expiration of the waiver. If we are unable to comply with our original commitments under the MFA or to obtain a waiver for any non-compliance in the future, we could be in material breach. Our breach of the MFA would give McDonald's certain rights, including the ability to acquire all or portions of our business. See "—Material Breach." Notwithstanding the foregoing, we do not expect any material adverse effect to our business, results of operations, financial condition or cash flows as a result of this situation. We continue to monitor our compliance with these quarterly ratios. On March 17, 2016, we amended the MFA to change certain definitions relevant to the calculation of the Fixed Charge Coverage Ratio and the Leverage Ratio. As of December 31, 2018, our Fixed Charge Coverage Ratio was 1.70 and our Leverage Ratio was 4.07.

Arcos Dorados Financial Ratios under the MFA

	Quarter ended				
	December 31, 2017	**March 31, 2018**	**June 30, 2018**	**September 30, 2018**	**December 31, 2018**
Leverage Ratio	3.80	4.05	4.02	3.83	4.07
Fixed Charge Coverage Ratio	1.77	1.70	1.74	1.81	1.70

Letters of Credit

As security for the performance of our obligations under the MFAs, we have obtained (i) on August 3, 2007, an irrevocable standby letter of credit in favor of McDonald's in an amount of $65.0 million and later reduced to $45.0 million on October 30, 2015, issued by Credit Suisse acting as issuing bank through its Cayman Islands Branch, (ii) on May 9, 2011, an irrevocable standby letter of credit in favor of McDonald's in an amount of $15.0 million, issued by Itaú Unibanco S.A. ("Itaú"), acting as issuing bank through its New York Branch, and (iii) on November 3, 2015, an irrevocable standby letter of credit in favor of McDonald's in an amount of $20.0 million, issued by JPMorgan, acting as issuing bank through its New York Branch. The Credit Suisse, Itaú and JP Morgan letters of credit expire on November 10, 2019, April 24, 2021 and November 6, 2021, respectively, but we will be required by the MFAs to renew these letters of credit or obtain new standby letters of credit in the same amount.

The Credit Suisse letter of credit and reimbursement agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a partial Call Option, (v) our ability to guaranty obligations of our subsidiaries, and (vi) amendments to the credit agreement.

Credit Suisse, as issuing bank, has a security interest in certain of our rights under certain Acquisition documents, franchise document payment rights and our intercompany debt notes. In addition, our subsidiaries (other than those organized in Ecuador, French Guiana, Guadeloupe, Martinique and Peru, and certain subsidiaries organized in Argentina, Colombia and Mexico) guaranteed to Credit Suisse the full and prompt payment of our obligations under the Credit Suisse letter of credit and reimbursement agreement.

The letter of credit that we obtained from Itaú effectively replaced the cash collateral that we had previously pledged in favor of McDonald's in an amount of $15.0 million. The Itaú continuing standby letter of credit agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a Call Option, and (v) permitting ourselves or any of our subsidiaries to become insolvent.

We delivered a promissory note to Itaú in an amount of $15.0 million evidencing our obligations to Itaú under the continuing standby letter of credit agreement and a guarantee letter from our Brazilian subsidiary guaranteeing the full and punctual payment when due of our obligations and liabilities to Itaú in respect of the Itaú letter of credit and the continuing standby letter of credit agreement, including without limitation our reimbursement obligations for any payments made by Itaú under the letter of credit.

The letter of credit that we obtained from JPMorgan effectively replaced the $ 20.0 million reduction in the Credit Suisse letter of credit.

The JPMorgan letter of credit is guaranteed by certain of our subsidiaries and contains a limited number of customary affirmative and negative covenants. These include limitations on (i) our leverage ratio, (ii) the dissolution, liquidation or winding-up of the applicant or a guarantor, (iii) a material breach or failure to comply with the MFA, and (iv) permitting the applicant or any guarantor to become insolvent.

Termination

The MFAs automatically terminate without the need for any party to it to take any further action if any type of insolvency or similar proceeding in respect of us or any of the other Owner Entities commences.

In the event of the occurrence of certain material breaches, such as if we fail to comply with the reinvestment or restaurant opening plans, McDonald's has the right to terminate the MFAs.

Upon the termination of the MFAs, McDonald's has the right to acquire all, but not less than all, of our equity interests at fair market value, which is to be calculated by internationally recognized investment banks selected by us and McDonald's. The fair market value of our equity interests shall be calculated in U.S. dollars based on the amount that would be received for our equity interests in an arm's-length transaction between a willing buyer and a willing seller, taking into account the benefits provided by the MFAs.

The 2016 Secured Loan Agreement

For a description of the secured loan agreement entered into by Arcos Dourados Comércio de Alimentos Ltda. with Citibank N.A., Bank of America N.A., Itau BBA International plc, JPMorgan Chase Bank, N.A. and Banco Santander (Brasil) S.A., Cayman Islands Branch, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash (used in) Financing Activities—The 2016 Secured Loan Agreement."

The 2016 Notes, the 2023 Notes and the 2027 Notes

For a description of the 2016 notes, the 2023 notes and the 2027 notes, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources."

The Revolving Credit Facilities

For a description of the revolving credit facilities entered into by Arcos Dorados B.V. with Bank of America, N.A. and JP Morgan Chase Bank, N.A. see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Net Cash (used in) Financing Activities—Revolving Credit Facilities."

D. Exchange Controls

There are currently no exchange control regulations in the BVI applicable to us or our shareholders. For information about any exchange controls or restrictions in Argentina, Brazil and Mexico, see "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls."

E. Taxation

British Virgin Islands Tax Considerations

The following summary contains a general description of certain British Virgin Islands tax consequences of the acquisition, ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to hold class A shares. The general summary is based upon the tax laws of the British Virgin Islands and regulations thereunder as of the date hereof, which are subject to change.

We are not liable to pay any form of corporate taxation in the BVI and all dividends, interests, rents, royalties, compensations and other amounts paid by us to persons who are not persons resident in the BVI or providing services in the BVI are exempt from all forms of taxation in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of ours by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation or other securities of ours.

Subject to the payment of stamp duty on the acquisition or certain leasing of property in the BVI by us (and in respect of certain transactions in respect of the shares, debt obligations or other securities of BVI incorporated companies owning land in the BVI), all instruments relating to transfers of property to or by us and all instruments relating to transactions in respect of the shares, debt obligations or other securities of ours and all instruments relating to other transactions relating to our business are exempt from payment of stamp duty in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to us or our shareholders who are not providing services in the BVI.

The BVI has signed an intergovernmental agreement to improve international tax compliance and the exchange of information with the United States (the "US IGA"). The BVI has also signed, along with over 100 other countries, a multilateral competent authority agreement to implement the Organisation for Economic Co-Operation and Development (OECD) Standard for Automatic Exchange of Financial Account Information - Common Reporting Standard (the "CRS").

Amendments made to the Mutual Legal Assistance (Tax Matters) Act, 2003 (as amended) (the "2003 Act") and orders have been made pursuant to the 2003 Act to give effect to the terms of the US IGA and the CRS (together "AEOI") under BVI law (the "BVI Legislation").

All BVI "Financial Institutions" are required to comply with the registration, due diligence and reporting requirements of the BVI Legislation which also implements the CRS, except to the extent that they can rely on an exemption that allows them to become a "Non-Reporting Financial Institution" (as defined in the relevant BVI Legislation).

We do not believe we are classified as a "Foreign Financial Institution" or "Financial Institution" within the meaning of AEOI and the BVI Legislation. However, if we were to determine that our classification has changed, we may request additional information from any shareholder and its beneficial owners to identify whether shares in the Company are held directly or indirectly by "Reportable Persons" (as defined by AEOI). Information in respect of Reportable Persons would be disclosed to the International Tax Authority ("ITA") of the BVI. The ITA in turn is required under AEOI and BVI Legislation to disclose information in respect of Reportable Persons to the foreign fiscal authorities relevant to such Reportable Persons.

There is no income tax treaty currently in effect between the United States and the BVI.

Material U.S. Federal Income Tax Considerations for U.S. Holders

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person's decision to own such securities. This summary applies only to U.S. Holders (as defined below) that own class A shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder's particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended, (the "Code") known as the Medicare contribution tax, and tax consequences applicable to certain U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;
- persons holding class A shares as part of a hedge, "straddle," wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the class A shares;
- persons whose "functional currency" for U.S. federal income tax purposes is not the U.S. dollar;
- tax exempt entities, including "individual retirement accounts" and "Roth IRAs";
- entities classified as partnerships for U.S. federal income tax purposes;
- persons that own or are deemed to own ten percent or more of our shares, by vote or by value;
- persons who acquired our class A shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding class A shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds class A shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding class A shares and partners in such partnerships should consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the class A shares.

This discussion is based upon the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which may affect the tax consequences described herein—possibly with retroactive effect.

A "U.S. Holder" is a holder who, for U.S. federal income tax purposes, is a beneficial owner of class A shares that is:

(1) a citizen or individual resident of the United States;

(2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or

(3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders should consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of class A shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

Taxation of Distributions

Distributions paid on class A shares, other than certain pro rata distributions of class A shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as "qualified dividend income" and therefore may be taxable at rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rates on dividends in their particular circumstances. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder's income on the date of the U.S. Holder's receipt of the dividend.

Sale or Other Taxable Disposition of Class A Shares

For U.S. federal income tax purposes, gain or loss realized on the sale or other taxable disposition of class A shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder owned the class A shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the class A shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

Passive Foreign Investment Company Rules

We believe that we were not a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes for our 2018 taxable year. However, because the application of the Treasury Regulations is not entirely clear and because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder owned class A shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the class A shares would be allocated ratably over the U.S. Holder's holding period for the class A shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each taxable year. Further, to the extent that any distribution received by a U.S. Holder on its class A shares exceeds 125% of the average of the annual distributions on the class A shares received during the preceding three years or such U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain on the disposition of a share of a PFIC, described immediately above. If we were a PFIC, certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the class A shares that differ from the treatment set forth in this paragraph.

In addition, if we were a PFIC or, with respect to any U.S. Holder, were treated as a PFIC for the taxable year in which we paid a dividend or for the prior taxable year, the preferential dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our class A shares, the U.S. Holder will generally be required to file IRS Form 8621 (or any successor form) with their annual U.S. federal income tax returns, subject to certain exceptions.

Information Reporting and Backup Withholding

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and specified entities that are formed or availed of for purposes of holding certain foreign financial assets) may be required to report information relating to their ownership of stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in certain accounts maintained by a U.S. financial institution). U.S. Holders should consult their tax advisers regarding the effect, if any, of these reporting requirements on their ownership and disposition of class A shares.

F. Dividends and Paying Agents

Not applicable.

G. Statement by Experts

Not applicable.

H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. The SEC maintains an Internet website that contains reports and other information filed by us electronically with the SEC. The address of that website is www.sec.gov.

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will send the transfer agent a copy of all notices of shareholders' meetings and other reports, communications and information that are made generally available to shareholders. The transfer agent has agreed to mail to all shareholders a notice containing the information (or a summary of the information) contained in any notice of a meeting of our shareholders received by the transfer agent and will make available to all shareholders such notices and all such other reports and communications received by the transfer agent.

I. Subsidiary Information

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

In the ordinary course of our business activities, we are exposed to various market risks that are beyond our control, including fluctuations in foreign exchange rates and the price of our primary supplies, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in foreign exchange rates and the price of commodities in the international markets. In addition, we are subject to equity price risk relating to our share-based compensation plans. Our policy with respect to these market risks is to assess the potential of experiencing losses and the consolidated impact thereof, and to mitigate these market risks. We do not enter into market risk sensitive instruments for trading or speculative purposes.

Foreign Currency Exchange Rate Risk

Foreign Currency Exchange Rate Risk in 2018

We are exposed to foreign currency exchange rate risk primarily in connection with the fluctuation in the value of the local currencies of the countries in which we operate, primarily the Brazilian real, the Argentine peso and the Mexican peso, among others. We generate revenues and cash from our operations in local currencies while a significant portion of our long-term debt is denominated in U.S. dollars. An adverse change in foreign currency exchange rates would therefore affect the generation of cash flow from operations in U.S. dollars, which could negatively impact our ability to pay amounts owed in U.S. dollars. In order to partially mitigate the foreign exchange rate risk related to our long-term debt, we entered into certain derivative instruments. See Note 13 to our consolidated financial statements for more detail. Moreover, our continuing franchise fee payments to McDonald's pursuant to the MFAs must be translated into and paid in U.S. dollars using the exchange rate of the last business day of the month, payable on the seventh day subsequent to each month-end. As such, in the intervening period we are subject to significant foreign exchange risk.

While substantially all our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports are denominated in U.S. dollars. Therefore, we are exposed to foreign currency exchange risk related to imports. We have entered into various forward contracts to hedge a portion of the foreign exchange risk associated with the forecasted imports of certain countries. See Note 13 to our consolidated financial statements for more details. In addition, we attempt to minimize this risk also by entering into annual and semi-annual pricing arrangements with our main suppliers.

We are also exposed to foreign exchange risk related to U.S. dollar-denominated intercompany balances held by certain of our operating subsidiaries with our holding companies, and to foreign currency-denominated intercompany balances held by our holding companies with certain operating subsidiaries. Although these intercompany balances are eliminated through consolidation, an adverse change in exchange rates could have a significant impact on our results through the recognition of foreign currency exchange losses in our consolidated income statement. To help mitigate some of these foreign currency exchange rate risks, we have entered into certain derivative instruments. See Note 13 to our consolidated financial statements for more details.

A decrease of 10% in the value of the Brazilian real against the U.S. dollar would result in a net foreign exchange loss totaling $7.2 million over (i) the cross-currency interest rate swap used to partially hedge the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian reais (R$964.2 million including accrued interest), (ii) the Brazilian reais-denominated intercompany net receivable held by our subsidiaries, Arcos Dorados B.V. and LatAm LLC (R$1,223.0 million including accrued interest), and (iii) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of $7.6 million as of December 31, 2018. In addition, since July 1, 2018, when the functional currency of our Argentine subsidiaries was changed to Brazilian reais as result of the highly inflationary environment in Argentina, an appreciation of the Argentine peso against the Brazilian reais would result in a foreign currency exchange loss as a result of remeasuring of our net monetary liability position denominated in Argentine pesos.

An increase of 10% in the value of the Mexican peso against the U.S. dollar would result in a foreign exchange loss of $2.0 million, mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Mexico of $17.6 million as of December 31, 2018.

An increase of 10% in the value of the Uruguayan peso against the U.S. dollar would result in a foreign exchange loss of $5.6 million over the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiaries in Uruguay of $50.5 million as of December 31, 2018.

An increase of 10% in the value of the Costa Rican Colones against the U.S. dollar would result in a foreign exchange loss of $4.7 million mainly related to the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiary in Costa Rica of $42.5 million as of December 31, 2018.

An increase of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of $3.3 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of $29.3 million as of December 31, 2018.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2018 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A devaluation of the Venezuelan bolívar against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in Venezuelan bolívares. See Note 22 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela.

Summary of Foreign Currency Exchange Rate Risk in 2017

A decrease of 10% in the value of the Brazilian real against the U.S. dollar would result in a net foreign exchange loss totaling $3.9 million over (i) the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian reais, partially offset by the cross-currency interest rate swap (R$137 million including accrued interest), (ii) the Brazilian reais-denominated intercompany net receivable held by our subsidiaries, Arcos Dorados B.V. and LatAm LLC (R$19 million including), and (iii) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of $2.3 million as of December 31, 2018. In addition, since July 1, 2018, when the functional currency of our Argentine subsidiaries was changed to Brazilian reais as result of the highly inflationary environment in Argentina, an appreciation of the Argentine peso against the Brazilian reais would result in a foreign currency exchange loss as a result of remeasuring of our net monetary liability position denominated in Argentine pesos.

An increase of 10% in the value of the Mexican peso against the U.S. dollar would result in a foreign exchange loss of $0.9 million, mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Mexico of $8.3 million as of December 31, 2017.

An increase of 10% in the value of the Uruguayan peso against the U.S. dollar would result in a foreign exchange loss of $4.9 million over the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiaries in Uruguay of $43.8 million as of December 31, 2017.

An increase of 10% in the value of the Costa Rican Colones against the U.S. dollar would result in a foreign exchange loss of $3.3 million mainly related to the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiary in Costa Rica of $29.5 million as of December 31, 2017.

An increase of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of $2.5 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of $22.5 million as of December 31, 2017.

An increase of 10% in the value of the Argentine peso against the U.S. dollar would result in a foreign exchange loss of $2.6 million over the outstanding U.S. dollar-denominated intercompany net receivable held by our subsidiary in Argentina of $23.6 million as of December 31, 2017.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2017 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A depreciation of the Venezuelan bolívar against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in Venezuelan bolívares. See Note 22 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela.

Commodity Price Risk

We purchase our primary supplies, including beef, chicken, buns, produce, cheese, dairy mixes and toppings pursuant to oral agreements with our approved suppliers at prices that are derived from international market prices, local conversion costs and local tariffs and taxes. We therefore carry market risk exposure to changes in commodity prices that have a direct impact on our costs. We do not enter into futures or options contracts to protect ourselves against changes in commodity prices, although we may do so in the future. We attempt to minimize this risk by entering into annual and semi-annual pricing arrangements with our main suppliers. This allows us to provide cost predictability while avoiding the costs related to the use of derivative instruments, which we may not be able to pass on to our customers due to the competitive nature of the QSR industry.

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES

A. Debt Securities

Not applicable.

B. Warrants and Rights

Not applicable.

C. Other Securities

Not applicable.

D. American Depositary Shares

Not applicable.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES

A. Defaults

No matters to report.

B. Arrears and Delinquencies

No matters to report.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

A. Material Modifications to Instruments

None.

B. Material Modifications to Rights

None.

C. Withdrawal or Substitution of Assets

None.

D. Change in Trustees or Paying Agents

None.

E. Use of Proceeds

Not applicable.

ITEM 15. CONTROLS AND PROCEDURES

A. Disclosure Controls and Procedures

As of December 31, 2018, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2018 in ensuring that information we are required to disclose in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

B. Management's Annual Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining an adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes, in accordance with generally accepted accounting principles. These include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- 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 are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, projections of, and any evaluation of effectiveness of the internal controls in 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.

We have adapted our internal control over financial reporting based on the guidelines set by the Internal Control—Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (2013 Framework), or COSO.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2018, based on the guidelines set forth by the COSO.

Based on this assessment, management believes that, as of December 31, 2018, its internal control over financial reporting was effective based on those criteria.

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2018.

C. Attestation Report of the Registered Public Accounting Firm

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2018, as stated in their report which appears below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of

ARCOS DORADOS HOLDINGS INC.:

Opinion on Internal Control over Financial Reporting

We have audited Arcos Dorados Holdings Inc.’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Arcos Dorados Holdings Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria **.**

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive (loss) income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”) and our report dated March 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Pistrelli, Henry Martin y Asociados S.R.L.
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
Member of Ernst & Young Global

Buenos Aires, Argentina
March 27, 2019

D. Changes in Internal Control over Financial Reporting

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 16. [RESERVED]

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

Our audit committee consists of three directors, Mr. Chu, Mr. Vélez and Mr. Gutiérrez, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our Board of Directors has determined that Mr. Chu, Mr. Vélez and Mr. Gutiérrez are also “audit committee financial experts” as defined by the SEC.

ITEM 16B. CODE OF ETHICS

Our Board of Directors has approved and adopted our Standards of Business Conduct, which are a code of ethics that applies to all employees of Arcos Dorados, including executive officers, and to our board members. Our Standards of Business Conduct are an exhibit to this annual report.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table describes the amounts billed to us by the principal accountant, for audit and other services performed in fiscal years 2018 and 2017.

	2018	2017
	(in thousands of U.S. dollars)	
Audit fees	$ 2,414	$ 2,770
Audit-related fees	21	30
Tax fees	342	464
All other fees	36	142

Audit Fees

Audit fees are fees billed for professional services rendered by the principal accountant for the audit of the registrant’s annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. It includes the audit of our annual consolidated financial statements, the reviews of our quarterly consolidated financial statements submitted on Form 6-K and other services that generally only the independent accountant reasonably can provide, such as comfort letters, statutory audits, attestation services, consents and assistance with and review of documents filed with the SEC.

Audit-Related Fees

Audit-related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements for fiscal years 2018 and 2017 and not reported under the previous category. These services would include, among others: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

Tax Fees

Tax fees are fees billed for professional services for tax compliance, tax advice and tax planning.

All Other Fees

All other fees are fees not reported under other categories. This category mainly includes advisory services on process improvement related to diagnostics and recommendations.

Pre-Approval Policies and Procedures

Our audit committee charter requires the audit committee to pre-approve the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services. The audit committee may delegate its authority to pre-approve services to the Chair of the audit committee, provided that such designees present any such approvals to the full audit committee at the next audit committee meeting.

All of the audit fees, audit-related fees, tax fees and all other fees described in this Item 16C have been pre-approved by the audit committee in accordance with these pre-approval policies and procedures.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

On May 22, 2018, our Board of Directors approved the adoption of a share repurchase program, pursuant to which the Company may repurchase from time to time up to $60 million of issued and outstanding Class A shares of the Company (the "Repurchase Program"). The Repurchase Program will expire on May 22, 2019. As of December 31, 2018, the Company had repurchased 6,360,826 Class A shares amounting to $46 million.

Month of repurchase	Total number of Class A shares purchased	Average price paid per Class A share	Total number of Class A shares purchased as part of publicly announced plans or program	Approximate dollar value of Class A shares that may be purchased under the program
May, 2018	1,102,415	$ 7.63	1,102,415	$ 51,524,941
June, 2018	1,554,137	7.36	1,554,137	40,000,005
August, 2018	431,784	6.93	431,784	37,002,419
September, 2018	811,767	6.46	811,767	31,745,225
October, 2018	1,110,723	6.57	1,110,723	24,420,504
November, 2018	550,000	7.28	550,000	20,403,104
December, 2018	800,000	8.03	800,000	13,964,864
Total at end of period	6,360,826	$ 7.18	6,360,826	$ 13,964,864

(1) Amounts reflect commissions paid to the administrator of the repurchase program.

As of the date of this annual report, an additional 1,632,776 Class A shares had been repurchased pursuant to the Repurchase Program in 2019.

ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT

None.

ITEM 16G. CORPORATE GOVERNANCE

Our class A shares are listed on the NYSE. We are therefore required to comply with certain of the NYSE's corporate governance listing standards, or the NYSE Standards. As a foreign private issuer, we may follow our home country's corporate governance practices in lieu of most of the NYSE Standards. Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain a

NYSE listing and, in accordance with Section 303A.11 of the NYSE Listed Company Manual, a brief, general summary of those differences is provided as follows.

Director independence

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. Neither British Virgin Islands law, the law of our country of incorporation, nor our memorandum and articles of association require a majority of our board to consist of independent directors. Our Board of Directors currently consists of eight members, three of whom are independent directors.

Non-management directors' executive sessions

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Our memorandum and articles of association do not require our non-management directors to hold such meetings.

Committee member composition

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee and a compensation committee that are composed entirely of independent directors. British Virgin Islands law, the law of our country of incorporation, does not impose similar requirements. We do not have a nominating/corporate governance committee.

Independence of the compensation and nomination committee and its advisers

NYSE listing standards require that the board of directors of a listed company consider two factors (in addition to the existing general independence tests) in the evaluation of the independence of compensation committee members: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fees paid by the listed company, and (ii) whether the director has an affiliate relationship with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company. In addition, before selecting or receiving advice from a compensation consultant or other adviser, the compensation committee of a listed company is required to take into consideration six specific factors, as well as all other factors relevant to an adviser's independence.

Foreign private issuers such as us are exempt from these requirements if home country practice is followed. British Virgin Islands law does not impose similar requirements.

Miscellaneous

In addition to the above differences, we are not required to: make our audit and compensation and nomination committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner that would satisfy the NYSE's requirements; acquire shareholder approval of equity compensation plans in certain cases; or adopt and make publicly available corporate governance guidelines.

We were incorporated under, and are governed by, the laws of the British Virgin Islands. For a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders, see "Item 10. Additional Information—B. Memorandum and Articles of Association—Differences in Corporate Law."

ITEM 16H. MINE SAFETY DISCLOSURE

Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

ITEM 18. FINANCIAL STATEMENTS

Financial Statements are filed as part of this annual report. See page F-1.

ITEM 19. EXHIBITS

Exhibit No.	Description
1.1	Memorandum and Articles of Association, incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
2.1	Indenture dated September 27, 2013 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, Citibank N.A., as trustee, registrar, paying agent and transfer agent, and Banque Internationale à Luxembourg Société Anonyme, as Luxembourg paying agent, incorporated herein by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013 filed with the SEC on April 28, 2014.
2.2	Indenture dated April 4, 2017 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, and Citibank N.A., as trustee, registrar, paying agent and transfer agent, incorporated herein by reference to Exhibit 2.2 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on April 27, 2017.
3.1	Los Laureles Voting Trust, incorporated herein by reference to Exhibit 9.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.1	Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.2	Amendment No. 1 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.3	Second Amended and Restated Master Franchise Agreement for McDonald's Restaurants in Brazil, incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.4	Amendment No. 3 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in all the Territories, except Brazil dated March 17, 2016 incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.
4.5	Letter of Agreement dated as of July 31, 2014 among McDonald's Latin America and LatAm, LLC, incorporated herein by reference to Exhibit 4.4 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 filed with the SEC on April 29, 2015.
4.6	Amended and Restated Escrow Agreement dated October 12, 2010 among McDonald's Latin America, LLC, LatAm, LLC, each of the Escrowed MF Subsidiaries, Arcos Dorados Restaurantes de Chile Ltda., Arcos Dorados B.V., Deutsche Bank Trust Company Americas, as collateral agent, and Citibank, N.A., as escrow agent, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.7	Letter of Credit Reimbursement Agreement dated August 3, 2007 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.

Exhibit No.	Description
4.8	Amendment to Letter of Credit Reimbursement Agreement dated November 3, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.9	Second Amendment to Letter of Credit Reimbursement Agreement dated December 10, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.10	Third Amendment to Letter of Credit Reimbursement Agreement dated July 8, 2009 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.11	Fourth Amendment to Letter of Credit Reimbursement Agreement dated April 23, 2010 between Arcos Dorados B.V. and Credit Suisse AG, Cayman Islands Branch, incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.12	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between Morgan Stanley & Co. International plc and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form F-1(File No. 333-173063) filed with the SEC on March 25, 2011.
4.13	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011 .
4.14	Credit Support Annex to the Schedule to the Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.15	Equity Incentive Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.16	Amendment No. 2 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.
4.17	ISDA Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.19 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.
4.18	ISDA Schedule to the 2012 Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.20 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.
4.19	Guarantee dated as of April 20, 2012 of Arcos Dourados Comercio de Alimentos Ltda. in favor of Bank of America, N.A. in connection with the ISDA Master Agreement and Schedule thereto, each dated as of April 20, 2012, and any confirmations thereunder, incorporated herein by reference to Exhibit 4.21 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.
4.20	Confirmation dated June 8, 2012 between Arcos Dorados Holdings Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.
4.21	Credit Agreement dated as of August 3, 2011 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.23 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.
4.22	First Amendment to Credit Agreement dated as of August 3, 2012 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012 filed with the SEC on April 26, 2013.

Exhibit No.	Description
4.23	Second Amendment to Credit Agreement dated as of August 2, 2013 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2013 filed with the SEC on April 28, 2014.
4.24	Third Amendment to Credit Agreement dated as of July 28, 2014 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.31 to the Company's Annual Report on Form 20-F for the year ended December 31, 2014 filed with the SEC on April 29, 2015.
4.25	Fourth Amendment to Credit Agreement dated as of July 30, 2015 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.25 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.
4.26	Waiver and Fifth Amendment to Credit Agreement dated as of March 16, 2016 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.26 to the Company's Annual Report on Form 20-F for the year ended December 31, 2015 filed with the SEC on April 29, 2016.
4.27	Sixth Amendment to Credit Agreement dated as of August 1, 2016 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.27 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on April 27, 2017.
4.28	Seventh Amendment to Credit Agreement dated as of August 1, 2017 among Arcos Dorados B.V., as borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017 filed with the SEC on April 27, 2018.
4.29*	Eighth Amendment to Credit Agreement dated as of August 3, 2018 among Arcos Dorados B.V., as borrower, as guarantors, and Bank of America, N.A., as lender.
4.30	Credit Agreement dated as of November 10, 2016 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors and JPMorgan Chase Bank, N.A., as lender, incorporated herein by reference to Exhibit 4.28 to the Company's Annual Report on Form 20-F for the year ended December 31, 2016 filed with the SEC on April 27, 2017.
4.31	First Amendment to Credit Agreement dated as of November 1, 2017 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors and JPMorgan Chase Bank, N.A., as lender, incorporated herein by reference to Exhibit 4.30 to the Company's Annual Report on Form 20-F for the year ended December 31, 2017 filed with the SEC on April 27, 2018.
4.32*	Second Amendment to Credit Agreement dated as of November 1, 2018 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors and JPMorgan Chase Bank, N.A., as lender.
4.33*	Accession Agreement dated as of March 21, 2018 executed and delivered by Arcos Dorados Group B.V. pursuant to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants, dated November 10, 2008.
8.1*	List of subsidiaries.
11.1*	Standards of Business Conduct of the Company
12.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
12.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
13.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1*	Consent of Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm.
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

* Filed with this Annual Report on Form 20-F.

** In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Arcos Dorados Holdings Inc.

By: /s/ Mariano Tannenbaum
Name: Mariano Tannenbaum
Title: Chief Financial Officer

Date: April 26, 2019

Arcos Dorados Holdings Inc.

Consolidated Financial Statements

As of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
ARCOS DORADOS HOLDINGS INC.:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Arcos Dorados Holdings Inc. (the "Company") as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive (loss) income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018 and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework), and our report dated March 27, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

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

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

/s/ Pistrelli, Henry Martin y Asociados S.R.L.
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.

Member of Ernst & Young Global

We have served as the Company's auditor since 2007

Buenos Aires, Argentina
March 27, 2019

Arcos Dorados Holdings Inc.

Consolidated Statements of Income

For the fiscal years ended December 31, 2018, 2017 and 2016

Amounts in thousands of US dollars, except for share data and as otherwise indicated

REVENUES	2018	2017	2016
Sales by Company-operated restaurants	$ 2,932,609	$ 3,162,256	$ 2,803,334
Revenues from franchised restaurants	148,962	157,269	125,296
Total revenues	**3,081,571**	**3,319,525**	**2,928,630**
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses:			
Food and paper	(1,030,499)	(1,110,240)	(1,012,976)
Payroll and employee benefits	(607,793)	(683,954)	(607,082)
Occupancy and other operating expenses	(803,539)	(842,519)	(752,428)
Royalty fees	(157,886)	(163,954)	(142,777)
Franchised restaurants – occupancy expenses	(67,927)	(69,836)	(55,098)
General and administrative expenses	(229,324)	(244,664)	(221,075)
Other operating (expenses) income, net	(61,145)	68,577	41,386
Total operating costs and expenses	**(2,958,113)**	**(3,046,590)**	**(2,750,050)**
Operating income	**123,458**	**272,935**	**178,580**
Net interest expense	(52,868)	(68,357)	(66,880)
Loss from derivative instruments	(565)	(7,065)	(3,065)
Foreign currency exchange results	14,874	(14,265)	32,354
Other non-operating income (expenses), net	270	(435)	(2,360)
Income before income taxes	**85,169**	**182,813**	**138,629**
Income tax expense	(48,136)	(53,314)	(59,641)
Net income	**37,033**	**129,499**	**78,988**
Less: Net income attributable to non-controlling interests	(186)	(333)	(178)
Net income attributable to Arcos Dorados Holdings Inc.	**$ 36,847**	**$ 129,166**	**$ 78,810**
Earnings per share information:			
Basic net income per common share attributable to Arcos Dorados Holdings Inc.	$ 0.18	$ 0.61	$ 0.37
Diluted net income per common share attributable to Arcos Dorados Holdings Inc.	0.18	0.61	0.37

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.

Consolidated Statements of Comprehensive (Loss) Income

For the fiscal years ended December 31, 2018, 2017 and 2016

Amounts in thousands of US dollars

	2018	2017	2016
Net income	**$ 37,033**	**$ 129,499**	**$ 78,988**
<u>Other comprehensive (loss) income, net of tax:</u>			
Foreign currency translation	(63,130)	4,783	(9,929)
Post-employment benefits (expenses):			
Loss recognized in accumulated other comprehensive loss	(418)	(938)	(310)
Reclassification of net loss to consolidated statement of income	494	386	386
Post-employment benefits (expenses) (net of deferred income taxes of $122, $(272) and $(39))	76	(552)	76
Cash flow hedges:			
Net gain (loss) recognized in accumulated other comprehensive loss	13,888	6,462	(18,813)
Reclassification of net (gain) loss to consolidated statement of income	(23,887)	1,592	11,242
Cash flow hedges (net of deferred income taxes of $4,062, $(3,938) and $nil)	(9,999)	8,054	(7,571)
Total other comprehensive (loss) income	**(73,053)**	**12,285**	**(17,424)**
Comprehensive (loss) income	**(36,020)**	**141,784**	**61,564**
Less: Comprehensive income attributable to non-controlling interests	(52)	(316)	(140)
Comprehensive (loss) income attributable to Arcos Dorados Holdings Inc.	**$ (36,072)**	**$ 141,468**	**$ 61,424**

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.

Consolidated Balance Sheet

As of December 31, 2018 and 2017

Amounts in thousands of US dollars, except for share data and as otherwise indicated

ASSETS	2018	2017
Current assets		
Cash and cash equivalents	$ 197,282	$ 308,491
Short-term investment	—	19,588
Accounts and notes receivable, net	84,287	111,302
Other receivables	25,350	36,310
Inventories	46,089	82,735
Prepaid expenses and other current assets	109,230	94,204
McDonald’s Corporation’s indemnification for contingencies	2,324	407
Total current assets	**464,562**	**653,037**
Non-current assets		
Miscellaneous	99,049	98,291
Collateral deposits	2,500	2,500
Property and equipment, net	856,192	890,736
Net intangible assets and goodwill	41,021	47,729
Deferred income taxes	58,334	74,299
Derivative instruments	54,735	35,069
McDonald’s Corporation’s indemnification for contingencies	1,646	2,082
Total non-current assets	**1,113,477**	**1,150,706**
Total assets	**$ 1,578,039**	**$ 1,803,743**
LIABILITIES AND EQUITY		
Current liabilities		
Accounts payable	$ 242,455	$ 303,452
Royalties payable to McDonald’s Corporation	14,576	13,729
Income taxes payable	53,843	54,592
Other taxes payable	61,006	82,326
Accrued payroll and other liabilities	94,166	119,088
Provision for contingencies	2,436	2,529
Interest payable	9,951	9,986
Short-term debt	356	—
Current portion of long-term debt	3,836	4,359
Derivative instruments	10,687	15,522
Total current liabilities	**493,312**	**605,583**
Non-current liabilities		
Accrued payroll and other liabilities	35,322	29,366
Provision for contingencies	26,073	25,427
Long-term debt, excluding current portion	626,424	629,142
Derivative instruments	3,192	7,506
Deferred income taxes	957	10,577
Total non-current liabilities	**691,968**	**702,018**
Total liabilities	**$ 1,185,280**	**$ 1,307,601**
Equity		
Class A shares of common stock	$ 379,845	$ 376,732
Class B shares of common stock	132,915	132,915
Additional paid-in capital	14,850	14,216
Retained earnings	413,074	401,134
Accumulated other comprehensive losses	(502,266)	(429,347)
Common stock in treasury	(46,035)	—
Total Arcos Dorados Holdings Inc. shareholders’ equity	392,383	495,650
Non-controlling interests in subsidiaries	376	492
Total equity	**392,759**	**496,142**
Total liabilities and equity	**$ 1,578,039**	**$ 1,803,743**

See Notes to the Consolidated Financial Statements.

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Arcos Dorados Holdings Inc.

Consolidated Statements of Cash Flows

For the fiscal years ended December 31, 2018, 2017 and 2016

Amounts in thousands of US dollars

	2018	2017	2016
Operating activities			
Net income attributable to Arcos Dorados Holdings Inc.	$ 36,847	$ 129,166	$ 78,810
Adjustments to reconcile net income attributable to Arcos Dorados Holdings Inc. to cash provided by operations:			
Non-cash charges and credits:			
Depreciation and amortization	105,800	99,382	92,969
Loss from derivative instruments	565	7,065	3,065
Amortization and accrual of letter of credit fees and deferred financing costs	3,189	3,433	3,974
Gain of property and equipment sales	(2,030)	(93,122)	(55,163)
Deferred income taxes	648	1,731	5,499
Foreign currency exchange results	(15,388)	20,366	(33,348)
Accrued net share-based compensation expense	2,638	4,216	3,558
Impairment of long-lived assets and goodwill	19,117	17,764	12,742
Write-offs of property and equipment	4,167	8,528	5,776
Gain on Sales of restaurants businesses	(6,154)	(14,742)	(16,549)
Others, net	8,896	6,305	6,637
Changes in assets and liabilities:			
Accounts payable	16,563	102,660	35,815
Accounts and notes receivable and other receivables	(35,770)	(50,211)	(32,604)
Inventories, prepaid and other assets	(12,074)	(53,466)	26,763
Income taxes payable	12,529	18,946	9,480
Other taxes payable	8,675	12,672	8,180
Interest payable	(35)	2,942	(9,533)
Accrued payroll and other liabilities and provision for contingencies	27,134	35,075	15,412
Others	4,414	(3,540)	2,706
Net cash provided by operating activities	**179,731**	**255,170**	**164,189**
Investing activities			
Property and equipment expenditures	(197,041)	(174,766)	(92,282)
Purchases of restaurant businesses paid at acquisition date	—	(870)	—
Proceeds from sale of property and equipment and related advances	2,891	61,983	88,380
Proceeds from sales of restaurant businesses and related advances	10,158	10,407	25,090
Recovery (acquisitions) of short-term investments	19,588	(19,588)	—
Other investing activity	620	(1,646)	1,830
Net cash (used in) provided by investing activities	**(163,784)**	**(124,480)**	**23,018**
Financing activities			
Issuance of 2027 Notes	—	265,000	—
(Repayment of) / proceeds from secured loan agreement	—	(169,511)	167,262
Purchase of 2023 Notes	—	(48,885)	(80,800)
Net payment of derivative instruments	—	(40,822)	(6,268)
Dividend payments to Arcos Dorados Holdings Inc.' shareholders	(20,937)	—	—
Purchase and repayment of 2016 Notes	—	—	(181,156)
Treasury stock purchases	(46,035)	—	—
Other financing activities	(6,470)	(9,135)	(12,033)
Net cash used in financing activities	**(73,442)**	**(3,353)**	**(112,995)**
Effect of exchange rate changes on cash and cash equivalents	(53,714)	(13,649)	8,072
(Decrease) increase in cash and cash equivalents	**(111,209)**	**113,688**	**82,284**
Cash and cash equivalents at the beginning of the year	308,491	194,803	112,519
Cash and cash equivalents at the end of the year	**$ 197,282**	**$ 308,491**	**$ 194,803**
Supplemental cash flow information:			
Cash paid during the year for:			
Interest	$ 55,400	$ 53,206	$ 76,605
Income tax	32,188	24,112	39,135
Non-cash investing and financing activities:			
Seller financing pending of payment and settlement of franchise receivables related to purchases of restaurant businesses	469	36	—
Exchange of assets	—	6,721	2,150

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.

Consolidated Statements of Changes in Equity

For the fiscal years ended December 31, 2018, 2017 and 2016

Amounts in thousands of US dollars, except for share data and as otherwise indicated

	Arcos Dorados Holdings Inc.' Shareholders											
	Class A shares of common stock		Class B shares of common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Common Stock in treasury		Total	Non-controlling interests	Total
	Number	Amount	Number	Amount				Number	Amount			
Balances at December 31, 2015	**130,538,896**	**371,857**	**80,000,000**	**132,915**	**12,606**	**193,158**	**(424,263)**	**—**	**—**	**286,273**	**617**	**286,890**
Net income for the year	—	—	—	—	—	78,810	—	—	—	78,810	178	78,988
Other comprehensive loss	—	—	—	—	—	—	(17,386)	—	—	(17,386)	(38)	(17,424)
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	172,328	2,112	—	—	(2,112)	—	—	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan	—	—	—	—	3,294	—	—	—	—	3,294	—	3,294
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(172)	(172)
Balances at December 31, 2016	**130,711,224**	**373,969**	**80,000,000**	**132,915**	**13,788**	**271,968**	**(441,649)**	**—**	**—**	**350,991**	**585**	**351,576**
Net income for the year	—	—	—	—	—	129,166	—	—	—	129,166	333	129,499
Other comprehensive income	—	—	—	—	—	—	12,302	—	—	12,302	(17)	12,285
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	361,284	2,763	—	—	(2,763)	—	—	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan	—	—	—	—	3,191	—	—	—	—	3,191	—	3,191
Portion of non-controlling interests related to business sold	—	—	—	—	—	—	—	—	—	—	(108)	(108)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(301)	(301)
Balances at December 31, 2017	**131,072,508**	**376,732**	**80,000,000**	**132,915**	**14,216**	**401,134**	**(429,347)**	**—**	**—**	**495,650**	**492**	**496,142**
Net income for the year	—	—	—	—	—	36,847	—	—	—	36,847	186	37,033
Other												

comprehensive loss	—	—	—	—	—	—	(72,919)	—	—	(72,919)	(134)	(73,053)
Dividends to Arcos Dorados Holdings Inc.'s shareholders ($0.10 per share)	—	—	—	—	—	(20,937)	—	—	—	(20,937)	—	(20,937)
Dividends on restricted share units under the 2011 Equity Incentive Plan	—	—	—	—	—	(174)	—	—	—	(174)	—	(174)
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	520,565	3,113	—	—	(3,113)	—	—	—	—	—	—	—
Stock-based compensation related to the 2011 Equity Incentive Plan	—	—	—	—	3,747	—	—	—	—	3,747	—	3,747
Treasury stock purchases	—	—	—	—	—	—	—	(6,360,826)	(46,035)	(46,035)	—	(46,035)
Dividends to non-controlling interests	—	—	—	—	—	—	—	—	—	—	(168)	(168)
Adoption of accounting standard ASC 606 -net of $1,555 of deferred income tax-	—	—	—	—	—	(3,796)	—	—	—	(3,796)	—	(3,796)
Balances at December 31, 2018	**131,593,073**	**379,845**	**80,000,000**	**132,915**	**14,850**	**413,074**	**(502,266)**	**(6,360,826)**	**(46,035)**	**392,383**	**376**	**392,759**

See Notes to the Consolidated Financial Statements.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018
Amounts in thousands of US dollars, except for share data and as otherwise indicated

1. Organization and nature of business

Arcos Dorados Holdings Inc. (the "Company") is a limited liability company organized and existing under the laws of the British Virgin Islands. The Company's fiscal year ends on the last day of December. The Company has through its wholly-owned Company Arcos Dorados Group B.V., a 100% equity interest in Arcos Dorados B.V. ("ADBV").

On August 3, 2007 the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement and Master Franchise Agreements ("MFAs") with McDonald's Corporation pursuant to which the Company completed the acquisition of the McDonald's business in Latin America and the Caribbean ("LatAm business"). See Note 4 for details. Prior to this acquisition, the Company did not carry out operations. The Company's rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore the ability to conduct the business, derive exclusively from the rights granted by McDonald's Corporation in the MFAs through 2027. The initial term of the MFA for French Guyana, Guadeloupe and Martinique was ten years through August 2, 2017 with an option to extend the agreement for these territories for an additional period of ten years, through August 2, 2027. On July 20, 2016, the Company has exercised its option to extend the MFA for these three territories.

The Company, through ADBV's wholly-owned and majority owned subsidiaries, operates and franchises McDonald's restaurants in the food service industry. The Company has operations in twenty territories as follows: Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guyana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas (USVI) and Venezuela. All restaurants are operated either by the Company's subsidiaries or by independent entrepreneurs under the terms of sub-franchisee agreements (franchisees).

2. Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("US GAAP") and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has elected to report its consolidated financial statements in United States dollars ("$" or "US dollars").

3. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the consolidated financial statements.

Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

Foreign currency matters

The financial statements of the Company's foreign operating subsidiaries are translated in accordance with guidance in ASC 830 Foreign Currency Matters. Except for the Company's Venezuelan and Argentinian operations, the functional currencies of the Company's foreign operating subsidiaries are the local currencies of the countries in which they conduct their operations. Therefore, assets and liabilities are translated into US dollars at the balance sheet date exchange rates, and revenues, expenses and cash flow are translated at average rates prevailing during the periods. Translation adjustments are included in the "Accumulated other comprehensive loss" component of shareholders' equity. The Company includes foreign currency exchange results related to monetary assets and liabilities transactions, including intercompany transactions, denominated in currencies other than its functional currencies in its statements of income.

3. Summary of significant accounting policies (continued)

Foreign currency matters (continued)

Since January 1, 2010 and July 1, 2018, Venezuela and Argentina, respectively, were considered to be highly inflationary, and as such, the financial statements of these subsidiaries are remeasured as if its functional currency was the reporting currency of the immediate parent company (US dollars for Venezuelan operation and Brazilian reais ("BRL") for Argentinian operation). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment, component of "Accumulated other comprehensive loss" within shareholders' equity.

Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, from the date of purchase, to be cash equivalents.

Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and revenues from restaurants operated by franchisees. Sales by Company-operated restaurants are recognized at the point of sale. The Company presents sales net of sales tax and other sales-related taxes. Revenues from restaurants operated by franchisees include rental income, initial franchise fees and royalty income. Rental income is measured on a monthly basis based on the greater of a fixed rent, computed on a straight-line basis, or a certain percentage of gross sales reported by franchisees. Initial franchise fees represent the difference between the amount the Company collects from the franchisee and the amount the Company pays to McDonald's Corporation upon the opening of a new restaurant. Royalty income represents the difference, if any, between the amount the Company collects from the franchisee and the amount the Company is required to pay to McDonald's Corporation. Royalty income is recognized in the period earned.

In May 2014, the FASB issued Accounting Standards Update No. 2014-09 (ASC 606), "Revenue Recognition - Revenue from Contracts with Customers", which amends the guidance in former ASC 605, "Revenue Recognition", and requires entities to recognize revenue when it transfers promised goods or services to customers, in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services.

On January 1, 2018, the Company adopted this new accounting standard using modified retrospective method and concluded that the sole source of revenue affected is the initial franchise fee. The Company's previous accounting policy was to recognize it when a new restaurant opens or at the start of a new franchise term, however, 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 should be treated as a single performance obligation. As such, initial franchise fees received are deferred over the term of the franchise agreement.

In accordance with the modified retrospective method, the Company recognized the cumulative effect of applying the new standard at the date of initial application with no restatement to the comparative information. Furthermore, the changes made to the consolidated balance sheet as of January 1, 2018 for the adoption of ASC 606 were as follows:

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

Amounts in thousands of US dollars, except for share data and as otherwise indicated

3. Summary of significant accounting policies (continued)

Revenue recognition (continued):

Balance Sheet	Balance at December 31, 2017	Adjustments Due to ASC 606	Balance at January 1, 2018
ASSETS			
Non-current Assets			
Deferred income taxes	74,299	1,555	75,854
LIABILITIES AND EQUITY			
Current liabilities			
Accrued payroll and other liabilities	119,088	339	119,427
Non-current liabilities			
Accrued payroll and other liabilities	29,366	5,012	34,378
EQUITY			
Retained earnings	401,134	(3,796)	397,338

There are no expectations that the adoption of the new revenue standard will have a material impact within the net income on an ongoing basis. The disclosure of the impact of adoption on the consolidated balance sheet and income statements, as of December 31, 2018 and for the fiscal year ended December 31, 2018, is as follows:

	As of December 31, 2018		
Balance Sheet	As Reported	Balances Without Adoption of ASC 606	Effect of Change
ASSETS			
Non-current Assets			
Deferred income taxes	58,334	56,522	1,812
LIABILITIES AND EQUITY			
Current liabilities			
Accrued payroll and other liabilities	94,166	93,770	396
Non-current liabilities			
Accrued payroll and other liabilities	35,322	29,495	5,827
EQUITY			
Retained earnings	413,074	417,485	(4,411)

	For the fiscal year ended December 31, 2018		
Income Statement	As Reported	Balances Without Adoption of ASC 606	Effect of Change
Revenues from franchised restaurants	148,962	149,834	(872)
Income tax expense	(48,136)	(48,393)	257

3. Summary of significant accounting policies (continued)

Accounts and notes receivable and allowance for doubtful accounts

Accounts receivable primarily consist of royalty and rent receivables due from franchisees and debit and credit card receivables. Accounts receivable are initially recorded at fair value and do not bear interest. Notes receivable relates to interest-bearing financing granted to certain franchisees in connection with the acquisition of equipment and third-party suppliers. The Company maintains an allowance for doubtful accounts in an amount that it considers sufficient to cover losses resulting from the inability of its franchisees to make required payments. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables.

Other receivables

As of December 31, 2018, other receivables primarily consist of insurance claim receivables, related party receivables, value-added tax and other tax receivables, amounting to $16,809. As of December 31, 2017, other receivables primarily consist of value-added tax and other tax receivables amounting to $16,215.

Other receivables are reported at the amount expected to be collected.

Inventories

Inventories are stated at the lower of cost or market, with cost being determined on a first-in, first-out basis.

Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Property costs include costs of land and building for both company-operated and franchise restaurants while equipment costs primarily relate to company-operated restaurants. Cost of property and equipment acquired from McDonald's Corporation (as part of the acquisition of LatAm business) was determined based on its estimated fair market value at the acquisition date, then partially reduced by the allocation of the negative goodwill that resulted from the purchase price allocation. Cost of property and equipment acquired or constructed after the acquisition of LatAm business in connection with the Company's restaurant reimaging and extension program is comprised of acquisition and construction costs and capitalized internal costs. Capitalized internal costs include payroll expenses related to employees fully dedicated to restaurant construction projects and related travel expenses. Capitalized payroll costs are allocated to each new restaurant location based on the actual time spent on each project. The Company commences capitalizing costs related to construction projects when it becomes probable that the project will be developed – when the site has been identified and the related profitability assessment has been approved. Maintenance and repairs are expensed as incurred. Accumulated depreciation is calculated 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 option periods; and equipment 3 to 12 years.

Intangible assets, net

Intangible assets include computer software costs, initial franchise fees, reacquired rights under franchise agreements, letter of credit fees and others.

The Company follows the provisions of ASC 350-40-30 within ASC 350 Intangibles, Subtopic 40 Internal Use Software which requires the capitalization of costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three years on a straight line basis.

3. Summary of significant accounting policies (continued)

Intangible assets, net (continued):

The Company is required to pay to McDonald's Corporation an initial franchisee fee upon opening of a new restaurant. The initial franchise fee related to Company-operated restaurants is capitalized as an intangible asset and amortized on a straight-line basis over the term of the franchise.

A reacquired franchise right is recognized as an intangible asset as part of the business combination in the acquisition of franchised restaurants apart from goodwill with an assigned amortizable life limited to the remaining contractual term (i.e., not including any renewal periods). The value assigned to the reacquired franchise right excludes any amounts recognized as a settlement gain or loss and is limited to the value associated with the remaining contractual term and operating conditions for the acquired restaurants. The reacquired franchise right is measured using a valuation technique that considers restaurant's cash flows after payment of an at-market royalty rate to the Company. The cash flows are projected for the remaining contractual term, regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Letter of credit fees are amortized on a straight-line basis over the term of the Letter of Credit.

Impairment and disposal of long-lived assets

In accordance with the guidance within ASC 360-10-35, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. For purposes of reviewing assets for potential impairment, assets are grouped at a country level for each of the operating markets. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, each restaurant's cash flows are not largely 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 considering its highest and best use, as determined by an estimate of discounted future cash flows or its market value.

The Company assessed all markets for impairment indicators during the fourth quarter of 2018, 2017 and 2016. In addition, in June and September 2018, the Company performed impairment testings of its long-lived assets in Venezuela considering the operating losses incurred in this market as a consequence of currency exchange rate changes (indicator of potential impairment), as mentioned in Note 22. As a result of those assessments, the Company concluded that the second step was required to be performed as a component of the impairment testing of its long-lived assets, on a per store basis, in: Puerto Rico, Mexico, Peru, Aruba, U.S. Virgin Islands of St. Croix and St. Thomas, Venezuela, Colombia, Ecuador and Trinidad and Tobago for the fiscal years 2018, 2017 and 2016.

As a result of the impairment testing the Company recorded the following impairment charges, for the markets indicated below, within Other operating (expenses) income, net on the consolidated statements of income:

Fiscal year	Markets		Total
2018	Mexico, Puerto Rico, USVI, Peru, Colombia, Venezuela and Trinidad and Tobago	$	18,950
2017	Mexico, Puerto Rico, USVI, Peru, Ecuador, Colombia, Venezuela and Trinidad and Tobago		17,564
2016	Mexico, Puerto Rico, USVI, Peru, Ecuador, Venezuela and Trinidad and Tobago		7,697

3. Summary of significant accounting policies (continued)

Goodwill

Goodwill represents the excess of cost over the estimated fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the guidance within ASC 350 Intangibles-Goodwill and Other, goodwill is stated at cost and reviewed for impairment on an annual basis. The annual impairment test is performed during the fourth quarter of the fiscal year and compares the fair value of each reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of the 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.

In assessing the recoverability of the goodwill, 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.

As a result of the analyses performed the Company recorded the following impairment charges, related to goodwill generated in the acquisition of franchised restaurants, for the markets indicated below within Other operating (expenses) income, net on the consolidated statements of income:

Fiscal year	Markets	Total
2018	Peru	$ 167
2017	Mexico	200
2016	Mexico	5,045

Advertising costs

Advertising costs are expensed as incurred. Advertising expenses related to Company-operated restaurants were $120,839, $130,277 and $117,250 in 2018, 2017 and 2016, respectively. Advertising expenses related to franchised operations do not affect the Company's expenses since these are recovered from franchisees. Advertising expenses related to franchised operations were $43,940, $46,536 and $36,374 in 2018, 2017 and 2016, respectively.

Accounting for income taxes

The Company records deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The guidance requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the more likely than not criterion for realization.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is regularly audited by 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, an uncertain 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 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.

3. Summary of significant accounting policies (continued)

Accounts payable outsourcing

The Company offers its suppliers access to an accounts payable services arrangement provided by third party financial institutions. This service allows the Company's suppliers to view its scheduled payments online, enabling them to better manage their cash flow and reduce payment processing costs. Independent of the Company, the financial institutions also allow suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution. The Company has no economic interest in the sale of these receivables and no direct relationship with the financial institutions concerning the sale of receivables. All of the Company's obligations, including amounts due, remain to the Company's suppliers as stated in the supplier agreements. As of December 31, 2018 and 2017, $4,014 and $2,117, respectively, of the Company's total accounts payable are available for this purpose and have been sold by suppliers to participating financial institutions.

Share-based compensation

The Company recognizes compensation expense as services required to earn the benefits are rendered. See Note 17 for details of the outstanding plans and the related accounting policies.

Derivative financial instruments

The Company utilizes certain hedge instruments to manage its interest rate and foreign currency rate exposures. The counterparties to these instruments generally are major financial institutions. The Company does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Additionally, the fair value adjustments will affect either shareholders' equity as accumulated other comprehensive loss or net income depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

Severance payments

Under certain laws and labor agreements of the countries in which the Company operates, the Company is required to make minimum severance payments to employees who are dismissed without cause and employees leaving its employment in certain other circumstances. The Company accrues severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and can be reasonably estimated. Otherwise, severance payments are expensed as incurred.

Provision for contingencies

The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. See Note 18 for details.

Comprehensive (loss) income

Comprehensive (loss) income includes net income as currently reported under generally accepted accounting principles and also includes the impact of other events and circumstances from non-owner sources which are recorded as a separate component of shareholders' equity. The Company reports foreign currency translation gains and losses, unrealized results on cash flow hedges as well as unrecognized post-retirement benefits as components of comprehensive (loss) income.

3. Summary of significant accounting policies (continued)

Sales of property and equipment and restaurant businesses

The Company recognizes the sale of property and equipment when: (a) the profit is determinable, that is, the collectibility of the sales price is reasonably assured or the amount that will not be collectible can be estimated, and (b) the earnings process is virtually complete, that is, the Company is not obliged to perform significant activities after the sale to earn the profit. The sale of restaurant businesses, related to the refranchising of company-operated restaurants, is recognized when the Company transfers substantially all of the risks and rewards of ownership.

In order to determine the gain or loss on the disposal, the goodwill associated with the sold of property and equipment and restaurant business, if any, is considered within the carrying value. The amount of goodwill to be included in that carrying amount is based on the relative fair value of the item to be disposed and the portion of the reporting unit that will be retained.

During fiscal years 2018, 2017 and 2016, the Company recorded results from sales of property and equipment and restaurant businesses, amounting to $8,184, $107,867 and $71,712, respectively, included within “Other operating (expenses) income, net”. The sales performed during fiscal years 2017 and 2016, were primarily related to the redevelopment of certain real estate assets.

Recent accounting pronouncements

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which modifies lease accounting for lessees to increase transparency and comparability by recording a right-of-use asset and lease liability on their balance sheet for operating leases. Entities will need to disclose qualitative and quantitative information about their leases, including characteristics and amounts recognized in the financial statements. This standard is effective for annual periods beginning after December 15, 2018, including interim periods.

The Company will adopt ASU 2016-02 in its first quarter of 2019 utilizing the modified retrospective method, without restatement of comparative financial information periods, and will apply the package of transition practical expedients allowed by the standard. The adoption, and the ultimate effect on the consolidated financial statements, will be based on an evaluation of the contract-specific facts and circumstances. The Company estimates adoption of the standard will result in the recognition of lease right-of-use assets and lease liabilities within a range of approximately $860 million to $920 million, as of January 1, 2019. The operating leases are mainly related to restaurant and dessert center locations. The standard will not have a significant impact on the Company’s consolidated statements of income and cash flows, except for the exchange results related to lease liabilities denominated in other currencies than its functional one.

No other new accounting pronouncement issued or effective during the periods had or is expected to have a material impact on the Company’s consolidated financial statements.

4. Acquisition of businesses

LatAm Business

On August 3, 2007, the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement with McDonald’s Corporation pursuant to which the Company completed the acquisition of the McDonald’s business in Latin America and the Caribbean for a final purchase price of $698,080.

The acquisition of the LatAm business was accounted for by the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. When the fair value of the net assets acquired exceeded the purchase price, the resulting negative goodwill was allocated to partially reduce the fair value of the non-current assets acquired on a pro-rata basis.

4. Acquisition of businesses (continued)

LatAm Business (continued)

In connection with this transaction, ADBV and certain subsidiaries (the "MF subsidiaries") also entered into 20-year Master Franchise Agreements ("MFAs") with McDonald's Corporation which grants to the Company and its MF subsidiaries the following:

i. The right to own and operate, directly or indirectly, franchised restaurants in each territory;

ii. The right and license to grant sub franchises in each territory;

iii. The right to adopt and use, and to grant the right and license to sub franchisees to adopt and use, the system in each territory;

iv. The right to advertise to the public that it is a franchisee of McDonald's;

v. The right and license to grant sub franchises and sublicenses of each of the foregoing rights and licenses to each MF subsidiary.

The Company is required to pay to McDonald's Corporation continuing franchise fees (Royalty fees) on a monthly basis. The amount to be paid during the first 10 years of the MFAs is equal to 5% of the US dollar equivalent of the gross product sales of each of the franchised restaurants. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Payment of monthly royalties is due on the seventh business day of the next calendar month.

Pursuant to the MFAs provisions, McDonald's Corporation has the right to (a) terminate the MFAs, or (b) exercise a call option over the Company's shares or any MF subsidiary, if the Company or any MF subsidiary (i) fails to comply with the McDonald's System (as defined in the MFAs), (ii) files for bankruptcy, (iii) defaults on its financial debt payments, (iv) substantially fails to achieve targeted openings and reinvestments requirements, or (v) upon the occurrence of any other event of default as defined in the MFAs.

Other acquisitions

During fiscal years 2018 and 2017, the Company acquired certain franchised restaurants in certain territories. No acquisitions of franchised restaurant were made during fiscal year 2016. Presented below is supplemental information about these acquisitions:

Purchases of restaurant businesses:	**2018**	**2017**
Property and equipment	$ 413	$ 429
Identifiable intangible assets	56	5,346
Goodwill	—	200
Gain on purchase of franchised restaurants	—	(4,808)
Purchase price	**469**	**1,167**
Restaurants sold in exchange	—	(261)
Settlement of franchise receivables	(469)	(36)
Net cash paid at acquisition date	**$ —**	**$ 870**

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5. Accounts and notes receivable, net

Accounts and notes receivable, net consist of the following at year end:

	2018	2017
Receivables from franchisees	$ 55,672	$ 67,115
Debit and credit card receivables	40,474	48,610
Meal voucher receivables	10,565	11,683
Notes receivable	2,575	3,685
Allowance for doubtful accounts	(24,999)	(19,791)
	$ 84,287	**$ 111,302**

6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following at year end:

	2018	2017
Prepaid taxes	$ 74,538	$ 48,076
Prepaid expenses	21,868	27,478
Promotion items and related advances	12,417	17,683
Others	407	967
	$ 109,230	**$ 94,204**

7. Miscellaneous

Miscellaneous consist of the following at year end:

	2018	2017
Judicial deposits	$ 43,168	$ 44,854
Tax credits	27,563	22,402
Prepaid property and equipment	9,775	10,317
Notes receivable	4,241	4,406
Rent deposits	2,908	3,273
Others	11,394	13,039
	99,049	**98,291**

8. Property and equipment, net

Property and equipment, net consist of the following at year-end:

	2018	2017
Land	$ 142,262	$ 158,634
Buildings and leasehold improvements	623,612	633,747
Equipment	673,117	642,449
Total cost	1,438,991	1,434,830
Total accumulated depreciation	(582,799)	(544,094)
	$ 856,192	**$ 890,736**

Total depreciation expense for fiscal years 2018, 2017 and 2016 amounted to $94,490, $89,085 and $83,993, respectively.

9. Net intangible assets and goodwill

Net intangible assets and goodwill consist of the following at year-end:

	2018	2017
Net intangible assets (i)		
Computer software cost	$ 69,700	$ 72,717
Initial franchise fees	14,614	15,572
Reacquired franchised rights	12,511	13,667
Letter of credit fees	940	940
Others	1,000	1,000
Total cost	**98,765**	**103,896**
Total accumulated amortization	(63,683)	(63,245)
Subtotal	**35,082**	**40,651**
Goodwill (ii)	**2018**	**2017**
Brazil	4,280	5,013
Chile	1,073	1,209
Ecuador	273	273
Argentina	226	350
Colombia	87	59
Peru	—	174
Subtotal	**5,939**	**7,078**
	$ 41,021	**$ 47,729**

(i) Total amortization expense for fiscal years 2018, 2017 and 2016 amounted to $11,310, $10,297 and $8,976, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows: $14,557 for 2019, $10,395 for 2020; $3,428 for 2021; $1,232 for 2022; $1,154 for 2023; and thereafter $4,316.

(ii) Related to the acquisition of franchised restaurants (Brazil, Chile, Argentina, Colombia and Peru) and non-controlling interests in subsidiaries (Ecuador and Chile).

10. Accrued payroll and other liabilities

Accrued payroll and other liabilities consist of the following at year end:

	2018	2017
Current:		
Accrued payroll	$ 77,286	$ 97,995
Accrued expenses	10,330	13,574
Other liabilities	6,550	7,519
	$ 94,166	**$ 119,088**
Non-current:		
Deferred rent	16,404	15,198
Deferred revenues - Initial franchise fee	5,827	—
Other liabilities	13,091	14,168
	$ 35,322	**$ 29,366**

11. Short-term debt

Short-term debt consist of the following:

	2018	2017
Bank overdrafts	356	—
	$ 356	**$ —**

Revolving credit facilities

The Company entered into revolving credit facilities in order to borrow money from time to time to cover its working capital needs and for other general corporate purposes.

On August 3, 2018, ADBV renewed its committed revolving credit facility with Bank of America, N.A. (BOFA), as lender, for up to $25 million maturing on August 3, 2019. Each loan made to ADBV under this agreement will bear interest at an annual rate equal to LIBOR plus 2.40%. In addition, on November 1, 2018, ADBV renewed its revolving credit facility with JPMorgan Chase Bank, N.A, for up to $25 million maturing on November 10, 2019, with an annual interest rate equal to LIBOR plus 2.25%. Interest on each loan will be payable at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made. Principal is due upon maturity.

The obligations of ADBV under the revolving credit facilities are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. Furthermore, the agreements include customary covenants including, among others, restrictions on the ability of ADBV, the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) engage in transactions that violate certain anti-terrorism laws; and (vii) is required to comply with a consolidated net indebtedness to EBITDA ratio lower than 3.0 as of any last day of the fiscal quarter of the borrower. The revolving credit facilities provide for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facilities and/or to declare all sums outstanding under the loan documents immediately due and payable.

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11. Short-term debt (continued)

Revolving credit facilities (continued)

As of December 31, 2018, the mentioned ratio was 0.97 and thus the Company is currently in compliance with the ratio requirement under both revolving credit facilities.

No amounts are due at the date of issuance of these consolidated financial statements in connection with these revolving credit facilities.

12. Long-term debt

Long-term debt consists of the following at year-end:

	2018	2017
2027 Notes	$ 265,000	$ 265,000
2023 Notes	348,069	348,069
Capital lease obligations	6,503	4,539
Other long-term borrowings	16,676	22,900
Subtotal	**636,248**	**640,508**
Discount on 2023 Notes	(3,156)	(3,804)
Premium on 2023 Notes	1,187	1,438
Deferred financing costs	(4,019)	(4,641)
Total	**630,260**	**633,501**
Current portion of long-term debt	3,836	4,359
Long-term debt, excluding current portion	**$ 626,424**	**$ 629,142**

2027, 2023 and 2016 Notes:

The following table presents additional information related to the 2027, 2023 and 2016 Notes (the "Notes"):

	Annual interest rate	Currency	Principal as of December 31, 2018	Principal as of December 31, 2017	Maturity
2027 Notes	5.875 %	USD	$ 265,000	$ 265,000	April 4, 2027
2023 Notes	6.625 %	USD	348,069	348,069	September 27, 2023

	Interest Expense (i)			DFC Amortization (i)			Amortization of Discount, net (i)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
2027 Notes	$ 15,569	$ 11,547	$ —	$ 299	$ 224	$ —	$ —	$ —	$ —
2023 Notes	23,060	23,885	28,516	323	610	943	397	752	1,157
2016 Notes	—	—	6,668	—	—	391	—	—	(266)

(i) These charges are included within "Net interest expense" in the consolidated statements of income.

12. Long-term debt (continued)

2027, 2023 and 2016 Notes (continued):

On July 13, 2011 and April 24, 2012, the Company issued Brazilian reais notes due in 2016 (the "2016 Notes") amounting to BRL 675,000. Periodic payments of principal were not required and interest was paid semi-annually beginning on January 13, 2012. The Company incurred $3,699 of financing costs related to these issuances, which were capitalized as deferred financing costs ("DFC") and were amortized over the life of the notes.

The following table presents information related to the purchase and repayments of the principal of the 2016 Notes:

		Amount	
Date	**Redemption price**	**BRL**	**$**
November 25, 2015	93.75%	40,000	9,995
November 30, 2015	93.75%	7,039	1,715
January 29, 2016	97.75%	1,180	288
April 21, 2016	100.00%	421,765	118,797
May 5, 2016	97.00%	4,025	1,106
July 13, 2016	100.00%	200,991	60,965
Total		**675,000**	**192,866**

On September 27, 2013, the Company issued senior notes for an aggregate principal amount of $473.8 million, which are due in 2023 (the "2023 Notes"). Periodic payments of principal are not required and interest is paid semi-annually commencing on March 27, 2014. The Company incurred $3,313 of financing costs related to the cash issuance of 2023 Notes, which were capitalized as DFC and are being amortized over the life of the notes.

On June 1, 2016, the Company launched a cash tender offer to purchase $80,000 of its outstanding 2023 Notes, at a redemption price equal to 98%, which expired on June 28, 2016. The holders who tendered their 2023 Notes prior to June 14, received a redemption price equal to 101%. As a consequence of this transaction, the Company redeemed 16.90% of the outstanding principal. The total payment was $80,800 (including $800 of early tender payment) plus accrued and unpaid interest.

The results related to the cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

Furthermore, on March 16, 2017, the Company launched another cash tender offer to purchase $80,000 of its outstanding 2023 Notes, at a redemption price equal to 104%, which expired on April 12, 2017. The holders who tendered their 2023 Notes prior to March 29, 2017, received a redemption price equal to 107%. As a consequence of this transaction, the Company redeemed 11.6% of the outstanding principal. The total payment was $48,885 (including $3,187 of early tender payment) plus accrued and unpaid interest. The results related to the cash tender offer and the accelerated amortization of the related DFC were recognized as interest expense within the consolidated statement of income.

In April 2017, the Company issued senior notes for an aggregate principal amount of $265 million, which are due in 2027 (the “2027 Notes”). Periodic payments of principal are not required and interest is paid semi-annually commencing on October 4, 2017. The proceeds from the issuance of the 2027 Notes were used to repay the Secured Loan Agreement, unwind the related derivative instruments (described in Note 13), pay the principal and premium on the 2023 Notes (in connection with the aforementioned tender offer) and for general purposes. The Company incurred $3,001 of financing costs related to the issuance of 2027 Notes, which were capitalized as DFC and are being amortized over the life of the notes.

12. Long-term debt (continued)

2027, 2023 and 2016 Notes (continued):

The Notes are redeemable, in whole or in part, at the option of the Company at any time at the applicable redemption price set forth in the indenture governing them. The Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company's subsidiaries. The Notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of the Company's and guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of the Company's and guarantors' existing and future secured indebtedness to the extent of the value of the Company's assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of the Company's subsidiaries that are not guarantors.

The indenture governing the Notes limits the Company's and its subsidiaries' ability to, among other things, (i) create certain liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. In addition, the indenture governing the 2027 Notes, limits the Company's and its subsidiaries' ability to: incur in additional indebtedness and make certain restricted payments, including dividends. These covenants are subject to important qualifications and exceptions. The indenture governing the Notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding Notes to be due and payable immediately.

The 2023 Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

Secured Loan Agreement

On March 29, 2016, the Company's Brazilian subsidiary signed a $167,262 Secured Loan Agreement (the "Loan") with five off-shore lenders namely: Citibank N.A., Itaú BBA International plc, Santander (Brasil) S.A., Cayman Islands Branch, Bank of America N.A. and JP Morgan Chase Bank, N.A. Each loan under the agreement bore interest at the following annual interest rates:

Lender	Annual Interest Rate
Citibank N.A.	3M LIBOR + 2.439%
Itaú BBA International plc	5.26%
Banco Santander (Brasil) S.A., Cayman Islands Branch	4.7863%
Bank of America N.A.	3M LIBOR + 4.00%
JP Morgan Chase Bank, N.A.	3M LIBOR + 3.92%

In order to fully convert each loan of the agreement into BRL, the Brazilian subsidiary entered into five cross-currency interest rate swap agreements with the local subsidiaries of the same lenders. Consequently, the loans were fully converted into BRL amounting to BRL 613,850. Refer to Note 13 for more details.

Considering the cross-currency interest rate swap agreements, the final interest rate of the Loan was the Interbank Market reference interest rate (known in Brazil as "CDI") plus 4.50% per year. Interest payments were made quarterly, beginning June 2016 and principal payments were made semi-annually, beginning September 2017.

The Loan would have matured on March 30, 2020 and periodic payments of principal were required. Prepayments were allowed without penalty. On April 11, 2017, the Company repaid the Loan with a total payment of $169.7 million including the outstanding principal, plus accrued and unpaid interest and certain transaction costs.

The Company incurred $3,243 of financing costs related to the issuance of the Loan, which were capitalized as DFC and were amortized over the life of the Loan. As a consequence of the repayment, the remaining DFC were recognized as interest expense in the consolidated statement of income.

12. Long-term debt (continued)

Secured Loan Agreement (continued):

The following table presents information related to the Secured Loan Agreement:

Interest Expense (i) (ii)			DFC Amortization (ii)			Other Costs (ii) (iii)		
2018	**2017**	**2016**	**2018**	**2017**	**2016**	**2018**	**2017**	**2016**
$ —	$ 2,570	$ 6,519	$ —	$ 3,251	$ 814	$ —	$ 2,249	$ —

(i) These charges do not include the effect of the cross-currency interest rate swap agreements mentioned in Note 13, amounting to a loss of $6,921 and $18,177, during fiscal years 2017 and 2016, respectively. Including these effects the total interest cost amounts to $9,491 and $24,696, respectively.

(ii) These charges are included within "Net interest expense" in the consolidated statement of income.

(iii) Transaction costs related to the repayment of the Loan.

Other required disclosure

At December 31, 2018, future payments related to the Company's long-term debt are as follows:

	Principal	Interest	Total
2019	$ 3,836	$ 40,537	$ 44,373
2020	3,355	40,243	43,598
2021	3,298	39,941	43,239
2022	3,493	39,598	43,091
2023	351,074	39,314	390,388
Thereafter	271,192	57,175	328,367
Total payments	**636,248**	**256,808**	**893,056**
Interest	—	(256,808)	(256,808)
Discount on 2023 Notes	(3,156)	—	(3,156)
Premium on 2023 Notes	1,187	—	1,187
Deferred financing cost	(4,019)	—	(4,019)
Long-term debt	**$ 630,260**	**$ —**	**$ 630,260**

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13. Derivative instruments

The following table presents the fair values of derivative instruments included in the consolidated balance sheets as of December 31, 2018 and 2017:

	Derivatives		
		Fair Value as of December 31,	
Type of Derivative	**Balance Sheets Location**	**2018**	**2017**
Derivatives designated as hedging instruments			
Cash flow hedge			
Forward contracts	Other receivables	$ 628	$ 309
Forward contracts	Accrued payroll and other liabilities	(180)	(517)
Cross-currency interest rate swap (i)	Derivative instruments	29,141	7,835
Call spread (i)	Derivative instruments	16,867	15,114
Coupon-only swap (i)	Derivative instruments	(5,152)	(10,908)
Subtotal		**$ 41,304**	**$ 11,833**
Derivatives not designated as hedging instruments			
Forward contracts	Other receivables	$ 99	$ —
Forward contracts	Accrued payroll and other liabilities	(144)	—
Subtotal		**$ (45)**	**$ —**
Total derivative instruments		**$ 41,259**	**$ 11,833**

(i) At December 31, 2018, presented in the consolidated balance sheet as follows: $54,735 as non-current asset, $10,687 as a current liability and $3,192 as a non-current liability. At December 31, 2017, presented in the consolidated balance sheet as follows: $35,069 as a non-current asset, $15,522 as a current liability and $7,506 as a non-current liability.

Derivatives designated as hedging instruments

Cash flow hedge

Forward contracts

The Company has entered into various forward contracts in a few territories to hedge a portion of the foreign exchange risk associated with forecasted imports of goods. The effect of the hedges results in fixing the cost of goods acquired (i.e. the net settlement or collection adjusts the cost of inventory paid to the suppliers). As of December 31, 2018, the Company has forward contracts outstanding with a notional amount of $24,145 that mature during 2019.

The Company made net collections (payments) totaling $75, $(1,236) and $(1,307) during fiscal years 2018, 2017 and 2016, respectively, as a result of the net settlements of these derivatives.

13. Derivative instruments (continued)

Derivatives designated as hedging instruments (continued)

Cash flow hedge (continued)

Cross-currency interest rate swap

The Company entered into three cross-currency interest rate swap agreements to hedge all the variability in a portion (73%) of the principal and interest collections of its BRL intercompany loan receivables with ADBV. The agreements were signed during November 2013 (amended in February 2017), June and July 2017. The following table presents information related to the terms of the agreements:

	Payable			Receivable				
Bank	Currency	Amount	Interest rate	Currency	Amount	Interest rate	Interest payment dates	Maturity
JP Morgan Chase Bank, N.A. (i)	BRL	108,000	13 %	$	35,400	4.38 %	March 31/ September 30	September 2023
JP Morgan Chase Bank, N.A.	BRL	98,670	13 %	$	30,000	6.02 %	March 31/ September 30	September 2023
Citibank N.A.	BRL	94,200	13 %	$	30,000	6.29 %	March 31/ September 30	September 2023

(i) During the fiscal year ended December 31, 2017, the agreement was amended twice: on February 9, 2017 and February 22, 2017. All the terms of the swap agreement match the terms of the BRL intercompany loan receivable. As a result of the amendments the Company paid $2,689. According to ASC 815-30-40, the amount deferred in accumulated other comprehensive loss until the date of the last amendment, amounting to $677 as of December 31, 2017, will be amortized to earnings as the originally hedged cash flows affects the statement of income.

During April 2017, the Company's Brazilian subsidiary entered into similar agreements in order to hedge all the variability in a portion (50%) of the principal and interest payable of intercompany loan payables nominated in US dollar.

The following table presents information related to the terms of the agreements:

	Payable			Receivable				
Bank	Currency	Amount	Interest rate	Currency	Amount	Interest rate	Interest payment dates	Maturity
BAML (i)	BRL	156,250	13.64%	$	50,000	6.91 %	March 31/ September 30	April 2027
Banco Santander S.A.	BRL	155,500	13.77%	$	50,000	6.91 %	June 30/ December 31	September 2023

(i) Bank of America Merrill Lynch Banco Múltiplo S.A.

The Company paid $10,671, $6,163 and $2,795 of net interest during the fiscal years ended December 31, 2018, 2017 and 2016 respectively.

13. Derivative instruments (continued)

Derivatives designated as hedging instruments (continued)

Cash flow hedge (continued)

Call spread

During April 2017, the Company's Brazilian subsidiary entered into two call spread agreements in order to hedge the variability in a portion (50%) of the principal of intercompany loan payables nominated in US dollar. Call spread agreements consist of a combination of two call options: the Company bought an option to buy US dollar at a strike price equal to the BRL exchange rate at the date of the agreements, and wrote an option to buy US dollar at a higher strike price than the previous one. Both pair of options have the same notional amount and are based on the same underlying with the same maturity date.

The following table presents information related to the terms of the agreements:

	Nominal Amount		Strike price		
Bank	Currency	Amount	Call option written	Call option bought	Maturity
Citibank S.A.	$	50,000	4.49	3.11	September 2023
JP Morgan S.A.	$	50,000	5.20	3.13	April 2027

Coupon-only swap

During April 2017, the Company's Brazilian subsidiary entered into two coupon-only swap agreements in order to hedge the variability (50%) in the interest payable related to the intercompany loan aforementioned.

The following table presents information related to the terms of the agreements:

	Payable			Receivable				
Bank	Currency	Amount	Interest rate	Currency	Amount	Interest rate	Interest payment dates	Maturity
Citibank S.A.	BRL	155,500	11.08%	$	50,000	6.91 %	June 30/ December 31	September 2023
JP Morgan S.A.	BRL	156,250	11.18%	$	50,000	6.91 %	March 31/ September 30	April 2027

The Company paid $2,900 and $1,390 of net interest during the fiscal years ended December 31, 2018 and 2017 respectively, related to these agreements.

13. Derivative instruments (continued)

Derivatives designated as hedging instruments (continued)

Cash flow hedge (continued)

Additional disclosures

The following table present the pretax amounts affecting income and other comprehensive income for the fiscal years ended December 31, 2018, 2017 and 2016 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)			(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion) (i)			(Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion) (ii)		
	2018	2017	2016	2018	2017	2016	2018	2017	2016
Forward contracts	$ 731	$ (1,344)	$ (1,861)	$ (75)	$ 1,236	$ 1,307	$ —	$ —	$ —
Cross-currency interest rate swaps	11,279	5,828	(16,952)	(18,888)	1,965	9,935	—	—	—
Call Spread	4,034	21,047	—	(15,421)	2,791	—	—	—	—
Coupon-only swap	1,864	(13,598)	—	2,415	(5,933)	—	(679)	(101)	—
Total	**17,908**	**11,933**	**(18,813)**	**(31,969)**	**59**	**11,242**	**(679)**	**(101)**	**—**

(i) The results recognized in income related to forward contracts were recorded as an adjustment to food and paper. The net gain (loss) recognized in income, related to cross-currency interest rate swaps is presented as follows:

Adjustment to:	**2018**	**2017**	**2016**
Foreign currency exchange results	$ 28,588	$ 7,532	$ (6,997)
Net interest expense	(9,700)	(9,497)	(2,938)
Total	**18,888**	**(1,965)**	**(9,935)**

The results recognized in income related to call spread agreements and coupon-only swap agreements were recorded as an adjustment to foreign currency exchange and interest expense, respectively.

(ii) The loss recognized in income is presented within "Loss from derivative instruments".

13. Derivative instruments (continued)

Derivatives designated as hedging instruments (continued)

Fair value hedge

Cross-currency interest rate swaps

On March 29, 2016, the Company entered into five cross-currency interest rate swap agreements to fully hedge the principal and interest cash flows of the Secured Loan Agreement described in Note 12, into BRL. The agreements were signed with the Brazilian subsidiaries of the banks participating in the secured loan. All the terms of the cross-currency interest rate swap agreements matched the terms of the Secured Loan Agreement. Pursuant to these agreements, the Company received interest in US dollar at an interest rate equal to the one it had to pay to the off-shore lenders over a notional amount of $167.3 million and paid interest in BRL at CDI plus 4.50% per year, over a notional amount of BRL 613.9 million quarterly, beginning June 2016.

During April 2017, the Company unwound these agreements as a consequence of the repayment of the Secured Loan Agreement mentioned in Note 12. The total payment amounted to $39.1 million (BRL122.7 million), including $0.9 million of accrued and unpaid interest.

During fiscal years 2017 and 2016, the accrued interest amounted to $6,921 and $18,177, respectively. These charges do not include the effect of the Secured Loan Agreement mentioned in Note 12, amounting to a loss of $2,570 and $6,519, respectively. Including these effects the total interest cost amounts to $9,491 and $24,696, respectively.

These amounts were recorded within “Net interest expense” in the Company’s consolidated statement of income. According to ASC 815-25-35, the change in the fair value of the hedging instrument and the change in the fair value of the hedged item shall be recognized in earnings. If those results are not perfectly offset, the difference shall be considered as hedge ineffectiveness.

The following table presents the pretax amounts affecting income for the fiscal years ended December 31, 2017 and 2016, respectively:

	Cross-currency swaps (i)	
Derivatives in Fair Value Hedging Relationships	**2017**	**2016**
Loss recognized in Income on hedging derivatives	(9,599)	(5,814)
Gain recognized in Income on hedging items	4,118	2,877

(i) The loss amounting to $5,481 and $2,937, in 2017 and 2016, respectively, related to the ineffective portion of derivatives, was recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.

Derivatives not designated as hedging instruments

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 within "loss from derivative instruments".

The Company paid $81 and $1,156 during the fiscal year ended December 31, 2018 and 2017, respectively, related to those forward contracts.

14. Operating lease agreements

At December 31, 2018, the Company was the lessee at 3,090 locations through ground leases (the Company leases the land and owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants vary between 10 and 20 years and, in many cases, include renewal options provided by the agreement. Although, certain leases contain purchase options, is not reasonably certain that the Company will exercise them. In addition, many agreements include escalation amounts that vary by reporting unit, with examples including fixed-rent escalations, escalations based on an inflation index, and fair value adjustments. According to rental terms, the Company pays monthly rent based on the greater of a fixed rent or a certain percentage of the Company's gross sales. 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 warehouses.

In March 2010, the Company entered into an aircraft operating lease agreement for a term of 8 years, which provides for quarterly payments of $690. The agreement includes a purchase option at the end of the lease term at fair market value and also an early purchase option at a fixed amount of $26,685 at maturity of the 24 th quarterly payment. On December 22, 2017, the Company entered into an amendment to the agreement, extending the term of the aircraft operating lease for an additional 10 years, with quarterly payments (retroactively effective as of December 5, 2017) of $442. The Company was required to make a cash collateral deposit of $2,500 under this agreement.

At December 31, 2018, future minimum payments required under existing operating leases with initial terms of one year or more are:

	Restaurant	Other	Total (i)
2019	$ 137,049	$ 6,427	$ 143,476
2020	122,163	6,090	128,253
2021	106,503	4,685	111,188
2022	91,112	2,335	93,447
2023	77,830	2,206	80,036
Thereafter	409,694	9,771	419,465
Total minimum payment	**$ 944,351**	**$ 31,514**	**$ 975,865**

(i) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2018. In addition, future minimum payments exclude renewal options provided by government's regulation that have not yet been exercised.

The following table provides detail of rent expense for fiscal years 2018, 2017 and 2016:

	2018	2017	2016
Company-operated restaurants (i)	$ 139,279	$ 148,505	$ 131,142
Franchised restaurants (ii)	45,565	54,711	43,311
Total rent expense	**$ 184,844**	**$ 203,216**	**$ 174,453**

(i) Included within "Occupancy and other operating expenses" in the consolidated statements of income.
(ii) Included within "Franchised restaurants – occupancy expenses" in the consolidated statements of income.

14. Operating lease agreements (continued)

The following table provides a breakdown detail of rent expense between minimum and contingent rentals for fiscal years 2018, 2017 and 2016:

	2018	2017	2016
Minimum rentals	$ 136,328	$ 138,496	$ 122,726
Contingent rentals based on sales	48,516	64,720	51,727
Total rent expense	**$ 184,844**	**$ 203,216**	**$ 174,453**

15. Franchise arrangements

Individual franchise arrangements generally include a lease, a license and provide for payment of initial franchise fees, as well as continuing rent and service fees (royalties) to the Company based upon a percentage of sales with minimum rent payments. The Company's 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. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Pursuant to the MFAs, the Company pays initial fees and continuing service fees for franchised restaurants to McDonald's Corporation. Therefore, the margin for franchised restaurants is primarily comprised of rental income net of occupancy expenses (depreciation for owned property and equipment and/or rental expense for leased properties).

At December 31, 2018 and 2017, net property and equipment under franchise arrangements totaled $124,039 and $138,587, respectively (including land for $34,109 and $41,057, respectively).

Revenues from franchised restaurants for fiscal years 2018, 2017 and 2016 consisted of:

	2018	2017	2016
Rent	$ 148,094	$ 155,405	$ 123,311
Initial fees (i) (ii)	195	1,205	1,386
Royalty fees (iii)	673	659	599
Total	**$ 148,962**	**$ 157,269**	**$ 125,296**

(i) Presented net of initial fees paid to McDonald's Corporation for $1,323, $1,417 and $1,588 in 2018, 2017 and 2016, respectively.
(ii) On January 1, 2018, the Company adopted ASC 606 "Revenue Recognition - Revenue from Contracts with Customers". As such, initial franchise fees received are deferred over the term of the franchise agreement. See Note 3 Revenue Recognition, for details.
(iii) Presented net of royalties fees paid to McDonald's Corporation for $57,733, $64,806 and $50,839 in 2018, 2017 and 2016, respectively.

At December 31, 2018, future minimum rent payments due to the Company under existing franchised agreements are:

	Owned sites	Leased sites	Total
2019	$ 5,965	$ 60,578	$ 66,543
2020	5,503	57,009	62,512
2021	4,952	51,809	56,761
2022	4,254	45,335	49,589
2023	3,552	37,394	40,946
Thereafter	15,356	155,948	171,304
Total	**$ 39,582**	**$ 408,073**	**$ 447,655**

16. Income taxes

The Company's operations are conducted by its foreign subsidiaries in Latin America and the Caribbean. The foreign subsidiaries are incorporated under the laws of their respective countries and as such the Company is taxed in such foreign countries.

Statutory tax rates in the countries in which the Company operates for fiscal years 2018, 2017 and 2016 were as follows:

	2018	2017	2016
Puerto Rico	20%	20%	20%
Martinique, French Guyana, Guadeloupe	33%	35%	35%
St Croix, St. Thomas	23%	35%	35%
Aruba	25%	35%	35%
Curacao	22%	35%	35%
Argentina	30%	35%	35%
Brazil and Venezuela	34%	34%	34%
Colombia	37%	40%	40%
Peru	30%	30%	28%
Costa Rica and Mexico	30%	30%	30%
Panamá, Uruguay, Trinidad and Tobago and Netherlands	25%	25%	25%
Ecuador	28%	25%	25%
Chile	27%	26%	24%

Income tax expense for fiscal years 2018, 2017 and 2016 consisted of the following:

	2018	2017	2016
Current income tax expense	$ 47,488	$ 51,215	$ 54,142
Deferred income tax expense	648	2,099	5,499
Income tax expense	**$ 48,136**	**$ 53,314**	**$ 59,641**

16. Income taxes (continued)

Income tax expense for fiscal years 2018, 2017 and 2016 differed from the amounts computed by applying the Company's weighted-average statutory income tax rate to pre-tax income as a result of the following:

	2018	2017	2016
Pre-tax income	$ 85,169	$ 182,813	$ 138,629
Weighted-average statutory income tax rate (i)	42.7%	35.5%	35.4%
Income tax expense at weighted-average statutory tax rate on pre-tax income	36,354	64,901	49,030
Permanent differences :			
Change in valuation allowance (ii)	(24,307)	(21,241)	(19,217)
Expiration and changes in tax loss carryforwards (iii)	18,599	12,785	18,234
Venezuelan remeasurement and inflationary impacts (iv)	16,857	2,683	4,368
Non-taxable income and non-deductible expenses	8,406	10,157	12,915
Tax benefits, including Brazil and other	(11,403)	(10,744)	(14,437)
Income taxes withholdings on intercompany transactions (v)	7,723	6,804	22,379
Differences including exchange rate, inflation adjustment and filing differences	(2,815)	(11,909)	(13,002)
Alternative Taxes	(1,283)	156	(114)
Others	5	(278)	(515)
Income tax expense	**$ 48,136**	**$ 53,314**	**$ 59,641**

(i) Weighted-average statutory income tax rate is calculated based on the aggregated amount of the income before taxes by country multiplied by the prevailing statutory income tax rate, divided by the consolidated income before taxes.
(ii) Comprises net changes in valuation allowances for the year, mainly related to Non-Operating Losses (NOLs).
(iii) Expiration of loss tax carryforwards are mainly generated by Holding legal entities and the Caribbean division.
(iv) Comprises changes in valuation allowance during 2018, 2017 and 2016 for $304, $2,108 and $2,180, respectively.
(v) Comprises income tax withheld on the payment of interest on intercompany loans. In 2016 this item also includes the withholding income tax of $18.2 million due the repayment of the Company's 2016 Notes.

16. Income taxes (continued)

The tax effects of temporary differences and carryforwards that comprise significant portions of deferred tax assets and liabilities at December 31, 2018 and 2017 are presented below:

	2018	2017
Tax loss carryforwards (i)	$ 178,993	$ 238,082
Purchase price allocation adjustment	17,006	24,437
Property and equipment, tax inflation	38,588	37,577
Other accrued payroll and other liabilities	30,300	30,730
Share-based compensation	2,591	3,850
Provision for contingencies	2,708	2,478
Other deferred tax assets (ii)	26,193	21,528
Other deferred tax liabilities (iii)	(7,979)	(10,670)
Property and equipment - difference in depreciation rates	(11,103)	(12,639)
Valuation allowance (iv)	(219,920)	(271,651)
Net deferred tax asset	**$ 57,377**	**$ 63,722**

(i) As of December 31, 2018, the Company and its subsidiaries has accumulated operating tax loss carryforwards amounting to $649,312. The Company has operating tax loss carryforwards amounting to $151,343, expiring between 2019 and 2023. In addition, the Company has operating tax loss carryforwards amounting to $211,043 expiring after 2023 and operating tax loss carryforwards amounting to $286,926 that do no expire. Changes in tax loss carryforwards for the year relate to the use of NOLs, mainly in Brazil, Colombia and Chile, and the expiration of tax loss carryforwards in other markets.

(ii) Other deferred tax assets reflect the net tax effects of temporary differences between the carrying amounts of assets for financial reporting purposes (accounting base) and the amounts used for income tax purposes (tax base). For the fiscal year ended December 31, 2018, this item includes: bad debt reserve in Puerto Rico for $4,967, provision for regular expenses for $10,458, mainly corresponding to Brazil, Mexico and Colombia; and foreign currency exchange differences in Argentina and Brazil for $4,736. For the fiscal year ended December 31, 2017 this item includes regular expenses provisions for $9,824, for Brazil, Mexico and Colombia; $698 related to foreign currency exchange differences in Venezuela and $3,782 in Puerto Rico, related to bad debt reserve.

(iii) Primarily related to intangible assets and accelerated depreciation of fixed assets.

(iv) In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

The total amount of $57,377 for the year ended December 31, 2018, is presented in the consolidated balance sheet as non-current asset and non-current liability amounting to $58,334 and $957, respectively.

The total amount of $63,722 for the year ended December 31, 2017, is presented in the consolidated balance sheet as non-current asset and non-current liability amounting to $74,299 and $10,577, respectively.

Deferred income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries. These temporary differences, comprise undistributed earnings considered permanently invested in subsidiaries amounted to $141,431 at December 31, 2018. 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.

As of December 31, 2018, and 2017, the Company has not identified unrecognized tax benefits that would favorably affect the effective tax rate if resolved in the Company’s favor.

16. Income taxes (continued)

The Company account for uncertain tax positions by determining the minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. This determination requires the use of significant judgment in evaluating the tax positions and assessing the timing and amounts of deductible and taxable items. The Company is regularly under audit in multiple tax jurisdictions and is currently under examination in several jurisdictions. The Company is generally no longer subject to income tax examinations by tax authorities for years prior to 2012.

As of December 31, 2018, there are certain matters related to the interpretation of income tax laws for which there is a possibility that a loss may have been incurred, as of the date of the financial statements in accordance with ASC 740 in an amount of $181 million, related to assessments for the fiscal years 2009 to 2014. No formal claim has been made for fiscal years within the statute of limitation by Tax authorities in any of the mentioned matters, however those years are still subject to audit and claims may be asserted in the future.

It is reasonably possible that, as a result of audit progression within the next 12 months, there may be new information that causes the Company to reassess the tax positions because the outcome of tax audits cannot be predicted with certainty. While the Company cannot estimate the impact that new information may have on their unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate as determined under ASC 740.

17. Share-based compensation

2011 Equity Incentive Plan

In March 2011, the Company adopted its Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of its business. This Plan is being used to reward certain employees for the success of the Company’s business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of shares (also referred to as stock), options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by the Company’s Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 2.5% of the Company’s total outstanding class A and class B shares immediately following its initial public offering.

The Company made a special grant of stock options and restricted share units in 2011 in connection with its initial public offering, which are totally vested. The Company also made recurring grants of stock options and restricted share units in each of the fiscal years from 2011 to 2018 (from 2015 to 2018 only restricted share units). Both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. However, in the event of death, disability or retirement of the employee, any unvested portion of the annual award will be fully vested. For all grants, each stock option granted represents the right to acquire a Class A share at its grant-date fair market value, while each restricted share unit represents the right to receive a Class A share when vested. The exercise right for the stock options is cumulative and, once such right becomes exercisable, it may be exercised in whole or in part during quarterly window periods until the date of termination, which occurs at the seventh anniversary of the grant date. The Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options at the grant date. The value of restricted shares units is based on the quoted market price of the Company’s class A shares at the grant date.

On June 28, 2016, 1,117,380 stock options were converted to a liability award maintaining the original conditions of the 2011 Plan. There were not incremental compensation costs resulting from the modification. The employees affected by this modification were 104. The accrued liability is remeasured on a monthly basis until settlement.

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company recognized stock-based compensation expense in the amount of $3,661, $3,267 and $3,303 during fiscal years 2018, 2017 and 2016, respectively. Stock-based compensation expense is included within “General and administrative expenses” in the consolidated statements of income.

17. Share-based compensation (continued)

2011 Equity Incentive Plan (continued)

The Company recognized $(175), $151 and $688 of related income tax (expense) benefit during fiscal years 2018, 2017 and 2016, respectively.

Stock Options

The following table summarizes the activity of stock options during fiscal years 2018, 2017 and 2016:

	Units	Weighted-average strike price	Weighted-average grant-date fair value
Outstanding at December 31, 2015	**2,025,894**	**21.03**	**5.87**
Forfeitures	(80,734)	10.30	2.68
Expired (i)	(51,305)	14.05	4.02
Modification (ii)	(1,117,380)	19.07	5.30
Outstanding at December 31, 2016	**776,475**	**15.55**	**4.46**
Expired (i)	(141,986)	21.20	5.28
Outstanding at December 31, 2017	**634,489**	**14.28**	**4.28**
Expired (i)	(143,416)	21.20	5.89
Outstanding at December 31, 2018	**491,073**	**12.26**	**3.81**
Exercisable at December 31, 2018	**455,719**	**12.55**	**3.95**

(i) As of December 31, 2018, 2017 and 2016, additional paid-in capital included $844, $750 and $206 respectively, related to expired stock options.
(ii) Corresponds to stock options converted to a liability award.

The following table provides a summary of outstanding stock options at December 31, 2018:

	Vested (i)	Non-vested (ii)	Total
Number of units outstanding	455,719	35,354	491,073
Weighted-average grant-date fair market value per unit	3.95	1.98	3.81
Total grant-date fair value	1,800	70	1,870
Weighted-average accumulated percentage of service	100%	92.9%	99.7%
Stock-based compensation recognized in Additional paid-in capital	1,800	65	1,865
Compensation expense not yet recognized (iii)	—	5	5

(i) Related to exercisable awards.
(ii) Related to awards that will vest in 2019.
(iii) Expected to be recognized in 4.5 months.

17. Share-based compensation (continued)

Restricted Share Units

The following table summarizes the activity of restricted share units during fiscal years 2018, 2017 and 2016:

	Units	Weighted-average grant-date fair value
Outstanding at December 31, 2015	**1,230,210**	**7.96**
2016 annual grant	865,291	4.70
Partial vesting	(172,328)	12.25
Forfeitures	(142,176)	6.64
Outstanding at December 31, 2016	**1,780,997**	**6.07**
2017 annual grant	497,960	9.20
Partial vesting	(361,284)	7.65
Forfeitures	(180,828)	5.99
Outstanding at December 31, 2017	**1,736,845**	**6.65**
2018 annual grant	520,393	8.50
Partial vesting	(534,589)	6.01
Forfeitures	(117,600)	7.24
Outstanding at December 31, 2018	**1,605,049**	**7.41**
Exercisable at December 31, 2018	—	—

The total fair value of restricted share units vested during 2018, 2017 and 2016 was $3,214, $2,763 and $3,214, respectively. As of December 31, 2018 the Company issued 520,565 Class A shares in connection with this partial vesting. Therefore, accumulated recorded compensation expense totaling $3,113 was reclassified from “Additional paid-in capital” to “Common Stock” upon issuance.

The following table provides a summary of outstanding restricted share units at December 31, 2018:

Number of units outstanding (i)	1,605,049
Weighted-average grant-date fair market value per unit	7.41
Total grant-date fair value	11,900
Weighted-average accumulated percentage of service	51.70%
Stock-based compensation recognized in Additional paid-in capital	6,157
Compensation expense not yet recognized (ii)	5,743

(i) Related to awards that will vest between fiscal years 2019 and 2023.
(ii) Expected to be recognized in a weighted-average period of 2.0 years.

18. Commitments and contingencies

Commitments

The MFAs require the Company and its MF subsidiaries, among other obligations:

(i) to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants, during the first 10 years, substantially consistent with market. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement;

(ii) to agree with McDonald’s on a restaurant opening plan and a reinvestment plan for each three-year period and pay an initial franchise fee for each new restaurant opened;

(iii) to commit to funding a specified Strategic Marketing Plan;

(iv) to own (or lease) directly or indirectly, the fee simple interest in all real property on which any franchised restaurant is located; and

(v) to maintain a minimum fixed charge coverage ratio (as defined therein) at least equal to 1.50 as well as a maximum leverage ratio (as defined therein) of 4.25.

On January 26, 2017, the Company reached an agreement with McDonald’s Corporation related to the restaurant opening and reinvestment plan, mentioned in point (ii) above, for the three-year period commenced on January 1, 2017. Under the agreement, the Company committed to open 180 new restaurants and to reinvest $292 million in existing restaurants. On January 25, 2017, McDonald’s Corporation agreed to provide growth support for the same period. The Company projects that the impact of this support could result in a consolidated effective royalty rate of 5.9% in 2019.

McDonald’s Corporation granted the Company limited waivers through and including June 30, 2016, during which time the Company was not required to comply with the financial ratios set forth in the MFA, mentioned in point (v) above. If the Company would not be in compliance with the financial requirements and would be unable to obtain an extension of the waiver or to comply with the original commitments under the MFA, it could be in material breach. A breach of the MFA would give McDonald’s Corporation certain rights, including the ability to acquire all or portions of the business.

The following table summarize Company’s ratios requirements for the three-month periods ended from March 31, 2016 to December 31, 2018:

	Fixed Charge Coverage Ratio	Leverage Ratio
March 31, 2016	1.67	4.80
June 30, 2016	1.64	4.40
September 30, 2016	1.67	4.08
December 31, 2016	1.64	4.21
March 31, 2017	1.65	4.12
June 30, 2017	1.65	4.05
September 30, 2017	1.69	4.02
December 31, 2017	1.77	3.80
March 31, 2018	1.70	4.05
June 30, 2018	1.74	4.02
September 30, 2018	1.81	3.83
December 31, 2018	1.70	4.07

In addition, the Company maintains standby letters of credit with an aggregate drawing amount of $80 million in favor of McDonald’s Corporation as collateral for the obligations assumed under the MFAs. The letters of credit can be drawn if certain events occur, including the failure to pay royalties. No amounts have been drawn at the date of issuance of these financial statements.

18. Commitments and contingencies (continued)

Provision for contingencies

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. At December 31, 2018 and 2017, the Company maintains a provision for contingencies, net of judicial deposits, amounting to $28,509 and $27,956, respectively, presented as follow: $2,436 and $2,529 as a current liability and $26,073 and $25,427 as a non-current liability, respectively. The breakdown of the provision for contingencies is as follows:

Description	Balance at beginning of period	Accruals, net	Settlements	Reclassifications and increase of judicial deposits	Translation	Balance at end of period
Year ended December 31, 2018:						
Tax contingencies in Brazil (i)	$ 9,324	$ 1,805	$ —	$ —	$ (1,632)	$ 9,497
Labor contingencies in Brazil (ii)	21,061	20,785	(17,718)	—	(3,020)	21,108
Other (iii)	15,646	1,405	(1,984)	—	(3,605)	11,462
Subtotal	46,031	23,995	(19,702)	—	(8,257)	42,067
Judicial deposits (iv)	(18,075)	—	—	1,843	2,674	(13,558)
Provision for contingencies	**$ 27,956**	**$ 23,995**	**$ (19,702)**	**$ 1,843**	**$ (5,583)**	**$ 28,509**
Year ended December 31, 2017:						
Tax contingencies in Brazil (i)	$ 13,312	$ (2,599)	$ (337)	$ (667)	$ (385)	$ 9,324
Labor contingencies in Brazil (ii)	11,150	31,448	(21,130)	—	(407)	21,061
Other (iii)	12,222	7,150	(3,960)	17	217	15,646
Subtotal	36,684	35,999	(25,427)	(650)	(575)	46,031
Judicial deposits (iv)	(18,572)	161	—	(60)	396	(18,075)
Provision for contingencies	**$ 18,112**	**$ 36,160**	**$ (25,427)**	**$ (710)**	**$ (179)**	**$ 27,956**
Year ended December 31, 2016:						
Tax contingencies in Brazil (i)	$ 5,118	$ 7,196	$ —	$ —	$ 998	$ 13,312
Labor contingencies in Brazil (ii)	7,013	19,903	(17,523)	—	1,757	11,150
Other (iii)	13,947	1,478	(3,031)	(37)	(135)	12,222
Subtotal	26,078	28,577	(20,554)	(37)	2,620	36,684
Judicial deposits (iv)	(5,500)	—	—	(11,458)	(1,614)	(18,572)
Provision for contingencies	**$ 20,578**	**$ 28,577**	**$ (20,554)**	**$ (11,495)**	**$ 1,006**	**$ 18,112**

(i) In 2018 and 2017, it includes mainly CIDE. In 2016 it includes mainly PIS/COFINS.
(ii) It primarily relates to dismissals in the normal course of business.
(iii) It relates to tax and labor contingencies in other countries and civil contingencies in all the countries.
(iv) It primarily relates to judicial deposits the Company was required to make in connection with the proceedings in Brazil.

18. Commitments and contingencies (continued)

Provision for contingencies (continued)

As of December 31, 2018, there are certain matters related to the interpretation of tax and labor laws for which there is a possible that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of $188 million and $196 million.

Additionally, there is a lawsuit filed by several Puerto Rican franchisees against McDonald's Corporation and certain subsidiaries purchased by the Company during the acquisition of the LatAm business ("the Puerto Rican franchisees lawsuit").

The claim seeks declaratory judgment and damages in the aggregate amount of $66.7 million plus plaintiffs' attorney fees. At the end of 2014 the plaintiffs finalized their presentation of evidence whereas the Company has not started yet. At that time, the Company filed a Motion of Non Suit that has not been resolved by the Commissioner assigned to this case. The Company believes that the probability of a loss is remote.

During 2014, another franchisee filed a complaint ("the related Puerto Rican franchisee lawsuit") against the Company and McDonald's USA, LLC (a wholly owned subsidiary of McDonald's Corporation), asserting a very similar claim to the one filed in the Puerto Rican franchisees lawsuit. The claim seeks declaratory judgment and damages in the amount of $30 million plus plaintiffs' attorney fees. The Company also believes that the litigation probability of a loss is remote, since its close resemblance to the Puerto Rican franchisees lawsuit.

Furthermore, the Puerto Rico Owner Operator's Association ("PROA"), an association integrated by the Company's franchisees that meets periodically to coordinate the development of promotional and marketing campaigns (an association that at the time of the claim was formed solely by franchisees that are plaintiffs in the Puerto Rican franchisees lawsuit), filed a third party complaint and counterclaim ("the PROA claim") against the Company and other third party defendants, in the amount of $31 million. On June 9, 2014, after several motions for summary judgment duly filed and opposed by the parties, the First Instance Court entered a "Partial Summary Judgment and Resolution" in favor of PROA, before initiating the discovery phase, finding that the Company must participate and contribute funds to the association. However, the Court did not specify any amount for which the Company should be held liable, due to its preliminary and interlocutory nature, and the lack of discovery conducted regarding the amounts claimed by the plaintiffs. By means of a Motion to Reconsider, the Company opposed such determination. In December 2018, the First Instance Court confirmed his determination and the Company filed a Certiorari in the Court of Appeals. The Company continues to oppose this determination vigorously because it believes that there is no legal basis for it, considering: (i) the obligation to contribute is not directed towards a cooperative, (ii) the franchise agreement does not contain a provision that makes it mandatory to participate in the cooperative, and (iii) PROA's by-laws state that participation in the cooperative is voluntary, among other arguments. According to the points previously mentioned, the Company believes that the probability of a loss is remote, therefore no provision has been recorded.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisees lawsuit. Pursuant to the MFA, the Company indemnifies McDonald's for the related Puerto Rican franchisee lawsuit and the PROA claim.

At December 31, 2018, the provision for contingencies includes $3,970 ($2,489 at December 31, 2017), related to Brazilian claims that are covered by the indemnification agreement. As a result, the Company has recorded a current asset and non-current asset in respect of McDonald's Corporation's indemnity in the consolidated balance sheet. The current asset in respect of McDonald's Corporation's indemnity represents the amount of cash to be received as a result of settling certain Brazilian labor and tax contingencies.

19. Disclosures about fair value of financial instruments

As defined in ASC 820 Fair Value Measurement and Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability. The valuation techniques that can be used under this guidance are the market approach, income approach or cost approach. The market approach uses prices and other information for market transactions involving identical or comparable assets or liabilities, such as matrix pricing. The income approach uses valuation techniques to convert future amounts to a single discounted present amount based on current market conditions about those future amounts, such as present value techniques, option pricing models (e.g. Black-Scholes model) and binomial models (e.g. Monte-Carlo model). The cost approach is based on current replacement cost to replace an asset.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observance of those inputs. The guidance establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurement should be used whenever possible.

The three levels of the fair value hierarchy as defined by the guidance are as follows:

Level 1 : Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. Examples include exchange-traded derivatives and listed equities that are actively traded.

Level 2 : Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Financial instruments that are valued using models or other valuation methodologies are included. Models used should primarily be industry-standard models that consider various assumptions and economic measures, such as interest rates, yield curves, time value, volatilities, contract terms, current market prices, credit risk or other market-corroborated inputs. Examples include most over-the-counter derivatives (non-exchange traded), physical commodities, most structured notes and municipal and corporate bonds.

Level 3 : Valuations utilizing significant unobservable inputs provides the least objective evidence of fair value and requires a significant degree of judgment. Inputs may be used with internally developed methodologies and should reflect an entity's assumptions using the best information available about the assumptions that market participants would use in pricing an asset or liability. Examples include certain corporate loans, real-estate and private equity investments and long-dated or complex over-the-counter derivatives.

Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under this guidance, the lowest level that contains significant inputs used in valuation should be chosen. Pursuant to ASC 820-10-50, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's derivatives are valued based upon quotes obtained from counterparties to the agreements and are designated as Level 2.

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19. Disclosures about fair value of financial instruments (continued)

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017:

	Quoted Prices in Active Markets For Identical Assets (Level 1)		Significant Other Observable Inputs (Level 2)		Significant Unobservable Inputs (Level 3)		Balance as of December 31,	Balance as of December 31,
	2018	2017	2018	2017	2018	2017	2018	2017
Assets								
Cash equivalents	$ 118,948	$ 93,541	$ —	$ —	$ —	$ —	$ 118,948	$ 93,541
Short-term Investments	—	—	—	19,588	—	—	$ —	$ 19,588
Derivatives	—	—	55,462	35,378	—	—	$ 55,462	$ 35,378
Total Assets	**$ 118,948**	**$ 93,541**	**$ 55,462**	**$ 54,966**	**$ —**	**$ —**	**$ 174,410**	**$ 148,507**
Liabilities								
Derivatives	$ —	$ —	$ 14,203	$ 23,545	$ —	$ —	$ 14,203	$ 23,545
Share-based compensation	—	—	—	1,483	—	—	$ —	$ 1,483
Total Liabilities	**$ —**	**$ —**	**$ 14,203**	**$ 25,028**	**$ —**	**$ —**	**$ 14,203**	**$ 25,028**

The derivative contracts were 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 that were observable for substantially the full term of the derivative contracts.

Certain financial assets and liabilities not measured at fair value

At December 31, 2018, the fair value of the Company's short-term and long-term debt was estimated at $633,489, compared to a carrying amount of $640,567. This fair value was estimated using various pricing models or discounted cash flow analysis that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for notes receivable approximates fair value.

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). At December 31, 2018, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities, except for those required in connection with the impairment of long-lived assets and goodwill. Refer to Note 3 for more details, including inputs and valuation techniques used to measure fair value of these non-financial assets.

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20. Certain risks and concentrations

The Company's financial instruments that are exposed to concentration of credit risk primarily consist of cash and cash equivalents and accounts and notes receivable. Cash and cash equivalents are deposited with various creditworthy financial institutions, and therefore the Company believes it is not exposed to any significant credit risk related to cash and cash equivalents. Concentrations of credit risk with respect to accounts and notes receivable are generally limited due to the large number of franchisees comprising the Company's franchise base.

All the Company's operations are concentrated in Latin America and the Caribbean. As a result, the Company's financial condition and results of operations depend, to a significant extent, on macroeconomic and political conditions prevailing in the region. See Note 22 for additional information pertaining to the Company's Venezuelan operations.

21. Segment and geographic information

The Company is required to report information about operating segments in annual financial statements and interim financial reports issued to shareholders in accordance with ASC 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. ASC 280 also requires disclosures about the Company's products and services, geographical areas and major customers.

As discussed in Note 1, the Company through its wholly-owned and majority-owned subsidiaries operates and franchises McDonald's restaurants in the food service industry. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. The Company manages its business as distinct geographic segments and its operations are divided into four geographical divisions, which are as follows: Brazil; the Caribbean division, consisting of Aruba, Curacao, Colombia, French Guyana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division ("NOLAD"), consisting of Costa Rica, Mexico and Panama; and the South Latin America division ("SLAD"), consisting of Argentina, Chile, Ecuador, Peru and Uruguay. The accounting policies of the segments are the same as those described in Note 3.

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21. Segment and geographic information (continued)

The following table presents information about profit or loss and assets for each reportable segment:

	For the fiscal years ended December 31,		
	2018	2017	2016
Revenues:			
Brazil	$ 1,345,453	$ 1,496,573	$ 1,333,237
Caribbean division	483,743	474,822	409,671
NOLAD	406,848	386,874	363,965
SLAD	845,527	961,256	821,757
Total revenues	**$ 3,081,571**	**$ 3,319,525**	**$ 2,928,630**
Adjusted EBITDA:			
Brazil	$ 218,391	$ 218,172	$ 168,076
Caribbean division	(8,281)	40,844	18,049
NOLAD	32,313	33,717	36,288
SLAD	73,670	87,083	76,327
Total reportable segments	**316,093**	**379,816**	**298,740**
Corporate and others (i)	(58,096)	(74,879)	(60,295)
Total adjusted EBITDA	**$ 257,997**	**$ 304,937**	**$ 238,445**

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21. Segment and geographic information (continued)

	For the fiscal years ended December 31,		
	2018	2017	2016
Adjusted EBITDA reconciliation:			
Total Adjusted EBITDA	**$ 257,997**	**$ 304,937**	**$ 238,445**
(Less) Plus items excluded from computation that affect operating income:			
Depreciation and amortization	(105,800)	(99,382)	(92,969)
Gains from sale or insurance recovery of property and equipment	4,973	95,081	57,244
Write-offs of property and equipment	(4,167)	(8,528)	(5,776)
Impairment of long-lived assets	(18,950)	(17,564)	(7,697)
Impairment of goodwill	(167)	(200)	(5,045)
Reorganization and optimization plan expenses	(11,003)	—	(5,341)
ADBV Long-Term Incentive Plan incremental compensation from modification	575	(1,409)	(281)
Operating income	**123,458**	**272,935**	**178,580**
(Less) Plus:			
Net interest expense	(52,868)	(68,357)	(66,880)
Loss from derivative instruments	(565)	(7,065)	(3,065)
Foreign currency exchange results	14,874	(14,265)	32,354
Other non-operating expenses, net	270	(435)	(2,360)
Income tax expense	(48,136)	(53,314)	(59,641)
Net income attributable to non-controlling interests	(186)	(333)	(178)
Net income attributable to Arcos Dorados Holdings Inc.	**$ 36,847**	**$ 129,166**	**$ 78,810**

21. Segment and geographic information (continued)

	For the fiscal years ended December 31,		
	2018	2017	2016
Depreciation and amortization:			
Brazil	$ 52,632	$ 52,442	$ 43,733
Caribbean division	22,835	25,210	27,376
NOLAD	20,829	20,635	21,975
SLAD	19,293	15,292	14,477
Total reportable segments	**115,589**	**113,579**	**107,561**
Corporate and others (i)	5,696	5,978	5,478
Purchase price allocation (ii)	(15,485)	(20,175)	(20,070)
Total depreciation and amortization	**$ 105,800**	**$ 99,382**	**$ 92,969**
Property and equipment expenditures:			
Brazil	$ 100,926	$ 91,769	$ 42,657
Caribbean division	18,640	16,759	14,387
NOLAD	24,145	17,565	10,117
SLAD	53,300	48,621	24,967
Others	30	52	154
Total property and equipment expenditures	**$ 197,041**	**$ 174,766**	**$ 92,282**

	As of December 31,	
	2018	2017
Total assets:		
Brazil	$ 751,550	$ 786,897
Caribbean division	303,467	416,541
NOLAD	247,697	271,558
SLAD	291,300	297,581
Total reportable segments	**1,594,014**	**1,772,577**
Corporate and others (i)	105,835	172,400
Purchase price allocation (ii)	(121,810)	(141,234)
Total assets	**$ 1,578,039**	**$ 1,803,743**

(i) Primarily relates to corporate general and administrative expenses, corporate supply chain operations in Uruguay, and related assets. Corporate general and administrative expenses consist of corporate office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. As of December 31, 2018 and 2017, corporate assets primarily includes corporate cash and cash equivalents.

(ii) Relates to the purchase price allocation adjustment made at corporate level, which reduces the total assets and the corresponding depreciation and amortization.

The Company's revenues are derived from two sources: sales by Company-operated restaurants and revenues from restaurants operated by franchisees. All of the Company's revenues are derived from foreign operations.

Long-lived assets consisting of property and equipment totaled $856,192 and $890,736 at December 31, 2018 and 2017, respectively. All of the Company's long-lived assets are related to foreign operations.

22. Venezuelan operations

The Company conducts business in Venezuela where currency restrictions exist, limiting the Company's ability to immediately access cash through repatriations at the government's official exchange rate. The Company's access to Venezuelan Bolívares (VEF or VES) held by its Venezuelan subsidiaries remains available for use within this jurisdiction and is not restricted. The official exchange rate is established by the Central Bank of Venezuela and the Venezuelan Ministry of Finance.

Since February 2013, the Venezuelan government has announced several changes in the currency exchange regulations. The last modification was in February 2018, when the Venezuelan government announced the unification of the formerly exchange rate systems, DIPRO and DICOM II, into a sole foreign exchange mechanism (NEW DICOM). The unified system operates through an auction mechanism similar to the formerly DICOM II. The first auction was published on February 5, 2018, with an exchange rate of 25,000 VEF per US dollar. As a consequence of those changes announced by the Government, the Company reassessed the exchange rate used for remeasurement purposes as follows:

			Effects of exchange rate change		
Period	**Exchange rate System applied**	**Exchange rate at System date change (VEF per US dollar)**	**Write down of inventories (i)**	**Impairment of long-lived assets (i)**	**Foreign currency exchange (loss) income (ii)**
From February 8, 2013 to February 28, 2014	Official exchange rate	6.30	—	—	(15,379)
From March 1, 2014 to May 31, 2014	SICAD	11.80	7,611	—	(19,697)
From June 1, 2014 to February 28, 2015	SICAD II	49.98	9,937	45,186	(38,963)
From March 1, 2015 to March 9, 2016	SIMADI	177.00	3,250	7,804	(8,046)
From March 10, 2016 to May 30, 2017	DICOM	215.34	401	—	(117)
From May 31, 2017 to January 31, 2018	DICOM II	2,010.00	1,375	—	(2,554)
From February 1, 2018 up to date	NEW DICOM	25,000.00	38,095	—	11,223

(i) Presented within Other operating (expenses) income, net.
(ii) Presented within Foreign currency exchange results.

On August 20, 2018, the Government announced the removal of five zeros from the Venezuelan currency and renamed it as "Sovereign Bolivar" (VES). In addition, the new currency devaluated from 2.48 to 59.93 VES per US dollar.

Although the Company has participated in several auctions since the new mechanism was in place on June 1, 2018, it was granted with $20 for the first time at an exchange rate of 600,000 VEF per US dollar. Afterwards, the Company was granted in July and December. Those transactions occurred at an exchange rate greater than the one published by the governmental authorities. Considering that under ASC 830, foreign currency transactions are required to be remeasured at the applicable rate at which a particular transaction could be settled, each time the Company access to NEW DICOM at an exchange rate greater than the one published, this rate was considered for remeasurements purposes. As a consequence of these reassessments, the Company recognized a foreign currency exchange loss of $6.1 million and a write down of certain inventories of $23 million due to the currency exchange rate change impact on their net recoverable value.

22. Venezuelan operations (continued)

Revenues and operating (loss) income of the Venezuelan operations were $78,859 and $(52,054), respectively, for fiscal year 2018; $101,477 and $6,804, respectively, for fiscal year 2017; and $51,615 and $(8,608), respectively, for fiscal year 2016.

The Company performed the impairment testing of its long-lived assets in accordance with the guidance within ASC 360-10-35, as mentioned in Note 3. As a result of the analysis, the Company recorded an impairment charge of $12,089. The Company will continue closely monitoring any indicator of impairment in Venezuela.

As of December 31, 2018, the Company's local currency denominated net monetary position, which would be subject to remeasurement in the event of further changes in the exchange rate, was net liability $0.1 million. In addition, Venezuela's non-monetary assets were $16.8 million (mainly fixed assets).

In addition to exchange controls, the Venezuelan market is subject to price controls. The Venezuelan government issued a regulation establishing a maximum profit margin for companies and maximum prices for certain goods and services. Although these regulations caused a delay in the pricing plan, the Company was able to increase prices during the fiscal year ended December 31, 2018.

The Company's Venezuelan operations, and the Company's ability to repatriate its earnings, continue to be negatively affected by these difficult conditions and would be further negatively affected by additional devaluations or the imposition of additional or more stringent controls on foreign currency exchange, pricing, payments, profits or imports or other governmental actions or continued or increased labor unrest. The Company continues to closely monitor developments in this dynamic environment, to assess evolving business risks and actively manage its operations in Venezuela.

23. Shareholders' equity

Authorized capital

The Company is authorized to issue to 500,000,000 shares, consisting of 420,000,000 Class A shares and 80,000,000 Class B shares of no par value each.

Issued and outstanding capital

At December 31, 2015, the Company had 210,538,896 shares issued and outstanding with no par value, consisting of 130,538,896 class A shares and 80,000,000 class B shares.

During fiscal years 2018, 2017 and 2016, the Company issued 520,565, 361,284 and 172,328 Class A shares, respectively, in connection with the partial vesting of restricted share units under the 2011 Equity Incentive Plan.

On May 22, 2018, The Board of Directors approved the adoption of a share repurchase program, pursuant to which the Company may repurchase from time to time up to $60,000 of issued and outstanding Class A shares of no par value of the Company ("The Repurchase Program").

The Repurchase Program began on May 22, 2018 and will expire at the close of business on May 22, 2019. However, it could terminate prior to such date.

As of December 31, 2018, the Company purchased 6,360,826 shares amounting to $46,035.

Therefore, at December 31, 2018, 2017 and 2016 the Company had 211,593,073; 211,072,508 and 210,711,224 shares issued with no par value, consisting of 131,593,073; 131,072,508 and 130,711,224 Class A shares, respectively, and 80,000,000 for Class B shares for each year.

23. Shareholders' equity (continued)

Rights, privileges and obligations

Holders of Class A shares are entitled to one vote per share and holders of Class B shares are entitled to five votes per share. Except with respect to voting, the rights, privileges and obligations of the Class A shares and Class B shares are *pari passu* in all respects, including with respect to dividends and rights upon liquidation of the Company.

Distribution of dividends

The Company can only make distributions to the extent that immediately following the distribution, its assets exceed its liabilities and the Company is able to pay its debts as they become due.

On March 20, 2018, the Company approved a dividend distribution to all Class A and Class B shareholders of $0.10 per share, to be paid in two equal installments of $0.05 per share on April 5, 2018 and October 5, 2018, amounting to $20,937. During fiscal years 2017 and 2016, the Company did not declare a dividend distribution to its shareholders.

Accumulated other comprehensive loss

The following table sets forth information with respect to the components of "Accumulated other comprehensive loss" as of December 31, 2018 and their related activity during the three-years in the period then ended:

	Foreign currency translation	Cash flow hedges	Post-employment benefits (i)	Total Accumulated other comprehensive loss
Balances at December 31, 2015	**$ (431,190)**	**$ 7,876**	**$ (949)**	**$ (424,263)**
Other comprehensive loss before reclassifications	(9,891)	(18,813)	(310)	(29,014)
Net loss reclassified from accumulated other comprehensive loss to consolidated statement of income	—	11,242	386	11,628
Net current-period other comprehensive (loss) income	(9,891)	(7,571)	76	(17,386)
Balances at December 31, 2016	**(441,081)**	**305**	**(873)**	**(441,649)**
Other comprehensive income (loss) before reclassifications	4,800	6,462	(938)	10,324
Net loss reclassified from accumulated other comprehensive loss to consolidated statement of income	—	1,592	386	1,978
Net current-period other comprehensive income (loss)	4,800	8,054	(552)	12,302
Balances at December 31, 2017	**(436,281)**	**8,359**	**(1,425)**	**(429,347)**
Other comprehensive (loss) income before reclassifications	(62,996)	13,888	(418)	(49,526)
Net loss reclassified from accumulated other comprehensive loss to consolidated statement income	—	(23,887)	494	(23,393)
Net current-period other comprehensive (loss) income	(62,996)	(9,999)	76	(72,919)
Balances at December 31, 2018	**$ (499,277)**	**$ (1,640)**	**$ (1,349)**	**$ (502,266)**

(i) Mainly related to a post-employment benefit in Venezuela established by the Organic Law of Labor and Workers (known as "LOTTT", its Spanish acronym) in 2012. This benefit provides a payment of 30 days of salary per year of employment tenure based on the last wage earned to all workers who leave the job for any reason. The term of service to calculate the post-employment payment of active workers run retroactively since June 19, 1997. The Company obtains an actuarial valuation to measure the post-employment benefit obligation, using the projected unit credit actuarial method and measures this benefit in accordance with ASC 715-30, similar to pension benefit.

24. Earnings per share

The Company is required to present basic earnings per share and diluted earnings per share in accordance with ASC 260. Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options and restricted share units. Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the period under the treasury method.

The following table sets forth the computation of basic and diluted net income per common share attributable to Arcos Dorados Holdings Inc. for all years presented:

	For the fiscal years ended December 31,		
	2018	2017	2016
Net income attributable to Arcos Dorados Holdings Inc. available to common shareholders	$ 36,847	$ 129,166	$ 78,810
Weighted-average number of common shares outstanding - Basic	209,136,832	210,935,685	210,646,955
Incremental shares from assumed exercise of stock options (i)	—	—	—
Incremental shares from vesting of restricted share units	983,634	1,060,726	377,653
Weighted-average number of common shares outstanding - Diluted	210,120,466	211,996,411	211,024,608
Basic net income per common share attributable to Arcos Dorados Holdings Inc.	**$ 0.18**	**$ 0.61**	**$ 0.37**
Diluted net income per common share attributable to Arcos Dorados Holdings Inc.	**$ 0.18**	**$ 0.61**	**$ 0.37**

(i) Options to purchase shares of common stock were outstanding during fiscal years 2018, 2017 and 2016. See Note 17 for details. These options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

25. Related party transactions

The Company has entered into a master commercial agreement on arm's length terms with Axionlog, a company under common control that operates the distribution centers in Argentina, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela (the "Axionlog Business"). Pursuant to this agreement Axionlog provides the Company distribution inventory, storage and transportation services in the countries in which it operates. On November 9, 2011 the Company entered into a revolving loan agreement as a creditor with Axionlog Distribution B.V., a holding company of the Axionlog Business, for a total amount of $12 million at an interest rate of LIBOR plus 6%, in line with interest rates prevailing in the market at the time of the agreement. Notwithstanding the fact that the loan maturity date was November 7, 2016 the parties decided to terminate the agreement early as of May 27, 2016. As a result, the Company collected the outstanding principal amount of $1,800, included within "Other investing activity" in the consolidated statements of Cash Flows.

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25. Related party transactions (continued)

The following table summarizes the outstanding balances between the Company and the Axionlog Business as of December 31, 2018 and 2017:

	As of December 31,	
	2018	2017
Accounts and notes receivable	$ 860	$ 1,097
Other receivables	1,676	979
Miscellaneous	2,963	3,126
Accounts payable	(14,984)	(11,727)

The following table summarizes the transactions between the Company and the Axionlog Business for the fiscal years ended December 31, 2018, 2017 and 2016:

	Fiscal years ended December 31,		
	2018	2017	2016
Food and paper (i)	$ (177,356)	$ (173,387)	$ (163,536)
Occupancy and other operating expenses	(5,322)	(4,281)	(3,882)
Net interest income	—	—	47

(i) Includes $41,633 of distribution fees and $135,723 of suppliers purchases managed through the Axionlog Business for the fiscal year ended December 31, 2018; $48,773 and $124,614, respectively, for the fiscal year ended December 31, 2017; and $40,714 and $122,822, respectively, for the fiscal year ended December 31, 2016.

As of December 31, 2018 and 2017, the Company had other receivables totaling $2,692 and $2,112, respectively and accounts payable with Lacoop, A.C. and Lacoop II, S.C. totaling $1,634 and $1,113, respectively.

26. Valuation and qualifying accounts

The following table presents the information required by Rule 12-09 of Regulation S-X in regards to valuation and qualifying accounts for each of the periods presented:

Description	Balance at beginning of period	Additions (i)	Deductions (ii)	Translation	Balance at end of period
Year ended December 31, 2018:					
Deducted from assets accounts:					
Allowance for doubtful accounts (iii)	$ 21,467	$ 6,064	$ (1,860)	$ (132)	$ 25,539
Valuation allowance on deferred tax assets	271,651	13,107	(37,718)	(27,120)	219,920
Reported as liabilities:					
Provision for contingencies	27,956	25,838	(19,702)	(5,583)	28,509
Total	**$ 321,074**	**$ 45,009**	**$ (59,280)**	**$ (32,835)**	**$ 273,968**
Year ended December 31, 2017:					
Deducted from assets accounts:					
Allowance for doubtful accounts (iii)	$ 16,367	$ 6,386	$ (1,244)	$ (42)	$ 21,467
Valuation allowance on deferred tax assets	290,620	8,382	(27,515)	164	271,651
Reported as liabilities:					
Provision for contingencies	18,112	36,160	(26,137)	(179)	27,956
Total	**$ 325,099**	**$ 50,928**	**$ (54,896)**	**$ (57)**	**$ 321,074**
Year ended December 31, 2016:					
Deducted from assets accounts:					
Allowance for doubtful accounts	$ 12,768	$ 5,367	$ (1,647)	$ (121)	$ 16,367
Valuation allowance on deferred tax assets	297,891	36,778	(24,967)	(19,082)	290,620
Reported as liabilities:					
Provision for contingencies	20,578	28,577	(32,049)	1,006	18,112
Total	**$ 331,237**	**$ 70,722**	**$ (58,663)**	**$ (18,197)**	**$ 325,099**

(i) Additions in valuation allowance on deferred tax assets are charged to income tax expense.

Additions in provision for contingencies are explained as follows:

Fiscal years 2018, 2017 and 2016 – Relate to the accrual of $23,995, $36,160 and $28,577, respectively, and a reclassification of $1,843, during fiscal year 2018. See Note 18 for details.

(ii) Deductions in valuation allowance on deferred tax assets are charged to income tax expense.

Deductions in provision for contingencies are explained as follows:

Corresponds to the settlements and reclassifications amounting to $19,702 and $nil, respectively, during fiscal year 2018; $25,427 and $710, respectively, during fiscal year 2017; and $20,554 and $11,495, respectively, during fiscal year 2016; as discussed in Note 18.

(iii) Presented in the consolidated balance sheet as follow: $24,999 and $19,791 at December 31, 2018 and 2017, respectively, within Accounts and notes receivable, net and $540 and $1,676 at December 31, 2018 and 2017, respectively, within Other receivables.

Arcos Dorados Holdings Inc.

Notes to the Consolidated Financial Statements

As of December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018

Amounts in thousands of US dollars, except for share data and as otherwise indicated

27. Subsequent events

On March 26, 2019, the Company approved a dividend distribution to all Class A and Class B shareholders of $0.11 per share to be paid in three installments, as follows: $0.05 per share on April 12, 2019, $0.03 per share on August 14, 2019, and $0.03 per share on December 12, 2019.

Exhibit 4.29

**EIGHTH AMENDMENT TO
CREDIT AGREEMENT**

THIS EIGHTH AMENDMENT TO CREDIT AGREEMENT is made and dated as of August 3, 2018 (the " Amendment ") among ARCOS DORADOS B.V., a private company with limited liability (*besloten venootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands with seat in Amsterdam (the " Borrower "), certain subsidiaries of the Borrower as guarantors (the " Guarantors "), and BANK OF AMERICA, N.A., as lender (the " Lender ") and amends that certain Credit Agreement dated as of August 3, 2011 (as the same has been amended prior to the date hereof and may be further amended or modified from time to time, the " Credit Agreement ").

R E C I T A L S

WHEREAS, the Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement in certain respects as set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Terms . All terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.

2. Amendment . Upon the occurrence of the Amendment Effective Date (defined below)

2.1 Section 1.1 of the Credit Agreement is hereby amended by amending the following definitions of "Maturity Date" and "Applicable Margin" therein in their entirety as follows and inserting the definitions of "Beneficial Ownership Certification", "Beneficial Ownership Regulation", "Eighth Amendment Effective Date" in appropriate alphabetical order:

"" Maturity Date " means August 3, 2019.

" Applicable Margin " means a rate per annum equal to 2.40%.

" Beneficial Ownership Certification " means a certification regarding beneficial ownership required by the Beneficial Ownership Regulation, which certification shall be substantially similar in form and substance to the form of Certification Regarding Beneficial Owners of Legal Entity Customers published jointly, in May 2018, by the Loan Syndications and Trading Association and Securities Industry and Financial Markets Association.

" Beneficial Ownership Regulation " means 31 C.F.R. § 1010.230.

" Eighth Amendment Effective Date " means August 3, 2018."

2.2 Section 2.7 of the Credit Agreement is hereby amended by amending the first sentence thereof as follows:

" Commitment Fee . The Borrower agrees to pay to the Lender on the last day of each March, June, September and December, commencing with the Eighth Amendment Effective Date, and on the Commitment Termination Date, a commitment fee (the "Commitment Fee"), at a rate of 0.80% per

annum on the average daily amount of the unutilized portion of the Commitment of the fiscal quarter of the Borrower ended on such day."

3. Representations and Warranties . As of the date hereof, the Borrower, and as of the Amendment Effective Date, the Borrower and each Guarantor, hereby represents and warrants to the Lender that after giving effect to this Amendment:

3.1 Authorization; Enforceable Obligations; No Contravention **.** The execution, delivery and performance of this Amendment by the Loan Parties have been duly authorized by all necessary action, and this Amendment is a legal, valid and binding obligation of the Loan Parties party hereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Amendment (i) are not in contravention of law or of the terms of any Loan Party's organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

3.2 Governmental Authorization; Other Consents . No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Amendment, which has not been duly obtained, except for the filing of the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

3.3 Beneficial Ownership . As of the Amendment Effective Date, the information included in the Beneficial Ownership Certification is true and correct in all respects.

3.4 Incorporation of Certain Representations . After giving effect to the terms of this Amendment, the representations and warranties of the Borrower and the Guarantors set forth in Article III of the Credit Agreement (except as to such representations and warranties made as of an earlier specified date which are true and correct as of the date made) are true and correct as of the date hereof, (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, in all respects (as so qualified), or (B) if any such representation and warranty is not so qualified, in all material respects; *provided* , that for purposes of this Section 3.3, the representations and warranties of the Borrower contemplated in Section 3.1 of the Credit Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Credit Agreement; *provided further* that the representation and warranty set forth in Section 3.16 of the Credit Agreement is made hereby with respect to the period of four (4) fiscal quarters ended on March 31, 2018.

3.5 Default . Both before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

4. Conditions, Effectiveness . This Amendment shall become effective as of the date (the " Amendment Effective Date ") on which each of the following conditions shall have been satisfied:

(a) The Lender shall have received this Amendment duly executed and delivered on behalf of the Borrower and each Guarantor.

(b) the Borrower and each Guarantor shall have delivered evidence that the process agent, National Registered Agents Inc., with offices currently located at 111 Eighth Avenue, New York, NY 10011, shall have accepted appointment to receive service of process on the Borrower and such Guarantor, in form and substance reasonably satisfactory to the Lender up to a date six months after the Maturity Date (as amended hereby).

(c) The Borrower shall have paid on or before the Amendment Effective Date all fees and other amounts due and payable by the Borrower to the Lender (including fees and expenses of counsel to lender) in accordance with the Credit Agreement (as amended hereby) to the extent invoiced to the Borrower prior to the Amendment Effective Date.

(d) All consents, licenses and approvals required in connection with the execution, delivery and performance by the Loan Parties of this Amendment shall have been received by the Loan Parties.

(e) Upon the reasonable request of the Lender prior to the Amendment Effective Date, the Borrower shall have provided Lender the documentation and other information so requested in connection with applicable "know your customer" and anti-money-laundering rules and regulations, including the PATRIOT Act, in each case at least three days prior to the Amendment Effective Date.

(d) At least three days prior to the Amendment Effective Date, if Borrower qualifies as a "legal entity customer" under the Beneficial Ownership Regulation, it shall deliver a Beneficial Ownership Certification.

5. Miscellaneous .

5.1 Effectiveness of the Credit Agreement and other Loan Documents . Except as hereby expressly amended, the Credit Agreement, the Note, the Fee Letter and each Subsidiary Joinder Agreement (if any), shall each remain in full force and effect, are hereby ratified and confirmed in all respects on and as of the date hereof, and each Loan Party hereby reaffirms its obligations thereunder.

5.2 Post Amendment Effective Date Covenants .

(a) Within twenty-one calendar days after the Amendment Effective Date, Arcos Dourados Comércio de Alimentos Ltda. shall file the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

(b) The Loan Parties shall furnish the Lender with true and correct copies of such resolutions and powers of attorney authorizing the Amendment as the Lender may reasonably request within twenty-one calendar days of the Amendment Effective Date.

(c) Failure by any Loan Party to perform the covenants set forth in this Section 5.2 shall result in automatic termination of this Amendment and shall render this Amendment null and void and without any effect.

5.3 Loan Document . This Amendment is a Loan Document.

5.4 Counterparts . This Amendment may be executed in any number of counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

5.5 Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.6 Jurisdiction. Section 9.10 of the Credit Agreement shall apply *mutatis mutandis* to this Amendment.

[*Remainder of Page Intentionally Left Blank.*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

ARCOS DORADOS B.V.,
as Borrower

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS, LTDA. ,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ADCR Inmobiliaria S.A.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DOURADOS COSTA RICA ADCR, S.A. ,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS D ORADOS PANAMÁ S.A. ,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

SISTEMAS MCOPCO PANAMÁ, S.A. ,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DORADOS HOLDINGS INC.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

LENDER:

BANK OF AMERICA, N.A.,
as Lender

By: /s/ Gonzalo Isaacs
Name: Gonzalo Isaacs
Title: Managing Directors

SECOND AMENDMENT TO CREDIT AGREEMENT

THIS SECOND AMENDMENT TO CREDIT AGREEMENT is made and dated as of November 1 st , 2018 (the " Amendment ") among ARCOS DORADOS B.V., a private company with limited liability (*besloten venootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands with statutory seat in Amsterdam (the " Borrower "), certain subsidiaries of the Borrower as guarantors (the " Guarantors "), and JPMORGAN CHASE BANK, N.A., as lender (the " Lender ") and amends that certain Credit Agreement dated as of November 10, 2016, among the Borrower, the Guarantors and the Lender (as may be further amended or modified from time to time, the " Credit Agreement ").

R E C I T A L S

WHEREAS, the Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement in certain respects as set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto hereby agree as follows:

1. Terms . All terms used herein shall have the same meanings as in the Credit Agreement unless otherwise defined herein.

2. Amendment . Upon the occurrence of the Amendment Effective Date (defined below)

2.1 Section 1.1 of the Credit Agreement is hereby amended by amending the definition therein of "Maturity Date" in its entirety as follow:

" Maturity Date " means November 10, 2019.

3. Representations and Warranties . As of the date hereof and as of the Amendment Effective Date, the Borrower and each Guarantor, hereby represents and warrants to the Lender that after giving effect to this Amendment:

3.1 Authorization; Enforceable Obligations; No Contravention . The execution, delivery and performance of this Amendment by the Loan Parties have been duly authorized by all necessary action, and this Amendment is a legal, valid and binding obligation of the Loan Parties party hereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Amendment (i) are not in contravention of law or of the terms of any Loan Party's organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

3.2 Governmental Authorization; Other Consents . No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Amendment or any other Loan Document, which has not been duly obtained, except for the filing of the Minutes of the

Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

3.3 Incorporation of Certain Representations . After giving effect to the terms of this Amendment, the representations and warranties of the Borrower and the Guarantors set forth in Article III of the Credit Agreement (except as to such representations and warranties made as of an earlier specified date which are true and correct as of the date made) are true and correct as of the date hereof, (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, in all respects (as so qualified), or (B) if any such representation and warranty is not so qualified, in all material respects; *provided* , that for purposes of this Section 3.3, the representations and warranties of the Borrower contemplated in Section 3.1 of the Credit Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Credit Agreement; *provided further* that the representation and warranty set forth in Section 3.16 of the Credit Agreement is made hereby with respect to the period of four (4) fiscal quarters ended on June 30, 2018.

3.4 Default . Both before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

4. Conditions, Effectiveness . This Amendment shall become effective as of the date (the " Amendment Effective Date ") on which each of the following conditions shall have been satisfied:

(a) The Lender shall have received this Amendment duly executed and delivered on behalf of the Borrower and each Guarantor.

(b) the Borrower and each Guarantor shall have delivered evidence that the process agent shall have accepted appointment to receive service of process on the Borrower and such Guarantor, in form and substance reasonably satisfactory to the Lender up to a date six months after the Maturity Date (as amended hereby).

(c) The Borrower shall have paid on or before the Amendment Effective Date all fees and other amounts due and payable by the Borrower to the Lender (including fees and expenses of counsel to lender) in accordance with the Credit Agreement (as amended hereby) to the extent invoiced to the Borrower prior to the Amendment Effective Date.

(d) All consents, licenses and approvals required in connection with the execution, delivery and performance by the Loan Parties of this Amendment shall have been received by the Loan Parties.

5. Miscellaneous .

5.1 Effectiveness of the Credit Agreement and other Loan Documents . Except as hereby expressly amended, the Credit Agreement, the Note(s) (if any), the Fee Letter and each Subsidiary Joinder Agreement (if any), shall each remain in full force and effect, are hereby ratified and confirmed in all respects on and as of the date hereof, and each Loan Party hereby reaffirms its obligations thereunder.

5.2 Post Amendment Effective Date Covenants .

(a) Within twenty-one calendar days after the Amendment Effective Date, Arcos Dourados Comércio de Alimentos Ltda. shall file the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of São Paulo (*Junta Comercial do Estado de São Paulo*).

(b) The Loan Parties shall furnish the Lender with true and correct copies of such resolutions and powers of attorney authorizing the Amendment as the Lender may reasonably request within twenty-one calendar days of the Amendment Effective Date.

(c) Failure by any Loan Party to perform the covenants set forth in this Section 5.2 shall result in automatic termination of this Amendment and shall render this Amendment null and void and without any effect.

5.3 Loan Document . This Amendment is a Loan Document.

5.4 Counterparts . This Amendment may be executed in any number of counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

5.5 Governing Law . This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

5.6 Jurisdiction . Section 9.10 of the Credit Agreement shall apply *mutatis mutandis* to this Amendment.

[*Remainder of Page Intentionally Left Blank.*]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

ARCOS DORADOS B.V.,
as Borrower

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS, LTDA., as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ADCR INMOBILIARIA S.A.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DORADOS COSTA RICA ADCR, S.A.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

[Signature Page to Second Amendment to Credit Agreement]

ARCOS DORADOS PANAMÁ, S.A.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

SISTEMAS MCOPCO PANAMÁ, S.A.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

ARCOS DORADOS HOLDINGS INC.,
as a Guarantor

By: /s/ Máximo Ayerza
Name: Máximo Ayerza
Title: Attorney-in-Fact

[Signature Page to Second Amendment to Credit Agreement]

LENDER:

JPMORGAN CHASE BANK, N.A.,
as Lender

By: /s/ Christophe Vohmann
Name: Christophe Vohmann
Title: Executive Director

[Signature Page to Second Amendment to Credit Agreement]

EXHIBIT 4.33

EXECUTION COPY

ACCESSION AGREEMENT

This ACCESSION AGREEMENT (this " Accession Agreement "), dated as of March 21, 2018, is hereby executed and delivered by Arcos Dorados Group B.V., a company organized and existing under the laws of Curaçao (the " New Owner Entity "), pursuant to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants, dated as of November 10, 2008 (as amended or otherwise modified from time to time, the " MFA ") by and among Arcos Dorados B.V., as Owner (" Owner "); McDonald's Latin America, LLC (" McDonald's "); LatAm, LLC, as Master Franchisee; each of the MF Subsidiaries; Arcos Dorados Limited (predecessor of Arcos Dorados Holdings, Inc.), as Parent; and the other parties signatories thereto. Terms used and not otherwise defined herein shall have the meaning given to them in the MFA.

W I T N E S S E T H :

WHEREAS , pursuant to Sections 7.2.2 and 8.1 of the MFA, respectively, no Owner Entity shall engage in a business other than holding Equity Interests of another Owner Entity or Master Franchisee without McDonald´s prior consent; and all interests of Owner, whether direct or indirect, in any Franchised Restaurant shall be held by Owner through Master Franchisee;

WHEREAS , pursuant to Section 21.2.2 of the MFA, no direct or indirect Equity Interests in any of Master Franchisee's Subsidiaries (and no significant portion of the Assets thereof) may be Transferred without McDonald's prior consent;

WHEREAS , under the terms and conditions set forth in the consent and waiver attached hereto as Annex A (the " Consent and Waiver "), McDonald's granted its consent to, and waived the applicable provisions of the MFA to permit, (a) the incorporation of the New Owner Entity; (b) the Transfer of the Equity Interests in Owner from Arcos Dorados Cooperatieve U.A. to the New Owner Entity; and (c) the Transfer of the shares of Arcos Dorados Curaçao N.V. (an MF Subsidiary previously owned by Master Franchisee and formerly known as McDonald's St. Marteen and Curaçao, N.V.) to the New Owner Entity ((a), (b) and (c), collectively, the " Restructuring ");

WHEREAS , the Consent and Waiver required as a condition for its effectiveness, among other things, that the New Owner Entity executes and delivers to McDonald's on or prior to February 15, 2018 this Accession Agreement, pursuant to which, among other things, the New Owner Entity agrees to be fully bound by, and subject to, all of the covenants, terms and conditions of the MFA and each other applicable Related Agreement as though an original party thereto and deemed an Owner Entity for all purposes thereof; and

---

WHEREAS , the New Owner Entity will directly benefit from the Restructuring, and therefore desires to fulfill the requirements described in the immediately preceding recital.

NOW, THEREFORE, in consideration of the foregoing, New Owner Entity hereby agrees as follows:

1. Accession . The New Owner Entity hereby acknowledges, agrees and confirms that, by its execution and delivery of this Accession Agreement, it agrees to be deemed an Owner Entity for all purposes of the MFA and to observe and be bound by all provisions of the MFA and each other applicable Related Agreement, as if it had been an original party to the MFA or such Related Agreement.

2. Representations and Warranties . By executing and delivering this Accession Agreement, the New Owner Entity makes, on and as of the date hereof, as to itself each of the following representations and warranties:

(a) The New Owner Entity is duly organized, validly existing and in good standing under the laws of Curaçao and has all requisite power and authority to enter into this Accession Agreement, to carry out its obligations hereunder and to consummate the transactions contemplated hereby.

(b) The New Owner Entity is duly licensed or qualified to do business and is in good standing in each jurisdiction in which the properties owned or leased by it or the operation of any business conducted by the New Owner Entity makes such licensing or qualification necessary, except to the extent that the failure to be so licensed or qualified or in good standing would not adversely affect the ability of the New Owner Entity to carry out its respective obligations under or consummate the transactions contemplated by this Accession Agreement.

(c) The execution and delivery of this Accession Agreement by the New Owner Entity, the performance by the New Owner Entity of its respective obligations hereunder and the consummation of the transactions contemplated by this Accession Agreement have been duly authorized by all requisite action on the part of the New Owner Entity and the holder of its Equity Interests. The New Owner Entity has provided to McDonald's true and complete copies of its constituent documents.

(d) Arcos Dorados Holdings, Inc., a company organized and existing under the laws of the British Virgin Islands and successor of Parent (the " New Parent "), is the record and beneficial owner of 100% of the Equity Interests of the New Owner Entity. The Equity Interests of the New Owner Entity are owned and held by New Parent, free and clear of all Encumbrances, are duly authorized, validly issued, fully paid and nonassessable and have not been issued in violation of preemptive or

similar rights. No Person other than New Parent holds or has a right to receive Equity Interests of the New Owner Entity or any other instrument representing Equity Interests of the New Owner Entity.

(e) None of the execution, delivery or performance of this Accession Agreement by the New Owner Entity or the consummation of the transactions contemplated by this Accession Agreement (i) violates, conflicts with or will result in any breach of any provision of the constituent documents of the New Owner Entity; (ii) requires any filing with, obtaining any permit, authorization, consent or approval from, or providing any notification to, any Governmental Authority, except those contemplated or required under the MFA; (iii) will result in a violation or breach of, or, with or without due notice or lapse of time or both, constitute a default or give rise to any right of termination, cancellation or acceleration under, any of the terms, conditions or provisions of any note, bond, mortgage, indenture, lease, license, contract, agreement or other instrument or obligation to which the New Owner Entity is a party or by which any of its respective properties or Assets may be bound or affected; or (iv) violates any Applicable Law, except, in the case of each of the foregoing clauses, such violations, breaches or defaults that would not, individually or in the aggregate, have a material adverse effect on the ability of the New Owner Entity to execute, deliver or perform this Accession Agreement or consummate the transactions contemplated hereby.

3. Notices. The address of the New Owner Entity for purposes of all notices required or permitted under the MFA pursuant to Section 24.10 of the MFA is:

Arcos Dorados Group B.V.
Prinsenstraat /Hoek Bakkerstraat z/n, Curacao
Attention: Carine Jänsch
Phone: + 599 9 6905645

4. Counterparts. This Accession Agreement may be executed and delivered in one or more counterparts, and by the different parties hereto in separate counterparts, each of which when executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

5. Headings Descriptive. The headings of the several sections of this Accession Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Accession Agreement.

6. Governing Law. This Accession Agreement shall be governed by the substantive laws of the State of Illinois, United States of America, without giving effect to principles of conflicts of laws. To the extent that it may be applicable, the parties agree to exclude the application of the United Nations Convention on Contracts for the International Sale of Goods.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the New Owner Entity has caused this Accession Agreement to be duly executed by its authorized officers, as of the day and year first written above.

Arcos Dorados Group B.V.

By: /s/ Patricia De Hart
Name: Patricia De Hart
Title: Attorney in Fact

By: /s/ Juan David Bastidas
Name: Juan David Bastidas
Title: Attorney in Fact

Accepted and Agreed to:

MCDONALD'S LATIN AMERICA, LLC

By: /s/ Angela K. Steele

Name: Angela K. Steele

Title: Latin America General Counsel and Secretary

ANNEX A

[SEE ATTACHED CONSENT AND WAIVER]

Exhibit 8.1

Subsidiaries of Registrant

Name	Place of Incorporation
Adcon S.A.	Argentina
Administrative Development Company	Delaware
Aduy S.A.	Uruguay
Alimentos Arcos Dorados de Venezuela C.A.	Venezuela
Alimentos Latinoamericanos Venezuela ALV, C.A.	Venezuela
Arcgold del Ecuador, S.A.	Ecuador
Arcos del Sur, S.R.L.	Uruguay
Arcos Dorados Argentina S.A.	Argentina
Arcos Dorados Aruba N.V.	Aruba
Arcos Dorados B.V.	Netherlands
Arcos Dorados Caribbean Development Corp.	Delaware
Arcos Dorados Colombia S.A.S	Colombia
Arcos Dorados Coöperatieve U.A.	Netherlands
Arcos Dorados Costa Rica ADCR, S.A.	Costa Rica
ADCR Inmobiliaria, S.A.	Costa Rica
Arcos Dorados Curacao, N.V.	Curacao
Arcos Dorados Development B.V.	Netherlands
Arcos Dorados French Guiana	French Guiana
Arcos Dorados Group B.V.	Curacao
Arcos Dorados Guadeloupe	Guadeloupe
Arcos Dorados Martinique	Martinique
Arcos Dorados Panama, S.A.	Panama
Arcos Dorados Puerto Rico, LLC	Puerto Rico
Arcos Dorados Restaurantes de Chile, Ltda.	Chile
Arcos de Valparaiso SpA	Chile
Arcos Dorados Trinidad Limited	Trinidad and Tobago
Arcos Dorados USVI, Inc.(St. Croix)	USVI
Arcos Dourados Comercio de Alimentos Ltda.	Brazil
Arcos Dourados Restaurantes Ltda.	Brazil
Arcos SerCal Inmobiliaria, S. de R.L. de C.V.	Mexico
Restaurantes ADMX, S. de R.L. de C.V.	Mexico
Arcos Dorados BraPa S.A.	Panama
Compañía de Inversiones Inmobiliarias S.A.	Argentina
Complejo Agropecuario Carnico (Carnicos), C.A.	Venezuela
Arcos Dorados Uruguay S.A.	Uruguay
Gerencia Operativa ARC, C.A.	Venezuela

Compañía Operativa de Alimentos COR, C.A.	Venezuela
Golden Arch Development LLC	Delaware
LatAm, LLC	Delaware
Logistics and Manufacturing LOMA Co.	Delaware
Management Operations Company	Delaware
Operaciones Arcos Dorados de Perú, S.A.	Peru
Restaurant Realty of Mexico, Inc.	Delaware
Sistemas Central America, S.A.	Panama
Sistemas McOpCo Panama, S.A.	Panama
Arcos Dorados Latam LLC	Delaware
Arcos SEM Panama SA	Panama
Arcos Dorados Paisas S.A.S.	Colombia
Arcos Mendocinos S.A.	Argentina

Exhibit 11.1

Standards of Business Conduct

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Standards of Business Conduct

SCOPE

These *Standards of Business Conduct* (the " *Standards* ") have been approved and adopted by the Board of Directors of Arcos Dorados Holdings Inc. (together with its subsidiaries and affiliates, hereinafter referred to as "Arcos Dorados" or "the Company") and summarize the standards that should guide our actions.

These *Standards* apply to all employees (including temps) of Arcos Dorados and to the Company's Board members. Unless otherwise expressed herein, every time the *Standards* refer to the employee(s), such term will include not only the employee(s), but also the director(s).

The *Standards* do not apply to our franchisees, suppliers or their employees. However, we expect them to be aware of the *Standards* , to develop their own policies and procedures that are consistent with the spirit of the *Standards* and to fully support our employees in complying with the *Standards* . Additionally, we will avoid developing business activities with third parties that intentionally and repeatedly breach the law and the provisions of these *Standards* . This shared commitment will help ensure that Arcos Dorados earns a reputation as a company that conducts business with integrity.

INTRODUCTION

The relationship between Arcos Dorados and each of its employees is governed by the national law applicable to the jurisdiction where they work. Subject to the applicable national law, nothing in the *Standards* changes the nature of such relationship.

The current version of the *Standards of Business Conduct* will be posted and maintained on the Arcos Dorados website. Amendments will also be posted online, as required by applicable law, and will be timely communicated to the employees.

STANDARDS OF BUSINESS CONDUCT

These *Standards of Business Conduct* are a guide to the ethical and legal responsibilities we share as members of the Arcos Dorados family. This is not a complete rulebook that addresses every ethical issue that might arise. It is not a

summary of all laws and policies that apply to Arcos Dorados business. It is not a contract, and it does not replace good judgment. Rather, the *Standards* are key principles of conduct that represent the Company's policies, give us guidance and direct us to resources to help us make the right decisions.

MANAGEMENT COMMITMENT – ETHICS COMMITTEE

Arcos Dorados' management is committed to living up to high standards of ethical behavior.

The Arcos Dorados Holdings Inc. Board of Directors oversees the Company's commitment to ethics and compliance with legal standards.

To help our employees live up to our *Standards of Business Conduct* , Arcos Dorados has established an **Ethics Committee** . This committee is responsible for overseeing the implementation of and compliance with these *Standards* , and will have the support of the Corporate Division of Internal Audit Organization and Control (IA) and of the Legal Department, who will advise on all issues related to these *Standards* .

MAINTAINING THE SHINE ON OUR GOLDEN ARCHES

No policy, booklet, committee or compliance office can guarantee good, ethical behavior. Only each one of us can. It is up to every person who is a part of Arcos Dorados to keep our good name shining by doing the right things the right way.

ADDITIONAL RESPONSIBILITIES OF SUPERVISORS AND EMPLOYEES WITH SUPERVISION FUNCTIONS

Those employees who have supervisory authority over others are in positions of trust and influence. Therefore, they have special responsibilities under the *Standards of Business Conduct* to sustain an ethical work environment and to lead by example. They must ensure that the employees who report to them understand and follow the *Standards* and complete all required compliance and ethics trainings. In addition, they must communicate relevant Arcos Dorados policies to employees and assist them in understanding such policies.

Supervisors must maintain open and honest two-way communication with employees. This means encouraging employees to ask questions, make suggestions and report wrongdoing. Finally, supervisors must follow up on allegations of wrongdoing that are brought to their attention and take

appropriate corrective or disciplinary action. In all cases they must give written notice to the Corporate Division of Organization and Control.

PERSONAL ACCOUNTABILITY

Each of our actions represents Arcos Dorados, and we must do our best to maintain the good reputation of our Company.

Employees must exhibit proper behavior both at the workplace and in those circumstances in which they represent the Company. Our success relies on each of us accepting personal responsibility for doing the right thing. We accept the obligation to stop or prevent actions that could harm customers, the Company or our reputation, and to report any such actions as soon as they occur.

We must strive to encourage honesty and responsibility. Our commitment to the highest level of ethical conduct should be reflected in all of the Company's business activities including, but not limited to, relationships with employees, customers, suppliers, competitors, government entities and the general public, including our shareholders. All of our employees must abide by the language and spirit of these *Standards* , avoiding any kind of improper or apparently improper behavior.

One of the most valuable assets of the Company is our reputation in terms of integrity, professionalism and fairness. We all must admit that our acts are the basis of our reputation; hence, to abide by these *Standards* and the applicable law is imperative.

Employees who violate the law, the *Standards of Business Conduct* or applicable policies are subject to disciplinary action, up to and including termination of employment.

COMPLIANCE WITH STANDARDS OF CONDUCT, OPEN COMMUNICATION AND THE ETHICS LINE

At Arcos Dorados, we speak honestly and openly and listen so that we may understand one another. We ask questions or raise issues, even if they are difficult.

Exhibit 11.1

Standards of Business Conduct

If you know of any violation of the *Standards of Business Conduct* or of any applicable law or policy, you are responsible for reporting such violation immediately.

There are a number of ways to raise issues:

- If you believe that a law, ethical rule, regulation or any of these *Standards* has been violated, consult with the Legal Department or the Corporate Division of Organization and Control immediately.

- For other matters, you can talk to your direct supervisor or another member of management, or contact Human Resources or the Corporate Division of Organization and Control.

- You can also call the Arcos Dorados Ethics Line, a toll-free telephone line reserved specifically for employee calls on ethics and compliance issues.

The Arcos Dorados Ethics Line is staffed by an outside firm experienced in handling sensitive calls. If you know of a violation of these *Standards* or of any applicable law or policy, you must report this violation immediately by calling the Arcos Dorados Ethics Line or by notifying the Corporate Division of Organization and Control.

Callers may report anonymously and no attempt will be made to identify them. Any anonymous report should include sufficient information about the incident or situation to allow the Company to duly inquire into the matter.

Arcos Dorados, and all supervisory staff, will not allow any kind of retaliation against an employee who raises an issue or question in good faith. Anyone who retaliates will be subject to disciplinary action, up to and including termination of employment

The Company recognizes the need for these *Standards* to be equally applied to all those who are subject to them. The Ethics Committee will have the primary duty and responsibility for compliance with these *Standards* , subject to the supervision of the Audit Committee.

CONFIDENTIAL INFORMATION
Information is a valuable asset. Protecting the information created in our business is of great importance for our ongoing growth and our ability to

compete. This information must be kept strictly confidential, except when its disclosure is authorized by the Company or required by law.

Do not disclose confidential information to anyone outside Arcos Dorados, and do not discuss it with Arcos Dorados employees who do not have a business need to know the information. Confidential information may include, for example, unpublished sales and financial information, major Company changes, product or operating formulas and methods, marketing and real estate plans, research results, intellectual property information (such as trade secrets, patents, trademarks, etc.), employee data, information about salaries and benefits, and information about relationships with suppliers, franchisees and others. Treat any information as confidential if it could be helpful to competitors, breach the privacy of employees, franchisees or customers, or be harmful to Arcos Dorados if publicly disclosed.

The unauthorized use or distribution of confidential information is a violation of the Company's policies and may be considered illegal. Such use or distribution may result in negative consequences for both the Company and the involved individuals, including potential legal and disciplinary actions. The Company respects the confidential information of other companies and requires that its employees do so as well. Take precautions against accidentally disclosing confidential information. For example, mark it appropriately, never discuss it in public places and keep your laptop secured.

The duty to protect the Company's confidential information remains even after an employee leaves the Company for any reason whatsoever. Confidential information in possession of the employee leaving the Company must be returned and not disclosed to any third party.

PERSONAL DATA

We respect and value the privacy of our employees, customers and franchisees, and maintain confidentiality when handling their personal information. This means that you must treat all employee, customer and franchisee personal data with care and respect, while guarding against inappropriate access and disclosure. You must never use any such data for personal benefit or in any other inappropriate way.

Standards of Business Conduct

OUR CUSTOMERS

At Arcos Dorados we will offer an outstanding experience with the commitment to provide Quality, Service and Cleanliness. We serve food of unquestionable quality, resulting in an extraordinary experience. We continue to strengthen our value offerings and have presence in every place where our customers are, providing them with an attractive and modern food experience.

PRODUCT QUALITY AND SAFETY

Clean restaurants. Great tasting, nutritious and safe food. Child-friendly Happy Meal toys. These have long been hallmarks of our brand.

Arcos Dorados is committed to ensuring that the foods and beverages we serve to our customers are safe and harmless. In addition, we have a comprehensive program to ensure the safety of all toys and promotional items. Our safety and quality standards for food, beverages, toys and promotional items meet or exceed all applicable requirements in every market in which we operate. We support additional measures to help protect consumers and ensure the safety of local food supplies. We view this as part of our responsibility as a good corporate citizen, and we know it is also essential to the continuing growth and profitability of our business. We run our business respecting the environment and seeking to minimize generated impacts.

It is the responsibility of every Arcos Dorados employee to follow all applicable safety and hygiene policies and procedures. Notify your manager immediately if you become aware of a problem relating to the safety of our products.

MARKETING

The promise implicit in our service begins even before our customers enter our restaurants, with advertising and marketing that is truthful, tasteful and worthy of one of the world’s most well-known retail brands.

Advertising must respond to clear principles of lawfulness, honesty, decency, truthfulness, dignity, fair competition, health and well-being, and child and adolescent protection. Our campaigns always will be truthful and transparent, and will avoid misleading our customers.

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Standards of Business Conduct

OUR PEOPLE

We have a strong commitment to our people. We value their development and contributions. We support and encourage working with passion and innovation on a day-to-day basis, looking for ongoing improvement.

EMPLOYMENT EXPERIENCE
We provide opportunity, nurture talent, develop leaders and reward achievement. We believe that having a team of individuals with diverse backgrounds and experiences, working together in an environment that fosters respect and drives high levels of engagement, is essential to our continuing business success.

Our employees' selection and promotion is carried out following transparent procedures based on their talent, ability, work skills, vocation, background, performance review, ethical behavior and commitment to the Company's interests.

PROTECTION AGAINST RETALIATION
Arcos Dorados protects employees against retaliation. Arcos Dorados strictly prohibits retaliation against employees who report misconduct, raise a concern or cooperate in an investigation, provided that the employees have acted in good faith and with a reasonable belief that the information provided is true. Anyone who retaliates will be subject to disciplinary action, up to and including termination of employment. If you believe that you have been the subject of retaliation, contact Human Resources or the Corporate Division of Organization and Control.

HUMAN RIGHTS AND THE LAW
We support fundamental human rights for all people. We will not employ underage children or forced laborers. We prohibit physical punishment or abuse. We comply with employment laws in every market where we operate.

RESPECT AND DIGNITY
Each of our employees deserves to be treated with fairness, respect and dignity. We provide equal opportunity for employees and applicants.

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Standards of Business Conduct

Arcos Dorados employees have the right to work in a place that is free from harassment, intimidation or abuse, sexual or otherwise, or acts or threats of physical violence. We do not tolerate verbal or physical conduct that demeans another person, unreasonably interferes with another's work performance or creates an intimidating, abusive, hostile or offensive work environment.

For purposes of this policy, harassment includes slurs, offensive remarks, electronic communications, and other visual, verbal or physical conduct that could create an intimidating, hostile or offensive work environment. In addition to the above, "sexual harassment" includes unwelcome sexual advances, requests for sexual favors and other conduct of improper sexual nature.

INCLUSION AND DIVERSITY
Arcos Dorados is committed to diversity and equal opportunities for everyone. We respect the unique attributes and perspectives of every employee, and we rely on these diverse perspectives to help us build and improve our relationships with customers and business partners. We embrace the diversity of our employees, franchisees, customers and business partners, and work hard to make sure everyone at Arcos Dorados feels welcome.

Arcos Dorados provides equal treatment and equal employment opportunity without regard to race, ethnicity, color, religion, gender, age, national origin, sexual orientation, military status or any other basis protected by law. This policy applies to our employees, applicants, independent contractors, franchisees and suppliers. It also applies to all aspects of Arcos Dorados dealings with customers and to our employment decisions, including recruitment, hiring, placement, development, promotion, training, benefits, compensation and termination.

SAFE WORK PLACE
We are committed to providing a safe and healthful working environment for our employees. We require all employees to abide by safety rules and practices and to take the necessary precautions to protect themselves and their fellow employees. For everyone's safety, employees must immediately report accidents and unsafe practices to their immediate supervisors.

ALCOHOL AND DRUGS
The Company is committed to providing a safe, healthy and productive work place for all employees.

You may not possess or use alcohol or illegal drugs in the workplace, or while engaged in any job-related activity. You may not work under the influence of alcohol, illegal drugs or any substance that could prevent you from performing your job safely and effectively. You may not distribute any drugs or alcohol at work. You may not possess or consume alcohol on Company premises except at Arcos Dorados-sponsored social events where alcohol is authorized.

ARCOS DORADOS, OUR COMPANY

We are committed to franchisees and suppliers and share with them our Company's best practices. Our franchisees, employees and suppliers should work together to offer the best service experience at fast food restaurants, and to keep the shine on the Golden Arches.

ACTING IN ARCOS DORADOS' BEST INTEREST

We act for the long-term benefit of Arcos Dorados, never for personal gain or to favor family or friends.

FRANCHISEE RELATIONSHIPS

We build our Company by helping franchisees achieve their potential in a positive business relationship with Arcos Dorados. We do this by treating them with fairness and honesty, through good times and difficult ones. Treating our franchisees right continues to be a key to our success, and is the responsibility of all employees.

These *Standards* do not apply to franchisees, who are independent business men and women. However, we expect our franchisees to maintain high standards of integrity and to abide by all applicable laws and regulations, including laws regarding human rights, workplace safety and worker compensation and treatment.

SUPPLIER RELATIONSHIPS

As a supplier to the first McDonald's, Ray Kroc knew the importance of building strong relationships with suppliers. At Arcos Dorados, we still recognize this importance. We treat our suppliers fairly and honestly, and expect our suppliers to treat us in the same way.

Standards of Business Conduct

Arcos Dorados bases its relationships with suppliers on lawful, efficient and fair practices. Although these *Standards of Business Conduct* do not apply to our suppliers, we expect them to adhere to applicable legal requirements in their business relationships, including those with their employees, their local communities and Arcos Dorados.

Arcos Dorados does business with suppliers from many countries of diverse cultural, social and economic circumstances. Arcos Dorados is committed to fair employment practices and strives to provide a safe, healthful and productive work environment for its employees. In turn, we strive to work with suppliers who share our values. This means our suppliers are expected to share our support of fundamental rights for all people, to treat their employees with fairness, respect and dignity and to follow practices that promote health and safety.

We regularly review and update our sourcing and sustainability activities to ensure they consistently meet our standards. We strive to work with suppliers that are committed to our universal principles of doing business in a responsible and ethical manner.

ETHICS

We operate the business in an ethical and responsible way. We coordinate our business activities and behavior in an ethical and fair environment, respecting the laws and regulations of every market where we operate.

Ethics is a priority to our Company. It is an essential quality in every manager and employee, and is considered one of the main aspects of Arcos Dorados' growth and strengthening.

It is Arcos Dorados' policy to comply with all laws, rules and government regulations applicable to its business. The Company is concerned about the way results are obtained, not just with obtaining them. Directors, officers and employees must behave fairly with each other and with the Company's suppliers, customers, competitors and other third parties.

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Standards of Business Conduct

The Company expects compliance with its integrity standards across the organization and will not allow employees to achieve results by violating the law or conducting business in an unscrupulous manner. It is the Company's policy that all business transactions will be accurately reflected on its books and records.

The Company expects its employees to be frank at all levels and to adhere to its policies and internal controls.

PROTECTING THE COMPANY'S ASSETS

All Arcos Dorados employees must safeguard the Company's assets. As a Master Franchisee in Latin American operations, and subject to the applicable legal and contractual framework, Arcos Dorados holds the non-exclusive right to use the McDonald's brand, and as such, must cooperate in order to protect, guarantee and preserve such brand. One of the ways we protect our brand is to prevent the improper use of the Arcos Dorados name.

You are responsible for the proper use and protection of Company assets, and must use them only for legitimate business purposes. Employees are not allowed to use Company property, information or position for personal gain. It is forbidden to take part in any action that involves theft, fraud, swindle or misappropriation of Company property.

Exercise good judgment and responsibility in your use of Company assets, and do not abuse any privileges that you receive in your position at Arcos Dorados. Company assets include financial assets, vehicles, office supplies, equipment, computers, networks, software, telephone and internet services, voice mail and e-mail, etc.

- Never use Company computers in a way that could compromise the security or integrity of Company information or software.
- Never use Company computers or networks to access, receive or transmit materials that are inappropriate, illegal or may violate our policy regarding confidentiality.
- Do not loan, borrow, donate, sell or dispose of any Company property unless specifically authorized by the officer in charge.
- Never use Company property, information or position for personal gain.

- Never take part in any action that involves theft, fraud, embezzlement, extortion or misappropriation of property.

CONFLICTS OF INTEREST

Each of us must avoid any situation in which our personal or financial interests might cause our loyalties to be divided. A conflict of interest occurs when the personal interests of an employee (or his/her spouse or relatives) interfere in any manner, or even when they apparently interfere, with the Company's interests, goals, or the employee's fulfillment of tasks for the Company. A conflict of interest may arise when an employee performs an action or has an interest that may hinder the employee from doing his/her job objectively and efficiently. A conflict of interest may also arise when an employee receives improper personal gains as a result of his/her position in the Company.

Employees should refrain from taking advantage, for their own benefit, of opportunities found while using corporate assets or through their positions in the Company. Employees should avoid trading the Company's securities based on material and non-public information known by reason of their positions in the Company. Employees should refrain from competing with the Company.

We must avoid even the appearance of a conflict of interest that might cause others to doubt our fairness or integrity. You are responsible for disclosing any actual or potential conflict of interest situation to the Corporate Division of Organization and Control, and abiding by any conditions placed on you to control or eliminate the conflict. Such conditions may include, for example, removing you from decision making on behalf of Arcos Dorados or having you dispose of the outside interest that creates the conflict.

Even though it is not possible to describe and foresee all circumstances in which a conflict of interest may arise, below there are some specific examples of situations that may result in a conflict of interest:

- ***Outside Employment and Other Business Arrangements***
  All employees have a primary duty to advance the interests of Arcos Dorados, and any personal business arrangement must not interfere with this obligation. As an Arcos Dorados employee, you may not accept or receive compensation from any supplier or business entity with whom you are conducting business on behalf of Arcos Dorados.

- ***Doing Business with Family and Friends***
  A conflict of interest may arise when you have any business dealings with family members or close personal friends.

  You must disclose any potential conflict of interest to both your supervisor and the Corporate Division of Organization and Control.

  Also, be very cautious about sharing information with relatives or friends who work for competitors, or have business interests in competitors. The same holds true if you have family or friends who work for Arcos Dorados suppliers, service providers or franchisees, or have business interests in such companies.

- ***Conflict of interest among Arcos Dorados employees***
  Any employee who is aware of a potential conflict of interest by reason of the position his/her spouse or relative or any other person holds in the Company, must report it to the Corporate Division of Organization and Control. This also includes sentimental relationships.

- ***Gifts, Favors and Business Entertainment***
  We will not offer or pay bribes or provide anything of value that may influence or appear to influence the judgment or actions of another. We will not seek or accept bribes, kickbacks or any improper payments. We exercise good judgment and moderation in providing business gifts or entertainment. We respect the policies of other organizations with whom we do business. The purpose of business gifts and entertainment in a commercial setting is to create goodwill and sound working relationships.

The following applies to Company employees, immediate family members of Company employees, and agents or third parties working on behalf of the Company:

Do not offer, give or accept any gift, discount, entertainment or other personal benefit from a competitor, customer or supplier provided as a result of your position in the Company, if such benefit:

- Is inconsistent with customary business practices;

- Is cash or a cash equivalent; commissions, loans, credits or discounts, securities, goods or services at a price below market value;
- Is excessive in value (See Appendix I);
- Could be construed as a bribe or payoff; or
- Violates any laws, policies or regulations.

Circumstances involving conflicts of interest may not always be evident or easy to solve. If you are not certain about whether any gift, proposed gift or other personal benefit is appropriate, you must consult your supervisor and the Corporate Division of Organization and Control before taking any action.

See Appendix I for specific approvals required according to gift and exception amounts.

- ***Refusing Gifts and Entertainment***
  In the event an employee receives a gift or an invitation to an entertainment event exceeding the limits established in these *Standards* , such employee must politely refuse and explain the Company rules. If returning a gift may offend the customer or supplier, or if the circumstances under which it was received prevent the employee from returning it, then such employee may accept the gift, but it must be disclosed to the Division of Organization and Control. The Ethics Committee will donate the gift to a charitable organization or raffle it among Company employees.

- ***Outside Investments***
  Do not take personal advantage of business or investment opportunities that are discovered through the use of Company property, information or position. This includes directly or indirectly buying, leasing or otherwise acquiring rights to any property or materials if Arcos Dorados might also be interested in pursuing the opportunity.

  Finally, do not make a personal investment in an entity if the investment may affect or appear to affect your judgment on business decisions relating to that entity. Be mindful of potential conflicts that may arise in investments in private and public companies, and be sensitive to any insider trading issues that may be associated with investments in public companies.

ELECTRONIC COMMUNICATIONS USAGE

Standards of Business Conduct

Everything related to e-mail and other electronic communications systems, including all communications and information created, received, saved or sent on Arcos Dorados systems is the property of the Company. Employee e-mail sent and received through Company computers, including e-mail and internet search activity, is subject to search and monitoring, with or without notice, regardless of whether the Company's systems are accessed in or out of the office, or whether the communications pass through the Company's server. The Company will periodically and randomly perform monitoring of individual employee usage. For these reasons, employees have no personal right to privacy in any material created, received, saved or sent using the Company's e-mail or computer systems, including through third-party internet service providers, nor an expectation of privacy in such communications. The Company will take all necessary actions to clearly and accurately implement the points described herein, ensuring at all times the provision of tools needed for work purposes, and the protection of the rights pertaining to the people involved, all of which conforms to the applicable legislation.

USAGE OF USER IDENTIFICATION AND PASSWORDS

Systems are prepared for user identifications (IDs) and passwords to be personal. Each employee must use his/her user and personal password to access Arcos Dorados' systems. These must not be disclosed under any circumstances. Employees who violate this provision are subject to disciplinary action, up to and including termination of employment.

Employees are responsible for keeping their user IDs and passwords safe. They must be never disclosed or shared with anyone.

Should anyone requests your password or user ID, do not disclose it and report this event immediately to the Corporate Division of Organization and Control. If, for any reason, you suspect that your password and/or user ID has been discovered, change it immediately and report your suspicion to the Corporate Division of Organization and Control.

BUSINESS RECORDS AND COMMUNICATIONS

Arcos Dorados is responsible for efficiently informing its share and bond holders about all material aspects of the Company. Shareholders count on Arcos Dorados to provide honest and accurate information and to make responsible business decisions based on reliable records.

Standards of Business Conduct

We adhere to the highest standards in all issues related to our accounting, financial controls, internal reporting and tax rules. All financial books, records and accounts must accurately reflect transactions and events. They must also conform both to generally accepted accounting principles and Arcos Dorados' system of internal controls.

All reports, information and public documents filed with regulatory authorities located in any country where Arcos Dorados operates, as well as all official communications issued by the Company must be accurate, complete, clear and understandable. To ensure the accuracy of all Arcos Dorados records and filings, you must never:

- Make false entries or alter receipts on expense reports;
- Enter false information on time sheets;
- Alter or falsify quality or safety results;
- Understate or overstate known liabilities or assets;
- Maintain undisclosed or unrecorded liabilities, funds or "off the book" assets;
- Improperly record or fail to record items that should be expensed; or
- Make any entry that intentionally hides or disguises the true nature of any transaction.

Employees are expected to accurately record all business transactions in the books and files of the Company, and to be honest and communicative with the Company's internal and independent auditors

Almost all business records, including e-mail and computer records, may become subject to public disclosure in the course of litigation or governmental investigations. Records are also often obtained by outside parties or the media. Therefore, you should be clear, concise, truthful and accurate when recording any information. Avoid exaggeration, colorful language, guesswork, legal conclusions, and derogatory characterizations of people and their motives.

Handle all documents in accordance with each country's legal and regulatory provisions. Contact the Legal Department if you have any doubt about whether to save or destroy a document.

THE LETTER AND SPIRIT OF THE LAW

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Standards of Business Conduct

Our first and most fundamental obligation in every country and community where we do business is to carry out our activities with honesty and integrity, obeying the letter and spirit of the law and applicable regulations. No employee of the Company may, for any reason whatsoever, commit any illegal or unethical act, nor direct others to do so. This applies both to Arcos Dorados employees and to third parties acting on behalf of our Company. If you have a concern about the legality of any matter, you are responsible for consulting with the Legal Department before any potentially illegal acts have taken place.

INTERNATIONAL BUSINESS

Arcos Dorados complies with all applicable laws and regulations wherever we do business. Almost every country in the world prohibits making payments or offers of anything of value to government officials, political parties or candidates in order to obtain or retain business. We must never pay commissions or fees to dealers, distributors, agents, finders or consultants that are used as a bribe or kickback.

The term government official includes an employee of any government or government agency or public international organization, any political party or party officer, or any person who acts in an official capacity or on behalf of any government or any candidate for public office. In addition, all payments indirectly made through a third party are prohibited, in particular, if it is known or there is a great probability that the payment or offer of payment is made to a government official in order to influence his/her acts or decisions.

Many laws apply to the way we conduct our cross-border business. Among these are laws that:

- Require that transactions are not being used for money laundering;
- Ensure that companies do not cooperate in any way with unsanctioned boycotts;
- Restrict trade with certain countries; and
- Prohibit dealings that could aid terrorists or organizations that support terrorists.

Any employee who has a concern about any legal matter is responsible for consulting with the Legal Department before any potentially illegal acts have taken place.

Standards of Business Conduct

ANTI-BRIBERY PROVISIONS

All Arcos Dorados employees, agents, and representatives must fully comply with the provisions of the Foreign Corrupt Practices Act (FCPA) and the applicable international conventions prohibiting corruption. In general, these laws prohibit companies and their employees, agents or representatives from offering, promising, paying or authorizing the offer, promise or payment of anything of value, directly or indirectly, to any government official in order to influence an official action or otherwise obtain an improper business advantage.

The FCPA (1) prohibits U.S. persons and companies from making corrupt payments to any public official outside the United States, and (2) requires all publicly-traded companies registered under the Securities Exchange Act of 1934 to maintain a system of internal controls. Under the FCPA, U.S. companies and issuers may be legally liable for their non-U.S. affiliate and employee actions. Significant sanctions have been imposed, even when the improper payment amounts were not considered material for other purposes. Therefore, any violation of the FCPA, as little as it might be, may result in significant legal responsibility for the individual or Company, including criminal penalties.

Interpreting the FCPA is not a simple task. There are times when situations fall into the “gray areas” of the FCPA. If you have any questions regarding the FCPA or a request for payment, contact the Legal Department or the Corporate Area of Organization and Control.

OUR COMMUNITIES

We are deeply committed to the communities where we operate and to their development. Our principle of community relationships accepts the corporate responsibility that we have and takes it to the next level. We play an active role in the well-being of our employees, customers and neighbors.

COMMUNITY AND GIVING BACK

Arcos Dorados has a long, proud tradition of giving back to our local communities. We know it is the right thing to do, and our people are one of our great strengths. As leaders, we have a positive influence on the communities where we operate, people and the environment. We encourage our employees to play a positive role in the community.

Standards of Business Conduct

Our Company, employees and franchisees donate hundreds of thousands of dollars and countless volunteer hours to Latin American charitable organizations, particularly those that address the needs of children. We also lend our hand when disasters strike, working with employees, franchisees, suppliers and disaster relief organizations to assist victims and relief workers.

Ronald McDonald House Charities (RMHC) Foundation and its local chapters have a special place in our social responsibility initiatives. Each year McDonald's restaurants in Latin America raise millions of dollars for RMHC and other children's causes.

POLITICAL ACTIVITIES

As a company, we believe in a democratic political system, where it is essential to have a market economy, business freedom and legal certainty for private dealings, and also the Rule of Law guaranteeing transparent, ethical and impartial rules of the game for all citizens and organizations, and whose main purpose is to improve the quality of life for all citizens. Therefore, we will act as a corporate citizen who also thinks and acts in the interest of society and to achieve a better quality of life for all citizens, notwithstanding the legitimate protection of our company and its shareholders' special interests. We consider all decisions aimed at strengthening institutions that lay the foundations of the democratic system and its political parties to be our corporate social responsibility.

Following these corporate social responsibility principles, our Company may make financial contributions to political parties according to the guidelines below:

- Political contributions or donations must strictly comply with the applicable laws and regulations in each country, including the Foreign Corrupt Practices Act (FCPA) of the United States. Additionally our relationships with political parties and their representatives will be maintained in an ethical and transparent manner, strictly complying with the lobbying laws of each country.

- The Company will only make donations or contributions to political parties that promote democratic values and principles and that defend human rights, a market economy and business freedom.

- Any initiative supporting political activities must be submitted to the Corporate Government Relations department for its endorsement and presentation to the Chief Executive Officer (CEO).
- The business decision to finance election campaigns or the ongoing activities of political parties is the responsibility of the CEO.
- Employees may participate in personal political activities and have a constitutionally protected right to support political candidates and issues of their choosing. However, any involvement in such activity must be on your own time and at your own expense. You must make it clear that your views and actions are your own and not those of Arcos Dorados.
- Company employees may not be constrained or pressured to support or promote specific election campaigns or candidates, or to make financial contributions.

CORPORATE CITIZENSHIP AND SUSTAINABILITY

We take seriously the responsibilities that come with being a leader. We leverage our size, scope and resources to help make the world a better place.

- ***Environmental Responsibility***
  Arcos Dorados is committed to environmental responsibility, and everyone in the system has a role to play in living up to that commitment. We focus our efforts on areas where we can have a significant impact on critical environmental issues.

  We continuously learn about and invest in innovations that can reduce our environmental footprint. We are committed to complying with environmental laws and regulations and using appropriate technologies in order to minimize the environmental impact of our activities. We work with our suppliers to promote environmentally responsible practices in their operations, and we encourage them to adhere to the same environmental and animal wellbeing policies promoted by Arcos Dorados.

- ***Sustainability***
  At Arcos Dorados we believe that the commitment to sustainable development means achieving a balance among financially feasible, socially fair and environmentally correct actions. Our concern over the future is, first of all, a commitment to the actions we perform today. Sustainability does not mean only to carry out isolated programs within an organization, but rather the strategic way in which we operate and do business. This commitment is

demonstrated, e.g., through the construction of green restaurants, waste management programs or water and energy saving and conservation. We also apply state-of-the-art technologies to minimize the environmental footprint of our operations by using clean energy sources such solar panels, wind-powered generators and recycling programs that convert oil used in our kitchens into the biodiesel that makes the trucks in our logistics chain run. In the future, these actions will result in financial gains and a stronger perception of our brand for our various stakeholders.

- ***Nutrition and Well-Being***
  We are committed to supporting our customers' well-being. We offer a range of menu choices to meet our customers' diverse needs and preferences. We provide information about the nutritional values of our foods so that our customers can choose items that meet their dietary needs and those of their families.

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

SHAREHOLDER RELATIONS
Our relationships with shareholders are aimed at protecting their financial interests and providing the best positive return on their investment. We make available to you the business information necessary for you to make the best decisions. It is our commitment to act on a totally transparent basis for the benefit of our shareholders' interests.

PROFITABLE GROWTH

We make our business grow in a profitable manner. We maximize our operations' profitability.

FAIR COMPETITION AND ANTITRUST POLICY
Most of the countries in which we operate in Latin America have fair competition or antitrust laws in place to safeguard the rights of consumers to the best

products at the best prices. Arcos Dorados supports and complies with these laws. Among other things, these laws generally prohibit:

- Entering into any formal or informal agreement or understanding with competitors that fixes, controls or affects prices, products, terms of sale, costs, profits or profit margins, markets or market share, or distribution practices.
- Agreements or understandings with competitors to allocate customers or products, to boycott suppliers or persons with whom they would otherwise transact business, or to bid or not to bid on business generally.

Competition laws also govern our relationships with suppliers and franchisees. Employees who work with supplier councils, local advertising cooperatives or Operators National Advertising Fund should consult the Legal Department about antitrust practices and laws. If you have a question about these issues or any other discussion, decision or action that has potential antitrust implications, consult the Legal Department before taking any action.

TRADE PRACTICES

Information about competitors and suppliers is a valuable asset. We respect the rights of competitors and suppliers, and we will act fairly toward them in the marketplace. We strive for competitive advantages through superior research, marketing, execution, quality and service, never through unethical or questionable business practices. We do not engage in unfair or illegal trade practices.

The following rules apply when Arcos Dorados or anyone working on our behalf gathers or uses information concerning competitors or suppliers:

- Respect the proprietary rights of others, including patents, copyrights and trademarks;
- Do not accept, disclose or use information that was disclosed to you in breach of a confidentiality agreement;
- Do not disclose or use information that could be proprietary or confidential without consulting the Legal Department;
- Do not use unethical or illegal methods to gather information about other companies;

- Do not steal trade secret information, or persuade past or present employees of other companies to disclose trade secrets; and
- Do not take any action that could create an appearance of an improper agreement with competitors.

INSIDE INFORMATION AND SECURITIES TRADING

Information that has not been made available to the public and that a reasonable person would consider important in making an investment decision is commonly called inside information. Inside information also includes information that relates to other public companies' stock. Examples of inside information would be significant upward or downward revisions to earnings forecasts, significant restructurings, management changes and important product or litigation developments.

It is illegal to buy or sell securities of any company, including Arcos Dorados, based on inside information. It is also illegal to inform others about inside information, or to make stock buying or selling recommendations to others based on such information. Any question or query related to your capacity to buy or sell securities must be submitted to the Legal Department.

COMMUNICATING WITH THE PUBLIC AND SOCIAL MEDIA

When Arcos Dorados provides information to the news media, investors and stockholders, we have an obligation to accurately and completely communicate the facts. To ensure accuracy and completeness, employees receiving information requests must immediately refer the request to the Corporate Communications Department for follow-up and response.

All contacts with the press must be made under the supervision of the Corporate Communications Department, which is the only one responsible for appointing a spokesperson in each case.

This applies to all statements directly made to reporters, mass media, public presentations, Internet bulletin boards, social networks and chat rooms.

GOVERNMENT INQUIRIES

Arcos Dorados cooperates with government agencies and authorities. Forward all requests for information, other than routine requests, to the Legal Department immediately to ensure that we respond appropriately.

All information provided must be truthful and accurate. Never mislead any investigator, and never alter or destroy documents or records subject to an investigation.

CONTINUOUS IMPROVEMENT

CORPORATE GOVERNANCE AND INTERNAL CONTROLS
We have a system of internal controls and reporting mechanisms designed to protect the assets and operations of the Company and to provide management, the Board and the shareholders with accurate, honest and timely information. The Arcos Dorados Audit Committee and its outside auditor provide independent oversight in connection with the preparation of the Company's financial statements and the Company's internal control systems. Employees are required to live up to the letter and spirit of our system of internal controls, and to cooperate fully with any audit or investigation.

AMENDMENTS TO THE STANDARDS
Any amendment to the *Standards* must be approved by the Arcos Dorados Holdings Inc. Board and the Ethics Committee having previously issued its opinion on the matter, and must be posted on the website of Arcos Dorados within five days after its approval.

INTERNAL INVESTIGATIONS
Arcos Dorados encourages employees to raise questions and personal concerns, and to provide proper suggestions about the Company's business practices. Employees are expected to immediately report to the management any alleged violations of the law, Company policies and its internal controls so that the management may take adequate corrective actions. The management must communicate with the Corporate Division of Organization and Control.

The Corporate Division of Organization and Control is responsible for investigating violations of the Company's internal controls.

Arcos Dorados takes allegations of misconduct very seriously. If you become aware of an internal investigation, or if you are asked to provide information or to assist with an internal investigation, the following rules apply:

- You may not discuss anything about the investigation with any person, either inside or outside of Arcos Dorados, without the express consent of those authorized to conduct the investigation;
- You are required to disclose any relevant information in a complete and truthful manner, and to cooperate fully with the authorized investigation team throughout the course of the investigation; and
- If you interfere with or provide false information in the course of the investigation, you may be subject to disciplinary action, up to and including termination of employment.

RESOURCES

Each of us must personally stand for these values, but even so, we are stronger when acting together in our goal of upholding them. Get support if you need it. These resources are a good place to start.

DIVISION OF ORGANIZATION AND CONTROL

The Division of Organization and Control is available to answer any inquiry about these Standards of Business Conduct, or to analyze potential violations thereof.

To contact the Division of Organization and Control:

- Call: +5411- 4711 – 2520
- E-mail: auditoriainterna.denuncias@ar.mcd.com
- Fax: +5411- 4711- 2098, extension 2520

ETHICS LINE

- Ethics line: **www.resguarda.com** or the direct telephone number corresponding to your country, which is available on the Website.

Copies of these policies are available through “McDoc – Normas y Procedimientos” (McDoc – Standards and Procedures) site or at the following department/divisions:

- Human Resources Department
- Legal Department
- Ethics Committee
- Corporate Division of Organization and Control.

Once these standards are read by the employee, he/she must complete and sign the attached document “Acknowledgment of Receipt and Reading.” Such document must then be submitted to the Human Resources Department.

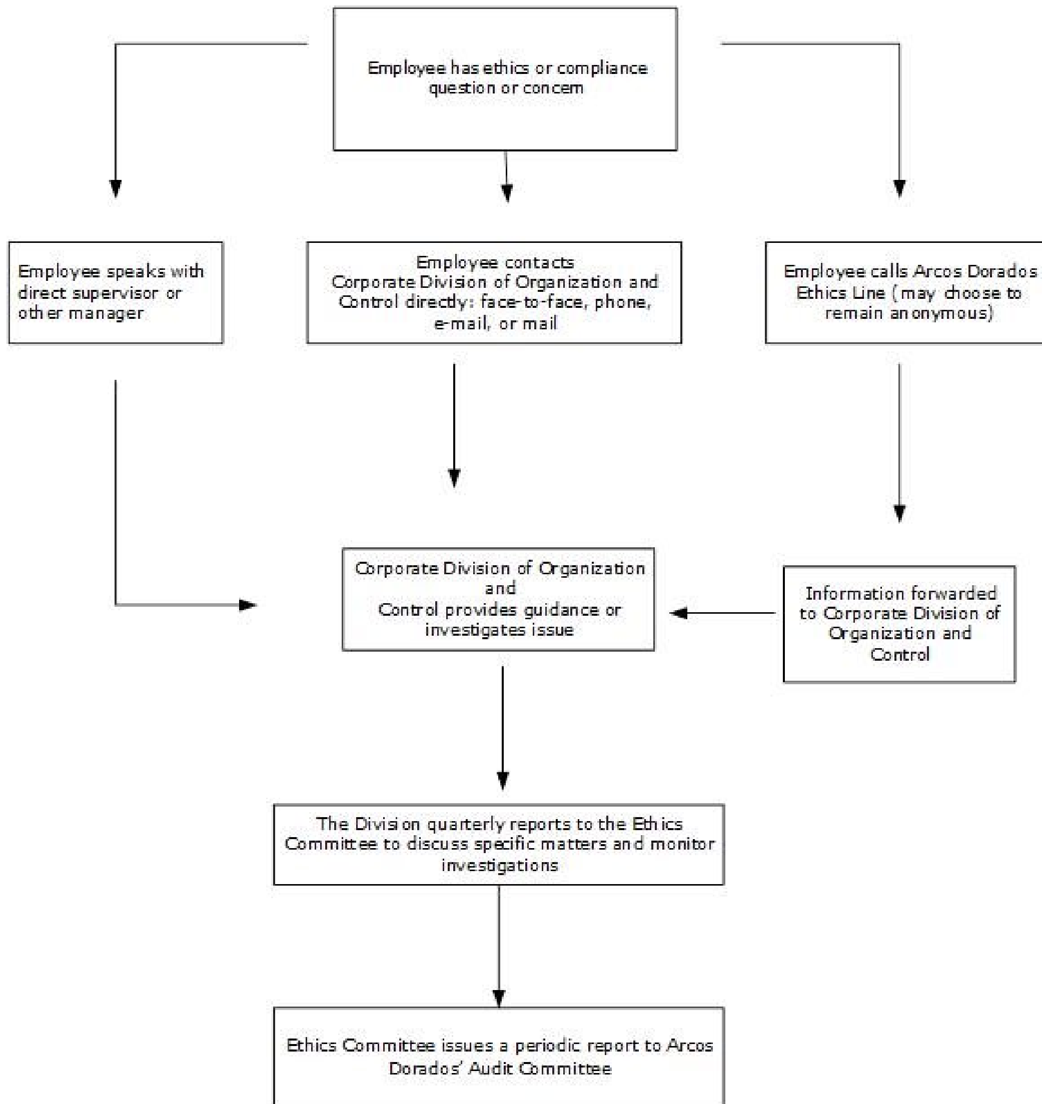
- ***APPENDIX I – GIFTS, FAVORS AND BUSINESS ENTERTAINMENT***

AMOUNTS	***NECESSARY APPROVAL***
Up to USD $100	Does not require approval
Between USD $101 and USD $500	Director or vice president of the functional area
Over USD $500	CEO with endorsement of the Internal Audit Director

Exhibit 11.1

Standards of Business Conduct

ETHICS PROBLEM PROCEDURE



Standards of Business Conduct

RECEIPT AND READING ACKNOWLEDGMENT

I [____] as an Arcos Dorados employee in [____________________________________-insert country-] acknowledge that I have read and understood the document called " *Standards of Business Conduct* " and agree to abide by these *Standards* in terms of its philosophy and restrictions.

First and Last Names:
Identification Document:
Country:

By:

Date:

EXHIBIT 12.1

CERTIFICATION

I, Sergio Alonso, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;

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 company as of, and for, the periods presented in this report;

4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: April 26, 2019

/s/ Sergio Alonso

Name: Sergio Alonso
Title: Chief Executive Officer

EXHIBIT 12.2

CERTIFICATION

I, Mariano Tannenbaum, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;

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 company as of, and for, the periods presented in this report;

4. The company'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 company 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 company, 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 company'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 company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and

5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company'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 company'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 company's internal control over financial reporting.

Date: April 26, 2019

/s/ Mariano Tannenbaum

Name: Mariano Tannenbaum
Title: Chief Financial Officer

EXHIBIT 13.1

CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2018 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Sergio Alonso, the Chief Executive Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 26, 2019

/s/ Sergio Alonso

Name: Sergio Alonso

Title: Chief Executive Officer

EXHIBIT 13.2

CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2018 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Mariano Tannenbaum, the Chief Financial Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 26, 2019

/s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Chief Financial Officer

EXHIBIT 15.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statement:

(1) Registration Statement (Form S-8 No. 333-173496) pertaining to the Equity Incentive Plan of Arcos Dorados Holdings Inc;

of our report dated March 27, 2019, with respect to the consolidated financial statements and our report dated March 27, 2019, with respect to the effectiveness of internal control over financial reporting of Arcos Dorados Holdings Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2018.

Buenos Aires, Argentina
April 26, 2019

/s/ Pistrelli, Henry Martin y Asociados S.R.L.

PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.
Member of Ernst & Young Global