2019 ANNUAL REPORT

Annual Letter to Stakeholders

Dear Shareholders, the Global McFamily and our Customers,

It is an enormous privilege to lead this great company. McDonald's is one of the world's great brands, but our impact is so much more. We don't just operate nearly 40,000 restaurants, we offer 40,000 community centers that create opportunities, connections and support networks for tens of millions of people every day. As a lifelong customer, some of my most enduring memories are of times spent at McDonald's—birthday parties, family dinners, nights out with friends, and a host of other occasions. Looking across the whole world, it is clear how McDonald's becomes part of the fabric of our lives.

...create opportunities, connections and support networks for tens of millions of people every day.

As I have spent time with people around the system, I have seen the great pride we all have in bringing people together and supporting our communities. This has never been more apparent than in the last few months with the global outbreak of COVID-19. I feel a deep sense of responsibility to protect and enhance the role we play in the world, continuing to forge connections in communities despite the significant challenges we all face.

Navigating through an unprecedented global crisis

When I assumed my role late last year, the company was in an incredibly strong position. Systemwide sales eclipsed $100 billion and most major markets were enjoying record, or near-record, franchisee cash flows. Since we launched the Velocity Growth Plan, our comparable sales growth outpaced the industry, and we had gained market share across most of our major markets.

Annual Letter to Stakeholders

The outbreak of COVID-19, first in China and later in every other country in which we operate, has created a major business disruption. We are now operating in a completely different world, with tremendous challenges to overcome. Difficult times like these remind us how strong, resilient and purposeful we are when we come together, support each other and act in service of the millions of people who count on us.

When we were first confronted with this crisis, I laid out five principles that I wanted to guide our approach and inform our actions every day as we navigate through this together. For anyone in our system, living these principles comes naturally, but I thought it was important to reaffirm them as our guiding light:

1. **We're all in this together.** McDonald's has a unique operating model, and the strength of our business is rooted deeply in alignment across the three legs of our system—company employees, independent franchisees and global suppliers. Our top priority is to protect the health and safety of our people and customers. That has guided our response to date, through actions like implementing paid sick leave in the U.S. and enhancing hygiene measures at all company-owned restaurants, as well as closing in-restaurant dining where necessary, and working with franchisees to support financial liquidity. We are supporting each other through this crisis, and while we will certainly have to make some difficult decisions as the situation evolves, we will work through these together, as one McDonald's system.

2. **Think and act with a long-term mindset.** Because of the success of our Velocity Growth Plan and our performance in 2019, we entered this crisis in a stronger position than most and are drawing on our strengths to ensure we are well positioned for the long term. The journey we have been on—including our focus on value, delivery and Drive Thru—has proven now to be more relevant than ever. But at the same time, we recognize that we will need to adapt to a new reality on the other side of this crisis and continue to assess the necessary strategic adjustments.

3. **Be transparent with each other and our stakeholders.** We understand that being open with our customers, our system and our shareholders is key to managing through these uncertain times. That's why we have been in regular touch with updates, lessons learned and information to support everyone through their own unique situations. The work happening with our suppliers and third-party partners is an excellent example of this in action. I've been impressed with how our supply chain has adjusted to the fast-moving situation, and ramping up communication between our teams, suppliers, partners and restaurants has been essential to ensuring our operations remain strong. We'll continue to communicate regularly with all stakeholders as we navigate the road ahead.

4. **Lead by example.** We wouldn't ask our customers to go where we wouldn't go, or our crew to work where we wouldn't work. We have been making adjustments to our operations around the world to ensure we live and lead by example, and that has required everyone across the system to be agile. As we assess the changing needs of our business, we will do whatever is necessary to support the system and safeguard the future of our company, even if that means making difficult decisions. In light of the significant impact that COVID-19 has had on the company's global operations, I have volunteered to reduce my salary by half and certain of our most senior Executives have also volunteered to reduce their salaries by one-quarter, at least through September 30. This follows discussions with the Board in recent weeks, and they endorsed this decision.

5. **Stay true to our purpose.** We are here to feed and foster communities and remain committed as ever to that mission. I have seen incredible efforts across the world, particularly by our franchisees and crew, to serve communities in this time of need. This has included the donation of medical supplies and free meals to local health workers across China and the U.S. and the creation of a hospital in Milan, in partnership with our Ronald McDonald House Charities. In Guatemala and Poland, our crew members have gone the extra mile by including handwritten messages of support with meals being donated to health care workers. There are countless inspiring examples like these around the world, and I am proud of the way the system has banded together to stay true to our purpose.

Annual Letter to Stakeholders

The true spirit of McDonald's

This global crisis has revealed the true spirit of the McDonald's system, with everyone working hard to help keep our business running at a time when our communities need us most. We are working with health officials and outside experts to inform our response. That, coupled with the experience of our seasoned leadership team, has and will continue to be critical to ensuring we make the right decisions and support our people along the way.

...everyone working hard to keep our business running at a time when our communities need us most.

To that end, we also recently announced Heidi Capozzi as our Executive Vice President and Global Chief People Officer. She is a collaborative, results-oriented business leader with proven experience. I am proud and grateful to have such a talented team in place to lead our company—at all times, but especially now.

Evaluating our future strategy

Looking ahead, we know that the world will look very different on the other side of this crisis and are taking the necessary actions to ensure we are best set up for an altered business landscape. Our Velocity Growth Plan provides a consistent framework, but we will need to ensure our go-forward strategy also reflects the new operating environment. We are looking at all of the situations that could unfold and will provide updates through the year.

In any case, I am confident in the resilience of our business and the strong foundation we have built. McDonald's has seen a lot over our 65 years, and while this is the most challenging global crisis in our company's history, we remain confident that we are well positioned for the long term.

Supporting our people and communities

As we manage through this situation, protecting the well-being of our people, our customers and our broader communities remains our number one priority and guides every decision we make.

We are all too aware that many of our communities around the world face extraordinary challenges, and that won't change any time soon. But when communities are in real need, our business and franchisees step up to help. Amid these fast-moving and difficult realities around the world, we will continue to show up in our communities when they need us most, whatever challenges they may face. That is something I am certain will never change.

Thank you to our shareholders for your continued investment in McDonald's, to our customers for your continued support and enjoyment, and to the entire system for all you do every day to serve customers and communities around the world. I am honored as ever to serve as your CEO.

Be well,

Chris Kempczinski
President and CEO
McDonald's Corporation

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2019
or
☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission File Number 1-5231

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

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

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.01 par value	MCD	New York Stock Exchange

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

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

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

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

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

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

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

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

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 28, 2019 was $157,661,991,693.

The number of shares outstanding of the registrant's common stock as of January 31, 2020 was 745,446,655.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2020 definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

McDONALD'S CORPORATION
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ORGANIZATION OF OUR ANNUAL REPORT ON FORM 10-K

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

FORWARD-LOOKING STATEMENTS

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

ABOUT McDONALD'S

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

BUSINESS SUMMARY

a. General

Effective January 1, 2019, McDonald's operates under an organizational structure designed to support the Company's efforts toward efficiently driving growth through the Velocity Growth Plan (the "Plan"). The Company’s reporting segments are aligned with its strategic priorities and reflect how management reviews and evaluates operating performance. Significant reportable segments include the United States ("U.S.") and International Operated Markets. In addition, throughout this report we present the International Developmental Licensed Markets & Corporate segment, which includes markets in over 80 countries, as well as Corporate activities.

b. Description of business

- ***General***

The Company franchises and operates McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages in 119 countries. Of the 38,695 restaurants at year-end 2019, 36,059 were franchised, which is 93% of McDonald's restaurants.

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

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

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

The Company’s revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

Conventional Franchise

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

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

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

Developmental License or Affiliate

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

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

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

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

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

- ***Products***

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

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

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

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

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

- ***Marketing***

McDonald’s global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald’s brand and differentiate the Company from competitors. Marketing and promotional efforts focus on value, quality, food taste, menu choice, nutrition, convenience and the customer experience.

- ***Intellectual property***

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

- ***Seasonal operations***

The Company does not consider its operations to be seasonal to any material degree.

- ***Working capital practices***

Information about the Company’s working capital practices is incorporated herein by reference from Management’s Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2019, 2018 and 2017 on pages 6 through 21 and the Consolidated Statement of Cash Flows for the years ended December 31, 2019, 2018 and 2017 on page 37 of this Form 10-K.

- ***Customers***

The Company’s business is not dependent upon either a single customer or small group of customers.

- ***Government contracts***

No material portion of the business is subject to renegotiation of profits or termination of contracts or subcontracts at government election.

- ***Competition***

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

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

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.2 trillion in annual sales in 2018, the most recent year for which data is available. McDonald's Systemwide 2018 restaurant business accounted for 0.4% of those outlets and 8.2% of the sales.

Management also on occasion benchmarks McDonald's against the entire restaurant industry, including the IEO segment defined above and all full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 20 million outlets and generated $2.7 trillion in annual sales in 2018. McDonald's Systemwide restaurant business accounted for 0.2% of those outlets and 3.6% of the sales.

- ***Environmental matters***

The Company continuously monitors developments related to environmental matters, and endeavors to improve its social responsibility and environmental practices to achieve long-term sustainability, which benefits McDonald's and the communities it serves.

Actual or perceived effects of changes in weather patterns, climate, water resources, or packaging waste could have a direct or indirect impact on the operations of the System in ways which we cannot fully predict at this time.

The Company launched a framework in 2018, which includes the environment-related pillars of climate action, packaging and recycling, beef sustainability, and other sustainable sourcing efforts. These include goals and initiatives to reduce System greenhouse gas emissions, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste, which the Company recognizes are also increasingly important to customers.

The Company monitors environment-related governmental initiatives and consumer preferences, and plans to respond in a timely and appropriate manner. Increased focus by certain governmental authorities or consumers on environmental matters may lead to new governmental initiatives or opportunities. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs or operational complexity for the Company.

- ***Number of employees***

The Company's number of employees worldwide, including its corporate and other office employees as well as Company-owned and operated restaurant employees, was approximately 205,000 as of year-end 2019.

MANAGEMENT'S VIEW OF THE BUSINESS

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

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as income tax provision adjustments related to the Tax Cuts and Jobs Act of 2017 ("Tax Act"), and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.
- Comparable sales represent sales at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation, and, since 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.
- Comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed.
- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates.
- ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the markets, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.
- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company's ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value.

2019 FINANCIAL PERFORMANCE

In 2019, global comparable sales increased 5.9% and global comparable guest counts increased 1.0%, reflecting the continued execution against the Velocity Growth Plan.

- Comparable sales in the U.S. increased 5.0% and comparable guest counts decreased 1.9%. The increase in comparable sales reflected strong sales of our iconic core products driven by promotional activity and the continued positive impact from our Experience of the Future ("EOTF") deployment, as well as menu price increases.
- Comparable sales in the International Operated segment increased 6.1% and comparable guest counts increased 3.5%, reflecting positive results across all markets, primarily driven by the U.K. and France.
- Comparable sales in the International Developmental Licensed segment increased 7.2% and comparable guest counts increased 2.2%, reflecting positive sales performance across all geographic regions.

In addition to improved comparable sales and guest count performance, the Company achieved the following financial results in 2019:

- Consolidated revenues were relatively flat with the prior year (increased 3% in constant currencies) at $21.1 billion.
- Systemwide sales increased 4% (7% in constant currencies) to $100.2 billion.
- Consolidated operating income increased 3% (6% in constant currencies). Excluding the impact of current year and prior year impairment and strategic charges, operating income increased 1% (4% in constant currencies). Refer to the Operating Income section on page 15 for additional details.
- Operating margin, defined as operating income as a percent of total revenues, increased from 42.0% in 2018 to 43.0% in 2019. Excluding the items referenced in the previous bullet point, operating margin increased from 43.1% in 2018 to 43.4% in 2019.

- Diluted earnings per share of $7.88 increased 5% (7% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 10 for additional details.
- Cash provided by operations was $8.1 billion.
- Capital expenditures of $2.4 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.
- Free cash flow was $5.7 billion, a 36% increase over the prior year.
- Across the System, about 1,200 restaurants (including those in our developmental licensee and affiliated markets) were opened.
- One-year ROIIC was 22.8% and three-year ROIIC was 40.6% for the period ended December 31, 2019. Excluding significant investing cash flows resulting from the Company's strategic refranchising initiatives, three-year ROIIC was 24.6% (see reconciliation in Exhibit 12).
- The Company increased its quarterly cash dividend per share by 8% to $1.25 for the fourth quarter, equivalent to an annual dividend of $5.00 per share.
- The Company returned $8.6 billion to shareholders through share repurchases and dividends for the year, marking successful achievement of the Company's targeted return of $25 billion for the three-year period ending 2019.

STRATEGIC DIRECTION

The strength of the alignment among the Company, its franchisees and suppliers is key to McDonald's long-term success. By leveraging the System, McDonald’s is able to identify, implement and scale ideas that meet customers' changing needs and preferences. McDonald's continually builds on its competitive advantages of System alignment and geographic diversification to deliver consistent, yet locally-relevant restaurant experiences to customers as an integral part of their communities.

CUSTOMER-CENTRIC GROWTH STRATEGY

The Velocity Growth Plan, the Company’s customer-centric strategy, is rooted in extensive customer research and insights, along with a deep understanding of the key drivers of the business. The Plan is designed to drive sustainable comparable sales and guest count growth, reliable long-term measures of the Company's strength that are vital to growing shareholder value. In 2019, execution of the Plan drove further broad-based growth around the globe. In 2020, the Company will continue to focus on elevating the customer experience through improved restaurant execution and creating excitement around our food and value offerings, while continuing to leverage technology to enable greater convenience and customer personalization.

The Company continues to target the opportunity at the core of its business - its food, value and customer experience. The strategy is built on the following three pillars, all focusing on building a better McDonald’s:

- <u>Retaining existing customers</u> - focusing on areas where it already has a strong foothold in the IEO category, including family occasions and food-led breakfast.
- <u>Regaining customers who visit less often</u> - recommitting to areas of historic strength, namely food taste and quality, convenience and speed, experience and value.
- <u>Converting casual to committed customers</u> - building stronger relationships with customers so they visit more often, by elevating and leveraging the McCafé coffee brand and enhancing snack and treat offerings.

The Company continues to scale and optimize the Plan through the following growth accelerators:

- <u>Experience of the Future</u>. The Company is building upon its investments in EOTF, focusing on restaurant modernization in order to transform the restaurant service experience and enhance our brand in the eyes of our customers. The modernization efforts are designed to provide a better customer experience, leading to increased frequency of customer visits and higher average check. As of the end of 2019, EOTF is deployed in over half of the restaurants in our global system, with most of the major markets substantially complete. In 2019, the U.S. converted about 2,000 restaurants to EOTF, resulting in about 70% of the U.S. restaurants now having EOTF. In 2020, the Company will further deploy EOTF around the globe, including converting about 1,800 of the remaining restaurants in the U.S. to EOTF.
- <u>Digital</u>. The Company is improving its existing service model with customers through technology. Digital technology is transforming the retail industry, and the Company is using it to transform McDonald’s for our customers at an accelerated pace. By evolving the technology platform, the Company is expanding choices for how customers order, pay and are served their food. The added functionality of the Company’s global mobile app, self-order kiosks, and other technologies enable greater convenience for the customer on their terms. In 2019, the Company built on its digital foundation, acquiring Dynamic Yield, a leader in personalization and decision logic technology. The Company has implemented this technology via outdoor digital menu boards in over 11,000 U.S. drive-thrus, offering customers a more customized experience and producing sales growth through higher average check. This technology is also deployed in nearly all drive-thrus in Australia, and we are looking to deploy across further international markets beginning in 2020. The Company continued to expand its technological capabilities via the acquisition of Apprente, an early-stage leader in conversational interface technology. This technology is expected to provide more efficient and accurate ordering in the drive-thru. In 2020, the Company will continue to utilize more personalized digital initiatives to engage customers, grow awareness and adoption of digital offerings, and support our menu offerings.

- Delivery. The Company continues to build momentum with its delivery platform as a way of expanding the convenience for its customers. In 2019, McDonald's continued to add third-party delivery partners in order to maximize the System's delivery scale and potential. Across the global system, nearly 25,000 restaurants now offer delivery. Customers are responding positively, as demonstrated by high satisfaction ratings, strong reorder rates, and average checks that are generally two times higher than average non-delivery transactions. Further, in some of our top markets, delivery now represents as much as 10% of sales in those restaurants offering delivery. Consequently, McDonald's global delivery business has grown to over $4 billion in Systemwide sales in 2019, up from $1 billion in 2016. We continue to see great runway ahead of us to drive awareness and trial of delivery, and are focusing on efforts to encourage frequency and retention in 2020 and beyond.

The Plan is a global strategy that is tailored at a market level to allow for the best customer experience and most convenience for our valued customers. While the Plan provides a consistent framework on how to retain, regain, and convert customers, the execution varies across the globe. The U.S., for example, remains centered on returning to guest count growth by focusing on running better restaurant operations, introducing new menu items and offering compelling value. In addition, we will continue transforming the customer experience through aggressive execution of the growth accelerators of EOTF, digital and delivery. In 2020, the markets around the world will continue to make progress on the three pillars of the Plan and its growth accelerators, focusing on food, value and customer convenience.

Our Plan also includes the Company further embedding actions in response to certain social and environmental issues into the core of our business. As one of the world's largest restaurant companies, our approach highlights our commitment to global actions that are consistent with our strategic priorities and provides an opportunity to collaborate with our franchisees and suppliers to drive meaningful progress. We recognize that our success in advancing these initiatives will be demonstrated as customers continue to feel good about visiting McDonald's restaurants and eating our food.

While we are working to address many challenges facing society today, we are elevating global action where we believe we can make the greatest difference in driving industry-wide change. Our priorities reflect the social and environmental impacts of our food and our business. Highlights include science-based targets for greenhouse gas emissions reductions and climate action, advancing sustainable practices in beef production with suppliers and producers, driving innovative solutions for our packaging and recycling efforts, and ongoing commitments to support families and provide opportunities for youth in our communities. In 2019, for example, we made progress toward our 2030 climate action target with the addition of significant investments in renewable energy projects in the U.S.; we achieved our goal of 100% sustainably sourced McCafé coffee for U.S. restaurants; and we continued to make a difference for families through innovation in our food offerings, reading programs and support for Ronald McDonald House Charities.

The Company is confident, that under the Plan, we will continue to improve the taste of our delicious food, enhance convenience and service through running great restaurants, offer compelling value, and heighten the trust consumers place in our brand, which we believe will enable us to deliver long-term sustainable growth.

OUTLOOK

2020 Outlook

The following information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion, and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1.5 percentage points to 2020 Systemwide sales growth (in constant currencies).
- The Company expects full year 2020 selling, general and administrative expenses to increase about 5% to 7% in constant currencies as the Company invests in technology and research & development, and incurs costs related to the Worldwide Owner/Operator Convention, which will occur in the second quarter 2020.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2020 to increase about 4% to 6% due primarily to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 80% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 35 cents.
- The Company expects the effective income tax rate for the full year 2020 to be in the 23% to 25% range. Some volatility may result in a quarterly tax rate outside of the annual range.
- The Company expects capital expenditures for 2020 to be approximately $2.4 billion. About $1.3 billion will be dedicated to our U.S. business, over half of which is allocated to approximately 1,800 EOTF projects. Globally, we expect to open roughly 1,400 restaurants. We will spend approximately $800 million in the U.S. and International Operated segments to open 400 restaurants and our developmental licensees and affiliates will contribute capital towards the remaining 1,000 restaurant openings in the International Developmental Licensed segment. The Company expects about 1,000 net restaurant additions in 2020.

Long-Term Outlook

- Over the long-term, the Company expects to achieve the following average annual (constant currency) financial targets:
  - Systemwide sales growth of 3% to 5%;
  - Operating margin in the mid-40% range;
  - Earnings per share growth in the high-single digits; and
  - Return on incremental invested capital in the mid-20% range.

CONSOLIDATED OPERATING RESULTS

Operating results

Dollars and shares in millions, except per share data	**2019** *Amount*	**2019** *Increase/ (decrease)*	2018 *Amount*	2018 *Increase/ (decrease)*	2017 *Amount*
Revenues					
Sales by Company-operated restaurants	**$ 9,421**	**(6%)**	$10,013	(21%)	$12,719
Revenues from franchised restaurants	**11,656**	**6**	11,012	9	10,101
Total revenues	**21,077**	**0**	21,025	(8)	22,820
Operating costs and expenses					
Company-operated restaurant expenses	**7,761**	**(6)**	8,266	(21)	10,410
Franchised restaurants-occupancy expenses	**2,201**	**12**	1,973	10	1,789
Selling, general & administrative expenses	**2,229**	**1**	2,200	(1)	2,231
Other operating (income) expense, net	**(184)**	**22**	(237)	80	(1,163)
Total operating costs and expenses	**12,007**	**(2)**	12,202	(8)	13,267
Operating income	**9,070**	**3**	8,823	(8)	9,553
Interest expense	**1,122**	**14**	981	7	922
Nonoperating (income) expense, net	**(70)**	**n/m**	26	(56)	58
Income before provision for income taxes	**8,018**	**3**	7,816	(9)	8,573
Provision for income taxes	**1,993**	**5**	1,892	(44)	3,381
Net income	**$ 6,025**	**2%**	$ 5,924	14%	$ 5,192
Earnings per common share—diluted	**$ 7.88**	**5%**	$ 7.54	18%	$ 6.37
Weighted-average common shares outstanding—diluted	**764.9**	**(3%)**	785.6	(4%)	815.5

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

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

In 2019, results reflected the weakening of the Euro and most other major currencies. In 2018, results reflected the stronger Euro and British Pound. In 2017, results reflected the stronger Euro, offset by the weaker British Pound.

Impact of foreign currency translation on reported results

	Reported amount			*Currency translation benefit/(cost)*		
In millions, except per share data	**2019**	*2018*	*2017*	**2019**	*2018*	*2017*
Revenues	**$21,077**	$21,025	$22,820	**$ (606)**	$ 123	$ 186
Company-operated margins	**1,660**	1,747	2,309	**(51)**	4	17
Franchised margins	**9,455**	9,039	8,312	**(256)**	57	25
Selling, general & administrative expenses	**2,229**	2,200	2,231	**29**	(13)	(10)
Operating income	**9,070**	8,823	9,553	**(280)**	56	28
Net income	**6,025**	5,924	5,192	**(165)**	33	2
Earnings per common share—diluted	**7.88**	7.54	6.37	**(0.21)**	0.04	—

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2019, net income increased 2% (4% in constant currencies) to $6.0 billion and diluted earnings per common share increased 5% (7% in constant currencies) to $7.88. Foreign currency translation had a negative impact of $0.21 on diluted earnings per share.

In 2018, net income increased 14% (13% in constant currencies) to $5.9 billion and diluted earnings per common share increased 18% (18% in constant currencies) to $7.54. Foreign currency translation had a positive impact of $0.04 on diluted earnings per share.

Results in 2019 reflected stronger operating performance primarily due to an increase in sales-driven franchised margin dollars, partly offset by lower gains on sales of restaurant businesses (mostly in the U.S.) and higher G&A spend. Results in 2018 reflected a lower effective tax rate, and stronger operating performance due to an increase in sales-driven franchised margin dollars, partly offset by lower Company-operated margin dollars due to the impact of refranchising.

Outlined below is additional information for the full year 2019, 2018, and 2017:

Diluted Earnings Per Common Share Reconciliation

	Amount			Increase/ (decrease)		Increase/(decrease) excluding currency translation	
	2019	2018	2017	**2019**	2018	**2019**	2018
GAAP earnings per share-diluted	**$ 7.88**	$ 7.54	$ 6.37	**5%**	18%	**7%**	18%
Income tax (benefit) cost, net	**(0.11)**	0.10	0.82				
Strategic charges	**0.07**	0.26	(0.53)				
Non-GAAP earnings per share-diluted	**$ 7.84**	$ 7.90	$ 6.66	**(1)%**	19%	**2%**	18%

Included in the 2019 results were:

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

Included in the 2018 results were:

- $75 million, or $0.10 per share, of net tax cost associated with the final 2018 adjustments to the provisional amounts recorded in December 2017 under the Tax Act;
- $140 million of pre-tax, non-cash impairment charges, or $0.17 per share; and
- $94 million of pre-tax strategic restructuring charges, or $0.09 per share.

Included in the 2017 results were:

- $700 million of net tax cost associated with the Tax Act, or $0.82 per share; and
- a pre-tax gain of $850 million on the sale of the Company’s businesses in China and Hong Kong, offset in part by $150 million of restructuring and impairment charges in connection with the Company’s global G&A and refranchising initiatives, for a net benefit of $0.53 per share.

Excluding the above 2019 and 2018 items, 2019 net income decreased 3% (1% in constant currencies), and diluted earnings per share decreased 1% (increased 2% in constant currencies). Excluding items impacting 2018 and 2017, 2018 net income increased 14% (14% in constant currencies), and diluted earnings per share increased 19% (18% in constant currencies).

The Company repurchased 25.0 million shares of its stock for $5.0 billion in 2019 and 32.2 million shares of its stock for $5.2 billion in 2018, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

The Company's revenues consist of sales by Company-operated restaurants and fees from franchised restaurants operated by conventional franchisees, developmental licensees and affiliates. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to developmental licensees and affiliates include a royalty based on a percent of sales, and generally include initial fees. Initial fees are recognized evenly over the franchise term.

Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2019. The Company's current mix of Company-owned and franchised restaurants enables the Company to generate stable and predictable revenue and cash flow streams. Refranchising to a greater percentage of franchised restaurants may negatively impact consolidated revenues as Company-operated sales are replaced by franchised revenues, where the Company receives rent and/or royalty revenue based on a percent of sales.

In 2019, revenues were relatively flat with the prior year (increased 3% in constant currencies). The constant currency increase was primarily due to strong comparable sales, partly offset by the impact of refranchising. In 2018, revenues decreased 8% (8% in constant currencies), reflecting the Company's strategic refranchising initiatives, partly offset by positive comparable sales.

Revenues

Dollars in millions	***2019*** Amount	*2018*	*2017*	Increase/ (decrease) ***2019***	*2018*	Increase/(decrease) excluding currency translation ***2019***	*2018*
Company-operated sales:							
U.S.	**$ 2,490**	$ 2,665	$ 3,260	**(7%)**	(18%)	**(7%)**	(18%)
International Operated Markets	**6,334**	6,668	6,845	**(5)**	(3)	**(1)**	(3)
International Developmental Licensed Markets & Corporate	**597**	680	2,614	**(12)**	(74) *	**(7)**	(75) *
Total	**$ 9,421**	$10,013	$12,719	**(6%)**	(21%)	**(3%)**	(22%)
Franchised revenues:							
U.S.	**$ 5,353**	$ 5,001	$ 4,746	**7%**	5%	**7%**	5%
International Operated Markets	**5,064**	4,839	4,271	**5**	13	**10**	11
International Developmental Licensed Markets & Corporate	**1,239**	1,172	1,084	**6**	8	**10**	11
Total	**$11,656**	$11,012	$10,101	**6%**	9%	**9%**	8%
Total revenues:							
U.S.	**$ 7,843**	$ 7,666	$ 8,006	**2%**	(4%)	**2%**	(4%)
International Operated Markets	**11,398**	11,507	11,116	**(1)**	4	**4**	2
International Developmental Licensed Markets & Corporate	**1,836**	1,852	3,698	**(1)**	(50) *	**4**	(50) *
Total	**$21,077**	$21,025	$22,820	**0%**	(8%)	**3%**	(8%)

* Reflects the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

- ***U.S.:*** Revenues in 2019 and 2018 reflected positive comparable sales. The impact of refranchising partly offset these benefits in 2019 and more than offset these benefits in 2018.
- ***International Operated Markets:*** In 2019 and 2018, the constant currency increase in revenues reflected positive comparable sales across all markets, partly offset by the impact of refranchising.

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

Comparable sales and guest count increases/(decreases)

	2019 ***Sales***	***Guest Counts***	*2018* *Sales*	*Guest Counts*	*2017* *Sales*	*Guest Counts*
U.S.	**5.0%**	**(1.9%)**	2.5%	(2.2%)	3.6%	1.0%
International Operated Markets	**6.1**	**3.5**	6.1	2.8	5.6	2.7
International Developmental Licensed Markets & Corporate**	**7.2**	**2.2**	5.6	1.0	8.0	2.5
Total**	**5.9%**	**1.0%**	4.5%	0.2%	5.3%	1.9%

** The Company excludes sales from markets identified as hyper-inflationary (currently, only Venezuela) from the comparable sales calculation as the Company believes this more accurately reflects the underlying business trends.

*Systemwide sales increases/(decreases)****

	2019	*2018*	Increase/(decrease) excluding currency translation ***2019***	*2018*
U.S.	**5%**	2%	**5%**	2%
International Operated Markets	**3**	10	**8**	8
International Developmental Licensed Markets & Corporate	**5**	6	**10**	9
Total	**4%**	6%	**7%**	6%

*** Unlike comparable sales, the Company has not excluded hyper-inflationary market results (currently, only Venezuela) from Systemwide sales as these sales are the basis on which the Company calculates and records revenues. The difference between comparable sales growth rates and Systemwide sales growth rates are due to both restaurant expansion and the hyper-inflationary impact.

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

Franchised sales

			Amount	Increase/ (decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	**2019**	2018	2017	**2019**	2018	**2019**	2018
U.S.	**$ 37,923**	$ 35,860	$ 34,379	**6%**	4%	**6%**	4%
International Operated Markets	**28,853**	27,557	24,386	**5**	13	**10**	11
International Developmental Licensed Markets & Corporate	**23,981**	22,717	19,426	**6**	17 *	**10**	20 *
Total	**$ 90,757**	$ 86,134	$ 78,191	**5%**	10%	**8%**	10%
Ownership type							
Conventional franchised	**$ 66,415**	$ 63,251	$ 59,151	**5%**	7%	**7%**	6%
Developmental licensed	**14,392**	13,519	12,546	**6**	8	**13**	13
Foreign affiliated	**9,950**	9,364	6,494	**6**	44 *	**7**	42 *
Total	**$ 90,757**	$ 86,134	$ 78,191	**5%**	10%	**8%**	10%

* Reflects the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

FRANCHISED MARGINS

Franchised margin dollars represent revenues from franchised restaurants less the Company's costs associated with those restaurants, primarily occupancy costs (rent and depreciation). Franchised margin dollars represented about 85% of the combined restaurant margins in 2019 and 2018, and about 80% in 2017.

In 2019, franchised margin dollars increased $416 million or 5% (7% in constant currencies). In 2018, franchised margin dollars increased $727 million or 9% (8% in constant currencies). For both 2019 and 2018, the increases were due to positive comparable sales performance across all segments, as well as expansion and the impact of refranchising.

Franchised margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	**2019**		2018		2017		**2019**	2018	**2019**	2018
U.S.	**$4,227**	**79.0%**	$4,070	81.4%	$3,913	82.4%	**4%**	4%	**4%**	4%
International Operated Markets	**4,018**	**79.3**	3,829	79.1	3,365	78.8	**5**	14	**10**	11
International Developmental Licensed Markets & Corporate	**1,210**	**97.7**	1,140	97.3	1,034	95.4	**6**	10	**11**	13
Total	**$9,455**	**81.1%**	$9,039	82.1%	$8,312	82.3%	**5%**	9%	**7%**	8%

The adoption of Accounting Standard Codification ("ASC") Topic 842, "Leases" ("ASC 842") had no impact on franchised margin dollars, but had a negative impact on the Company's franchised margin percent for 2019 of approximately 1.3% in the U.S. and 0.7% on a consolidated basis. ASC 842 clarified the presentation of sub-lease income and lease expense, requiring the straight-line impact of fixed rent escalations to be presented on a gross basis in lease income and lease expense.

- ***U.S.:*** In 2019 and 2018, the decreases in the franchised margin percents were primarily due to higher depreciation costs related to investments in EOTF, partly offset by the benefit from positive comparable sales. 2019 also reflected the impact of the new lease standard.
- ***International Operated Markets:*** In 2019 and 2018, the increases in the franchised margin percent primarily reflected the benefit from strong comparable sales.

COMPANY-OPERATED MARGINS

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. In 2019, Company-operated margin dollars decreased $87 million or 5% (2% in constant currencies). In 2018, Company-operated margin dollars decreased $562 million or 24% (25% in constant currencies) primarily reflecting the Company's sale of its businesses in China and Hong Kong in 2017.

Company-operated margins

	Amount	% of Revenue	Amount	% of Revenue	Amount	% of Revenue	Increase/ (decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	***2019***		*2018*		*2017*		***2019***	*2018*	***2019***	*2018*
U.S.	**$ 388**	**15.6%**	$ 397	14.9%	$ 523	16.0%	**(2%)**	(24%)	**(2%)**	(24%)
International Operated Markets	**1,266**	**20.0**	1,327	19.9	1,336	19.5	**(5)**	(1)	**(1)**	(1)
International Developmental Licensed Markets & Corporate	**n/m**	**n/m**	n/m	n/m	n/m	n/m	**n/m**	n/m	**n/m**	n/m
Total	**$1,660**	**17.6%**	$1,747	17.4%	$2,309	18.2%	**(5%)**	(24%)	**(2%)**	(25%)

n/m Not meaningful

- ***U.S.:*** In 2019, the increase in the Company-operated margin percent primarily reflected the benefit from positive comparable sales, partly offset by higher commodity costs, wages and depreciation expense associated with EOTF deployment. In 2018, the Company-operated margin percent decreased, reflecting the impact of accelerated deployment of EOTF (including the related decrease in labor productivity and higher depreciation expense), and higher wages and commodity costs, which more than offset the benefit from positive comparable sales and refranchising.
- ***International Operated Markets:*** In 2019 and 2018, the increase in the Company-operated margin percent was primarily due to strong comparable sales partly offset by higher labor and occupancy & other costs.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses increased 1% (3% in constant currencies) in 2019 and decreased 1% (2% in constant currencies) in 2018. The results for 2019 and 2018 reflected investments in technology and research & development. The decrease in 2018 also reflected lower employee-related costs, partly offset by costs related to the 2018 Worldwide Owner/Operator Convention and sponsorship of the 2018 Winter Olympics.

Selling, general & administrative expenses

			Amount	Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	***2019***	*2018*	*2017*	***2019***	*2018*	***2019***	*2018*
U.S.	**$ 587**	$ 591	$ 624	**(1%)**	(5%)	**(1%)**	(5%)
International Operated Markets	**629**	641	654	**(2)**	(2)	**3**	(4)
International Developmental Licensed Markets & Corporate[(1)]	**1,013**	968	953	**5**	2	**5**	2
Total Selling, General & Administrative Expenses	**$2,229**	$2,200	$2,231	**1%**	(1%)	**3%**	(2%)
Less: Incentive-Based Compensation[(2)]	**289**	284	336	**2%**	(16%)	**3%**	(16%)
Total Excluding Incentive-Based Compensation	**$1,940**	$1,916	$1,895	**1%**	1%	**3%**	1%

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

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

Selling, general and administrative expenses as a percent of Systemwide sales was 2.2% in 2019, 2.3% in 2018 and 2.5% in 2017. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	2019	2018	2017
Gains on sales of restaurant businesses	$ (127)	$ (304)	$ (295)
Equity in earnings of unconsolidated affiliates	(154)	(152)	(184)
Asset dispositions and other (income) expense, net	23	(13)	19
Impairment and other charges (gains), net	74	232	(703)
Total	$ (184)	$ (237)	$ (1,163)

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

In 2019, gains on sales of restaurant businesses decreased primarily due to fewer restaurant sales in the U.S.

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

In 2019, impairment and other charges (gains), net primarily reflected $99.4 million of impairment associated with the purchase of our joint venture partner's interest in the India Delhi market. Impairment was recorded to reflect the write-down of net assets to fair value in accordance with accounting rules. This was partly offset by $20.3 million of gains on the sales of property at the former Corporate headquarters which were impaired in 2015 based on estimated fair values.

The results in 2018 reflected $140 million of impairment charges due to the Company’s assessment of the recoverability of long-lived assets as well as the strategic restructuring charge in the U.S. of $85.0 million.

The results in 2017 reflected a gain on the Company's sale of its businesses in China and Hong Kong of $850 million, partly offset by $150 million of restructuring and impairment charges.

OPERATING INCOME

Operating income

	Amount			Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	2019	2018	2017	2019	2018	2019	2018
U.S.	$4,069	$4,016	$4,023	1%	0%	1%	0%
International Operated Markets	4,789	4,643	4,173	3	11	8	9
International Developmental Licensed Markets & Corporate	212	164	1,357	29	(88)	59	(86)
Total	$9,070	$8,823	$9,553	3%	(8%)	6%	(8%)

- ***Operating Income:*** Results for 2019 included $74 million of net impairment and strategic charges. Results for 2018 included $140 million of impairment charges and $94 million of strategic restructuring charges. Results for 2017 included a gain on the Company's sale of its businesses in China and Hong Kong of $850 million, partly offset by $150 million of restructuring and impairment charges. Excluding these current year and prior year items, operating income increased 1% (4% in constant currencies) for 2019 and increased 2% (2% in constant currencies) for 2018.
  - ***U.S.:*** Excluding the 2018 strategic restructuring charge of $85 million, operating income decreased 1% for 2019 and increased 2% for 2018. 2019 results reflected lower gains on sales of restaurant businesses, partly offset by higher franchised margin dollars. 2018 results reflected higher franchised margin dollars and lower G&A costs, partly offset by lower Company-operated margin dollars.
  - ***International Operated Markets:*** In 2019 and 2018, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars. 2018 results also reflected higher gains on sales of restaurant businesses in the U.K. and Australia compared to 2017.
- ***Operating margin:*** Operating margin was 43.0% in 2019, 42.0% in 2018 and 41.9% in 2017. Excluding the impact of the current and prior year impairment and strategic charges, as well as the 2017 refranchising gain, operating margin was 43.4%, 43.1% and 38.8% for the years ended 2019, 2018 and 2017, respectively.

INTEREST EXPENSE

Interest expense increased 14% (16% in constant currencies) and 7% (6% in constant currencies) in 2019 and 2018, respectively. Both periods reflected higher average debt balances. Interest expense in 2019 also reflected the impact of interest incurred on certain Euro denominated deposits due to the current interest rate environment, while 2018 results reflected lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2019***	*2018*	*2017*
Interest income	**$ (37)**	$ (4)	$ (7)
Foreign currency and hedging activity	**(48)**	5	26
Other expense	**15**	25	39
Total	**$ (70)**	$ 26	$ 58

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

PROVISION FOR INCOME TAXES

In 2019, 2018 and 2017, the reported effective income tax rates were 24.9%, 24.2% and 39.4%, respectively.

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

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

Excluding these current year and prior year items, the lower effective income tax rate for 2018 primarily reflected a benefit from a change in tax reserves as a result of global audit progression, as well as lower tax costs in 2018 related to ongoing taxes under the Tax Act.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $5.3 billion in 2019 and $2.0 billion in 2018. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included on page 39 of this Form 10-K.

CASH FLOWS

The Company generates significant cash from its operations and has substantial credit availability and capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases.

Cash provided by operations totaled $8.1 billion in 2019, an increase of $1.1 billion or 17%. Free cash flow was $5.7 billion in 2019, an increase of $1.5 billion or 36%. The Company's free cash flow conversion rate was 95% in 2019 and 71% in 2018 (see reconciliation in Exhibit 12). Cash provided by operations increased in 2019 compared to 2018 primarily due to a decrease in accounts receivable and lower income tax payments. In 2018, cash provided by operations totaled $7.0 billion, an increase of $1.4 billion or 25% compared with 2017, primarily due to lower tax payments.

Cash used for investing activities totaled $3.1 billion in 2019, an increase of $616 million compared with 2018. The increase was primarily due to the Company's strategic acquisitions of a real estate entity, Dynamic Yield and Apprente, partly offset by lower capital expenditures. Cash used for investing activities totaled $2.5 billion in 2018, an increase of $3.0 billion compared with 2017. The increase was primarily due to lower proceeds from the sale of restaurant businesses in 2018 including the comparison to the proceeds received in 2017 associated with the sale of the Company's businesses in China and Hong Kong, as well as higher capital expenditures.

Cash used for financing activities totaled $5.0 billion in 2019, a decrease of $955 million compared with 2018, primarily due to net debt activity. Cash used for financing activities totaled $5.9 billion in 2018, an increase of $639 million compared with 2017, primarily due to higher treasury stock purchases.

The Company's cash and equivalents balance was $899 million and $866 million at year end 2019 and 2018, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2019, the Company opened 1,231 restaurants and closed 391 restaurants. In 2018, the Company opened 1,081 restaurants and closed 467 restaurants.

Systemwide restaurants at year end

	2019	*2018*	*2017*
U.S.	**13,846**	13,914	14,036
International Operated Markets	**10,465**	10,263	10,098
International Developmental Licensed Markets & Corporate	**14,384**	13,678	13,107
Total	**38,695**	37,855	37,241

Approximately 93% of the restaurants at year-end 2019 were franchised, including 95% in the U.S., 84% in International Operated Markets and 98% in the International Developmental Licensed Markets.

Capital expenditures decreased $348 million or 13% in 2019 primarily due to lower reinvestment in existing restaurants, partly offset by an increase in new restaurant openings that required the Company's capital. Capital expenditures increased $888 million or 48% in 2018, primarily due to reinvestment in existing restaurants (including investment in EOTF).

Capital expenditures

In millions	***2019***	*2018*	*2017*
New restaurants	**$ 605**	$ 488	$ 537
Existing restaurants	**1,702**	2,111	1,236
Other[(1)]	**87**	143	81
Total capital expenditures	**$ 2,394**	$ 2,742	$ 1,854
Total assets	**$ 47,511**	$ 32,811	$ 33,804

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

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald's restaurants in the U.S. averaged approximately $4.0 million in 2019.

The Company owned approximately 55% and 50% of the land for restaurants in its consolidated markets at year-end 2019 and 2018, respectively, and approximately 80% of the buildings for restaurants in its consolidated markets at year-end 2019 and 2018.

SHARE REPURCHASES AND DIVIDENDS

In 2019, the Company returned approximately $8.6 billion to shareholders through a combination of shares repurchased and dividends paid, marking the achievement of the Company's targeted return of $25 billion for the three-year period ended 2019.

Shares repurchased and dividends

In millions, except per share data	***2019***	*2018*	*2017*
Number of shares repurchased	**25.0**	32.2	31.4
Shares outstanding at year end	**746**	767	794
Dividends declared per share	**$ 4.73**	$ 4.19	$ 3.83
Treasury stock purchases *(in Shareholders' equity)*	**$ 4,980**	$ 5,247	$ 4,651
Dividends paid	**3,582**	3,256	3,089
Total returned to shareholders	**$ 8,562**	$ 8,503	$ 7,740

In July 2017, the Company's Board of Directors authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2019, approximately 25.0 million shares were repurchased for $5.0 billion, bringing total purchases under the program to approximately 74.5 million shares or $12.9 billion. In December 2019, the Company's Board of Directors terminated the 2017 program and replaced it with a new share repurchase program, effective January 1, 2020, that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date.

The Company has paid dividends on its common stock for 44 consecutive years and has increased the dividend amount every year. The 2019 full year dividend of $4.73 per share reflects the quarterly dividend paid for each of the first three quarters of $1.16 per share, with an increase to $1.25 per share paid in the fourth quarter. This 8% increase in the quarterly dividend equates to a $5.00 per share annual dividend and reflects the Company's confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company's Board of Directors.

FINANCIAL POSITION AND CAPITAL RESOURCES

TOTAL ASSETS

Total assets increased $14.7 billion or 45% in 2019, primarily due to the addition of the Lease Right-of-Use Asset, Net, which was recorded upon adoption of ASC 842 effective January 1, 2019. Refer to the Lease Accounting section under Recent Accounting Pronouncements on page 39 for additional information on ASC 842. Net property and equipment increased $1.3 billion in 2019, primarily due to capital expenditures, partly offset by depreciation. Net property and equipment and the Lease Right-of-Use Asset, Net represented over 50% and approximately 30%, respectively, of total assets at year-end. Approximately 93% of total assets were in the U.S. and International Operated Markets at year-end 2019.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2019 totaled $34.2 billion, compared with $31.1 billion at December 31, 2018. The net increase in 2019 was primarily due to net long-term issuances of $2.5 billion.

Debt highlights[1]

	2019	2018	2017
Fixed-rate debt as a percent of total debt[2,3]	**92%**	91%	89%
Weighted-average annual interest rate of total debt[3]	**3.2**	3.2	3.3
Foreign currency-denominated debt as a percent of total debt[2]	**38**	38	42
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)[2]	**131**	125	112
Cash provided by operations as a percent of total debt[2]	**24**	22	19

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

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

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

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

Certain of the Company's debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company's debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company's business. In October 2016, the Company's Board of Directors authorized the borrowing of up to $15.0 billion of funds, of which $1.9 billion remained outstanding as of December 31, 2019. In December 2019, the Company's Board of Directors terminated the 2016 borrowing authority and authorized a new $15 billion of borrowing capacity with no specified expiration date. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $3.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). In 2020, the Company plans to issue long-term debt to refinance $2.4 billion of maturing corporate debt. As of December 31, 2019, the Company's subsidiaries also had $242 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

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

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders' equity. Total foreign currency-denominated debt was $12.9 billion and $11.8 billion for the years ended December 31, 2019 and 2018, respectively. In addition, where practical, the Company's restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2019, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

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

Foreign currency net asset exposures

In millions of U.S. Dollars	**2019**	*2018*
British Pounds Sterling	**$ 811**	$ 1,840
Canadian Dollars	**699**	684
Russian Ruble	**577**	631
Australian Dollars	**560**	1,499
Polish Zloty	**396**	340

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2019 levels nor a 10% adverse change in foreign currency rates from 2019 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

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

The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $425 million as of December 31, 2019.

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

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Minimum rent under franchise arrangements are based on the Company's underlying investment in owned sites and parallel the Company's underlying lease obligations and escalations on properties that are leased. The Company believes that control over the real estate enables it to achieve restaurant performance levels that are amongst the highest in the industry. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2019.

	Contractual cash outflows		*Contractual cash inflows*
In millions	*Operating leases* (1)	*Debt obligations* (2)	*Minimum rent under franchise arrangements*
2020	$ 1,147	$ 59	$ 3,008
2021	1,096	2,132	2,884
2022	1,014	2,250	2,750
2023	933	6,007	2,631
2024	854	2,819	2,541
Thereafter	7,090	21,038	20,510
Total	$ 12,134	$ 34,305	$ 34,324

(1) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2019. In addition, future minimum payments exclude option periods that have not yet been exercised.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of $3.5 billion, as they are supported by a long-term line of credit agreement expiring in December 2023. Debt obligations do not include the impact of non-cash fair value hedging adjustments, deferred debt costs and accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2019, total liabilities for the supplemental plans were $435 million.

At December 31, 2019, total liabilities for gross unrecognized tax benefits were $1.4 billion.

There are certain purchase commitments that are not recognized in the consolidated financial statements and are primarily related to construction, inventory, energy, marketing and other service related arrangements that occur in the normal course of business. Such commitments are generally shorter term in nature, will be funded from operating cash flows, and are not significant to the Company's overall financial position.

The Company also has guaranteed certain other loans totaling approximately $75 million at December 31, 2019. These guarantees are contingent commitments generally issued by the Company to support borrowing arrangements of the System. At December 31, 2019, there was no carrying value for obligations under these guarantees in the Consolidated Balance Sheet.

OTHER MATTERS

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

- ***Property and equipment***

Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will generate revenue (not to exceed lease term plus options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The Company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment, or if technological changes occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the accelerated recognition of depreciation and amortization expense or write-offs in future periods.

- ***Leasing Arrangements***

The Company is the lessee in a significant real estate portfolio, primarily through ground leases (the Company leases the land and generally owns the building) and through improved leases (the Company leases the land and buildings). The Right of Use Asset and Lease Liability reflect the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate.

Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment.

- ***Share-based compensation***

The Company has a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units ("RSUs") to employees and nonemployee directors. The expense for these equity-based incentives is based on their fair value at date of grant and generally amortized over their vesting period. The Company estimates forfeitures when determining the amount of compensation costs to be recognized in each period.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company's stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

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

Long-lived assets (including goodwill) are reviewed for impairment annually in the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the Company's long-lived assets, the Company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are highly subjective judgments based on the Company's experience and knowledge of its operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. A key assumption impacting estimated future cash flows is the estimated change in comparable sales. If the Company's estimates or underlying assumptions change in the future, the Company may be required to record impairment charges. Based on the annual goodwill impairment test, conducted in the fourth quarter, the Company does not have any reporting units (defined as each individual market) with risk of material goodwill impairment.

- ***Litigation accruals***

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

- ***Income taxes***

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

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The most significant new developments in 2019 and 2018 are described below.

In 2019 and 2018, the Company increased the balance of unrecognized tax benefits by $96 million and $162 million, respectively. In both 2019 and 2018, there was audit progression in the U.S. federal and state audits, as well as multiple foreign tax jurisdictions. The Company has considered this new information in evaluating the unrecognized tax benefits and in certain situations, the Company changed its judgment on the measurement of the related unrecognized tax benefits. These changes have been reflected in the Unrecognized Tax Benefits table that is included in the Income Taxes footnote on page 50.

In 2015, the Internal Revenue Service (“IRS”) issued a Revenue Agent Report (“RAR”) that included certain disagreed transfer pricing adjustments related to the Company’s U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and during 2019, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2019, the Company does not yet have a signed closing agreement with the IRS related to the settlement of these issues. The Company expects resolution on these issues in 2020.

In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process, such that resolution is expected in 2020.

While the Company cannot predict the ultimate resolution of the aforementioned tax matters, we believe that the liabilities recorded are appropriate and adequate as determined in accordance with Topic 740 - Income Taxes of the ASC.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in Staff Accounting Bulletin ("SAB") 118. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability for each of its foreign subsidiaries, resulting in a transition tax liability of approximately $1.2 billion at December 31, 2017.

Upon further analysis of the Tax Act and notices and regulations issued and proposed by the IRS and the U.S. Department of the Treasury, the Company finalized its calculations of the transition tax liability during 2018 and increased its December 31, 2017 provisional amount by approximately $75 million. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

EFFECTS OF CHANGING PRICES—INFLATION

The Company has demonstrated an ability to manage inflationary cost increases effectively. This ability is because of rapid inventory turnover, the ability to adjust menu prices, cost controls and substantial property holdings, many of which are at fixed costs and partly financed by debt made less expensive by inflation.

SELECTED FINANCIAL DATA

5-Year Summary

In millions, except per share and unit amounts	Years ended December 31, **2019**	2018	2017	2016	2015
Consolidated Statement of Income Data					
Revenues					
Sales by Company-operated restaurants	**$ 9,421**	$ 10,013	$ 12,719	$ 15,295	$ 16,488
Revenues from franchised restaurants	**11,656**	11,012	10,101	9,327	8,925
Total revenues	**21,077**	21,025	22,820	24,622	25,413
Operating income	**9,070**	8,823	9,553	7,745	7,146
Net income	**6,025**	5,924	5,192	4,687	4,529
Consolidated Statement of Cash Flows Data					
Cash provided by operations	**$ 8,122**	$ 6,967	$ 5,551	$ 6,060	$ 6,539
Cash used for (provided by) investing activities	**3,071**	2,455	(562)	982	1,420
Capital expenditures	**2,394**	2,742	1,854	1,821	1,814
Cash used for (provided by) financing activities	**4,995**	5,950	5,311	11,262	(735)
Treasury stock purchases(1)	**4,980**	5,247	4,651	11,142	6,182
Common stock dividends	**3,582**	3,256	3,089	3,058	3,230
Financial Position					
Total assets(2)	**$ 47,511**	$ 32,811	$ 33,804	$ 31,024	$ 37,939
Total debt	**34,177**	31,075	29,536	25,956	24,122
Total shareholders' equity (deficit)	**(8,210)**	(6,258)	(3,268)	(2,204)	7,088
Shares outstanding	**746**	767	794	819	907
Per Common Share Data					
Earnings-diluted	**$ 7.88**	$ 7.54	$ 6.37	$ 5.44	$ 4.80
Dividends declared	**4.73**	4.19	3.83	3.61	3.44
Market price at year end	**197.61**	177.57	172.12	121.72	118.44
Restaurant Information and Other Data					
Restaurants at year end					
Company-operated restaurants	**2,636**	2,770	3,133	5,669	6,444
Franchised restaurants	**36,059**	35,085	34,108	31,230	30,081
Total Systemwide restaurants	**38,695**	37,855	37,241	36,899	36,525
Franchised sales(3)	**$ 90,757**	$ 86,134	$ 78,191	$ 69,707	$ 66,226

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

(2) Total assets increased from 2018 to 2019 primarily due to the Company's right-of-use asset recorded as a result of the adoption of ASC 842.

(3) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent 93% of McDonald's restaurants worldwide at December 31, 2019.

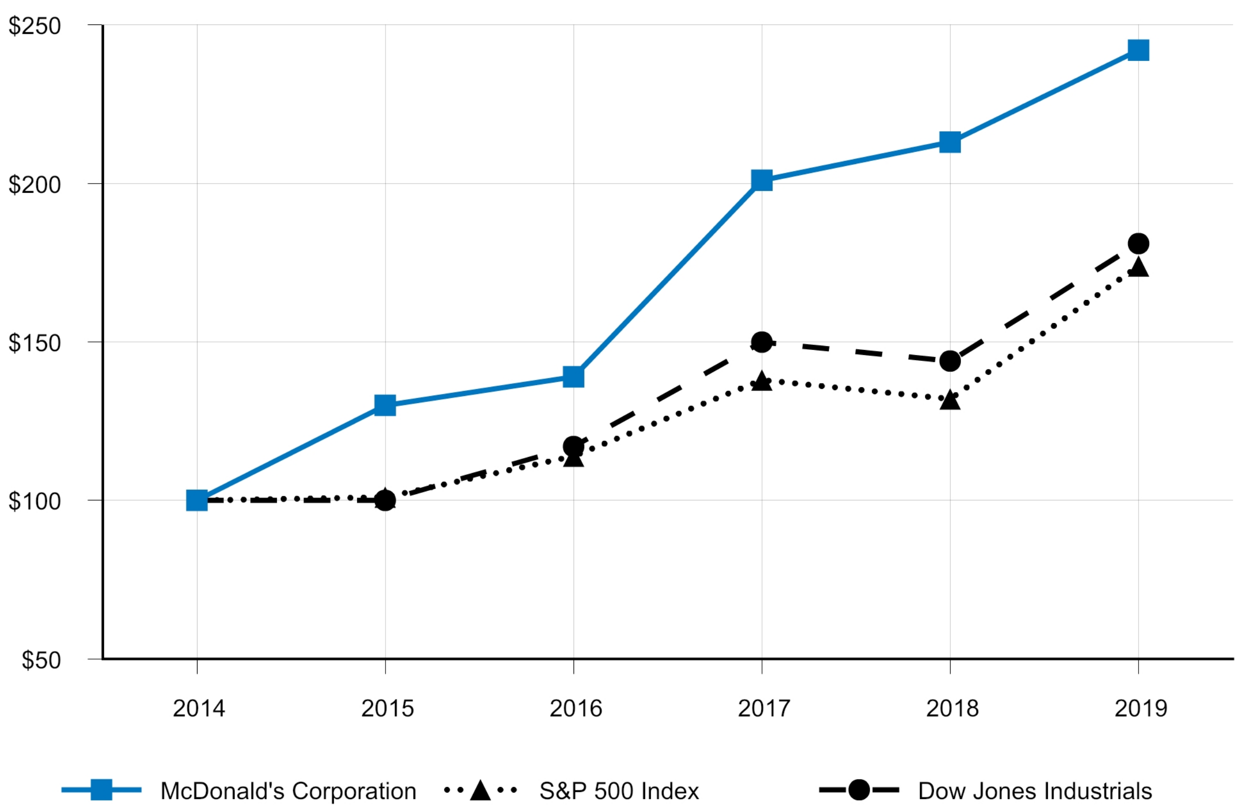
STOCK PERFORMANCE GRAPH

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

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

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2019. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2014. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

Comparison of Cumulative Five-Year Total Return



Company/Index	12/31/2014	12/31/2015	12/31/2016	12/31/2017	12/31/2018	12/31/2019
McDonald's Corporation	$100	$130	$139	$201	$213	$242
S&P 500 Index	$100	$101	$114	$138	$132	$174
Dow Jones Industrials	$100	$100	$117	$150	$144	$181

Source: S&P Capital IQ

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

MARKET INFORMATION AND DIVIDEND POLICY

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

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2020 was estimated to be 2,500,000.

Given the Company’s returns on incremental invested capital and significant cash provided by operations, management believes it is prudent to reinvest in the business to drive profitable growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 44 consecutive years through 2019 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2019*:

Period	*Total Number of Shares Purchased*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)*	*Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)*
October 1-31, 2019	2,393,580	208.93	2,393,580	$ 2,943,051,009
November 1-30, 2019	2,886,335	193.60	2,886,335	2,384,270,449
December 1-31, 2019	1,787,824	195.90	1,787,824	2,034,034,984
Total	7,067,739	199.37	7,067,739	

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

(1) On July 27, 2017, the Company's Board of Directors approved a share repurchase program, effective July 28, 2017 ("2017 Program"), that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date. On December 6, 2019, the Company's Board of Directors terminated the 2017 Program, effective December 31, 2019, and replaced it with a new share repurchase program, effective January 1, 2020 ("2020 Program"), that authorized the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date. As of December 31, 2019, no further share repurchases may be made under the 2017 Program; future share repurchases will be made pursuant to the 2020 program.

RISK FACTORS

If we do not successfully evolve and execute against our business strategies, including under the Velocity Growth Plan, we may not be able to increase operating income.

To drive operating income growth, our business strategies must be effective in maintaining and strengthening customer appeal, delivering sustainable guest count growth and driving a higher average check. Whether these strategies are successful depends mainly on our System's ability to:

- Continue to innovate and differentiate the McDonald's experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;
- Utilize our organizational structure to build on our progress and execute against our business strategies;
- Integrate and augment our technology and digital initiatives, including mobile ordering and delivery;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants;
- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations, create efficiencies through innovative use of technology and complete Experience of the Future ("EOTF"), particularly in the U.S.; and
- Accelerate our existing strategies, including through growth opportunities, acquisitions, investments and partnerships.

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

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

Our long-term business objectives depend on the successful Systemwide execution of our strategies. We continue to build upon our investments in technology and modernization, including in EOTF (which focuses on restaurant modernization), digital engagement and delivery, in order to transform the customer experience. As part of these investments, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to refine our delivery initiatives, including through growing awareness and trial, and to enhance our drive-thru technologies, which may not generate expected returns. If these initiatives are not well executed, or if we do not fully realize the intended benefits of these significant investments, our business results may suffer.

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

Our continued success depends on our System's ability to retain, regain and convert customers. In order to do so, we need to anticipate and respond effectively to continuously shifting consumer demographics and trends in food sourcing, food preparation, food offerings and consumer preferences in the "informal eating out" ("IEO") segment. If we are not able to predict, or quickly and effectively respond to, these changes, or our competitors predict or respond more effectively, our financial results could be adversely impacted.

Our ability to retain, regain and convert customers also depends on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, and the value proposition they represent, are expected to continue to be important components of our business strategy; however, they may not be successful in retaining, regaining and converting customers, or may not be as successful as the efforts of our competitors, and could negatively impact sales, guest counts and market share.

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

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

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, the manner in which we source commodities and our general business practices. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health, environmental and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand, generally or relative to available alternatives. Consumer perceptions may also be affected by adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our operations, our suppliers, or our franchisees. If we are unsuccessful in addressing adverse commentary or perceptions, whether or not accurate, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require Systemwide coordination and alignment. We are working to manage any risks and costs to us, our franchisees and our supply chain of any effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include any increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include any increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks.

If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices, whether actual or perceived, that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

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

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

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

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

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

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

Supply chain interruptions may increase costs or reduce revenues.

We depend on the effectiveness of our supply chain management to assure reliable and sufficient supply of quality products on favorable terms. Although many of the products we sell are sourced from a wide variety of suppliers in countries around the world, certain products have limited suppliers, which may increase our reliance on those suppliers. Supply chain interruptions, including shortages and transportation issues, and price increases can adversely affect us as well as our suppliers and franchisees, whose performance may have a significant impact on our results. Such shortages or disruptions could be caused by factors beyond the control of our suppliers, franchisees or us. If we experience interruptions in our System's supply chain, our costs could increase and it could limit the availability of products critical to our System's operations.

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

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

Our franchise business model presents a number of risks.

The Company's success as a heavily franchised business relies to a large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us.

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

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

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

Challenges with respect to talent management could harm our business.

Effective succession planning is important to our long-term success. The Board named Christopher Kempczinski as President and Chief Executive Officer and named Joseph Erlinger as President, McDonald's USA, effective as of November 1, 2019. In addition, on December 6, 2019, the Board named Ian Borden as President, International, effective that same day. Failure to effectively identify, develop and retain key personnel, recruit high-quality candidates and ensure smooth management and personnel transitions, including the recent leadership transitions, could disrupt our business and adversely affect our results.

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

Our success depends in part on our System's ability to proactively recruit, motivate and retain qualified individuals to work in McDonald's restaurants and to maintain appropriately-staffed restaurants in an intensely competitive environment. In many of our markets, unemployment is low and demand is high for labor. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants, as well as costs to promote awareness of the opportunities of working at McDonald's restaurants, could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

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

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

We are increasingly reliant upon technology systems, such as point-of-sale, technologies supporting McDonald's digital and delivery solutions, and technologies that facilitate communication and collaboration with affiliated entities, customers, employees, franchisees, suppliers, service providers or other independent third parties to conduct our business, whether developed and maintained by us or provided by third parties. Any failure or interruption of these systems could significantly impact our franchisees' operations, or our customers' experience and perceptions. Additionally, we provide certain technology systems to businesses that are unaffiliated with the McDonald's System and a failure, interruption or breach of these systems may cause harm to those unaffiliated parties, which may result in liability to the Company or reputational harm.

Despite the implementation of security measures, those technology systems could become vulnerable to damage, disability or failures due to theft, fire, power loss, telecommunications failure or other catastrophic events. Certain technology systems may also become vulnerable, unreliable or inefficient in cases where technology vendors limit or terminate product support and maintenance. Our increasing reliance on third party systems also present the risks faced by the third party's business, including the operational, security and credit risks of those parties. If those systems were to fail or otherwise be unavailable, and we were unable to recover in a timely manner, we could experience an interruption in our or our franchisees' operations.

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

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

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

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

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

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

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

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.'s decision to leave the European Union, whether through a negotiated exit over a period of time or without any agreement in place to govern post-exit relations, it is possible that there will be increased regulatory complexities, particularly in the event that the U.K. leaves the European Union without any agreement in place, as well as potential additional referenda in the U.K. and/or other European countries, that could cause uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue, and may result in increased supply chain costs for items that are imported from other countries. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

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

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

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

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

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

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

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

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

Our regulatory and legal environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. Many of our markets are subject to increasing, conflicting and highly prescriptive regulations involving, among other matters, product packaging, marketing, the nutritional and allergen content and safety of our food and other products, labeling and other disclosure practices. Compliance efforts with those regulations may be affected by ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of information from third-party suppliers. Our success depends in part on our ability to manage the impact of regulations that can affect our business plans and operations, and have increased our costs of doing business and exposure to litigation, governmental investigations or other proceedings.

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

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

Our results could also be affected by the following:

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

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

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

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

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

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

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

New accounting standards or changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, could adversely affect our future results. We may also be affected by the nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment or other charges that reduce our earnings. In assessing the recoverability of our long-lived assets, we consider changes in economic conditions and make assumptions regarding estimated future cash flows and other factors. These estimates are highly subjective and can be significantly impacted by many factors such as global and local business and economic conditions, operating costs, inflation, competition, consumer and demographic trends, and our restructuring activities. If our estimates or underlying assumptions change in the future, we may be required to record impairment charges. If we experience any such changes, they could have a significant adverse effect on our reported results for the affected periods.

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

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

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

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

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

- The unpredictable nature of global economic and market conditions;
- Governmental action or inaction in light of key indicators of economic activity or events that can significantly influence financial markets, particularly in the U.S., which is the principal trading market for our common stock, and media reports and commentary about economic, trade or other matters, even when the matter in question does not directly relate to our business;
- Trading activity in our common stock or trading activity in derivative instruments with respect to our common stock or debt securities, which can be affected by market commentary (including commentary that may be unreliable or incomplete); unauthorized disclosures about our performance, plans or expectations about our business; our actual performance and creditworthiness; investor confidence, driven in part by expectations about our performance; actions by shareholders and others seeking to influence our business strategies; portfolio transactions in our stock by significant shareholders; or trading activity that results from the ordinary course rebalancing of stock indices in which McDonald’s may be included, such as the S&P 500 Index and the Dow Jones Industrial Average;
- The impact of our stock repurchase program or dividend rate; and
- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies, including through acquisitions, in light of changing business, legal and tax considerations and evolve our corporate structure.

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

Severe weather conditions, natural disasters, hostilities and social unrest, any shifting climate patterns, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. For example, the recent outbreak of the coronavirus in China has disrupted local operations, and neither the duration nor scope of the disruption can be predicted. Therefore, while we expect this matter to negatively impact our results, the related financial impact cannot be reasonably estimated at this time. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

LEGAL PROCEEDINGS

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

- ***Franchising***

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

- ***Suppliers***

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

- ***Employees***

Hundreds of thousands of people are employed by the Company and in restaurants owned and operated by subsidiaries of the Company. In addition, thousands of people from time to time seek employment in such restaurants. In the ordinary course of business, disputes arise regarding hiring, termination, promotion and pay practices, including wage and hour disputes, alleged discrimination and compliance with labor and employment laws.

- ***Customers***

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

- ***Intellectual Property***

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

- ***Government Regulations***

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

PROPERTIES

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

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

Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 6 through 21 and in Financial Statements and Supplementary Data on pages 33 through 58 of this Form 10-K.

INFORMATION ABOUT OUR EXECUTIVE OFFICERS

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

Ian Borden, 51, is President, International, a position he has held since January 2020. Prior to that, Mr. Borden served as President - International Developmental Licensed Markets, from January 2019 through December 2019. Prior to that, Mr. Borden served as President - Foundational Markets, from July 2015 through December 2018. From January 2014 through June 2015, Mr. Borden served as Vice President and Chief Financial Officer - McDonald's Asia/Pacific, Middle East and Africa. Prior to that time, Mr. Borden served as Regional Vice President of Europe's East Division from April 2011 to December 2013 and as Managing Director - McDonald's Ukraine from December 2007 to December 2013. He has served the Company for 25 years.

Francesca A. DeBiase, 54, is Corporate Executive Vice President - Worldwide Supply Chain and Sustainability, a position she has held since April 2018. Prior to that, Ms. DeBiase served as Corporate Senior Vice President - Worldwide Supply Chain and Sustainability, from March 2015 through March 2018. From August 2007 through February 2015, Ms. DeBiase served as Corporate Vice President - Worldwide Strategic Sourcing. Prior to that, Ms. DeBiase served as Europe Vice President - Supply Chain, from January 2006 through July 2007. Ms. DeBiase has served the Company for 28 years.

Joseph Erlinger, 46, is President, McDonald's USA, a position he has held since November 2019. Prior to that, Mr. Erlinger served as President - International Operated Markets, from January 2019 through October 2019 and President - High Growth Markets, from September 2016 through December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets (serving in dual roles from September 2016 through January 2017), as Managing Director of McDonald's Korea from April 2013 to January 2016 (serving in dual roles from March 2015 through January 2016), and US Vice President - GM for the Indianapolis region from December 2010 to March 2013. Mr. Erlinger has served the Company for 18 years.

Daniel Henry, 49, is Corporate Executive Vice President - Chief Information Officer, a position he has held since May 2018. From October 2017 through April 2018, Mr. Henry served as Corporate Vice President - Chief Information Officer. Prior to that, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture at American Airlines from April 2012 to October 2017. Mr. Henry has served the Company for 2 years.

Catherine Hoovel, 49, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Prior to that time, Ms. Hoovel served as a Senior Director of Finance from February 2012 to April 2014 and was a Divisional Director from August 2010 to February 2012. Ms. Hoovel has served the Company for 24 years.

Christopher Kempczinski, 51, is President and Chief Executive Officer, a position he has held since November 2019. Prior to that, Mr. Kempczinski served as President, McDonald's USA from December 2016 through October 2019 and Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, a manufacturer and marketer of food and beverage products, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Prior to that, Mr. Kempczinski served as President of Kraft Canada from July 2012 through December 2014 and as Senior Vice President - U.S. Grocery from December 2008 to July 2012. Mr. Kempczinski has served the Company for 4 years.

Jerome Krulewitch, 55, is Corporate Executive Vice President, General Counsel and Secretary, a position he has held since March 2017. From May 2011 until March 2017, Mr. Krulewitch served as Corporate Senior Vice President - Chief Counsel, Global Operations. Prior to that, Mr. Krulewitch was Corporate Senior Vice President - General Counsel, The Americas from September 2010 to April 2011. Mr. Krulewitch has served the Company for 18 years.

Kevin Ozan, 56, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 22 years.

AVAILABILITY OF COMPANY INFORMATION

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

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

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

Information on the Company's website is not incorporated into this Form 10-K or the Company's other securities filings unless expressly noted.

Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data *Years ended December 31,*	***2019***	*2018*	*2017*
REVENUES			
Sales by Company-operated restaurants	**$ 9,420.8**	$ 10,012.7	$ 12,718.9
Revenues from franchised restaurants	**11,655.7**	11,012.5	10,101.5
Total revenues	**21,076.5**	21,025.2	22,820.4
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**2,980.3**	3,153.8	4,033.5
Payroll & employee benefits	**2,704.4**	2,937.9	3,528.5
Occupancy & other operating expenses	**2,075.9**	2,174.2	2,847.6
Franchised restaurants-occupancy expenses	**2,200.6**	1,973.3	1,790.0
Selling, general & administrative expenses	**2,229.4**	2,200.2	2,231.3
Other operating (income) expense, net	**(183.9)**	(236.8)	(1,163.2)
Total operating costs and expenses	**12,006.7**	12,202.6	13,267.7
Operating income	**9,069.8**	8,822.6	9,552.7
Interest expense-net of capitalized interest of $7.4, $5.6 and $5.3	**1,121.9**	981.2	921.3
Nonoperating (income) expense, net	**(70.2)**	25.3	57.9
Income before provision for income taxes	**8,018.1**	7,816.1	8,573.5
Provision for income taxes	**1,992.7**	1,891.8	3,381.2
Net income	**$ 6,025.4**	$ 5,924.3	$ 5,192.3
Earnings per common share–basic	**$ 7.95**	$ 7.61	$ 6.43
Earnings per common share–diluted	**$ 7.88**	$ 7.54	$ 6.37
Dividends declared per common share	**$ 4.73**	$ 4.19	$ 3.83
Weighted-average shares outstanding–basic	**758.1**	778.2	807.4
Weighted-average shares outstanding–diluted	**764.9**	785.6	815.5

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions Years ended December 31,	***2019***	*2018*	*2017*
Net income	**$6,025.4**	$5,924.3	$5,192.3
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**127.5**	(453.6)	827.7
Reclassification of (gain) loss to net income	**46.8**	—	109.3
Foreign currency translation adjustments-net of tax benefit (expense) of $(55.4), $(90.7), and $453.1	**174.3**	(453.6)	937.0
Cash flow hedges:			
Gain (loss) recognized in AOCI	**17.3**	46.5	(48.4)
Reclassification of (gain) loss to net income	**(37.7)**	2.4	9.0
Cash flow hedges-net of tax benefit (expense) of $6.1, $(14.5), and $22.4	**(20.4)**	48.9	(39.4)
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**(24.5)**	(27.0)	16.3
Reclassification of (gain) loss to net income	**(2.6)**	0.6	0.6
Defined benefit pension plans-net of tax benefit (expense) of $5.2, $4.3, and $(3.9)	**(27.1)**	(26.4)	16.9
Total other comprehensive income (loss), net of tax	**126.8**	(431.1)	914.5
Comprehensive income	**$6,152.2**	$5,493.2	$6,106.8

See Notes to consolidated financial statements.

Consolidated Balance Sheet

In millions, except per share data	December 31, **2019**	2018
ASSETS		
Current assets		
Cash and equivalents	**$ 898.5**	$ 866.0
Accounts and notes receivable	**2,224.2**	2,441.5
Inventories, at cost, not in excess of market	**50.2**	51.1
Prepaid expenses and other current assets	**385.0**	694.6
Total current assets	**3,557.9**	4,053.2
Other assets		
Investments in and advances to affiliates	**1,270.3**	1,202.8
Goodwill	**2,677.4**	2,331.5
Miscellaneous	**2,584.0**	2,381.0
Total other assets	**6,531.7**	5,915.3
Lease right-of-use asset, net	**13,261.2**	—
Property and equipment		
Property and equipment, at cost	**39,050.9**	37,193.6
Accumulated depreciation and amortization	**(14,890.9)**	(14,350.9)
Net property and equipment	**24,160.0**	22,842.7
Total assets	**$ 47,510.8**	$ 32,811.2
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	**$ 988.2**	$ 1,207.9
Lease liability	**621.0**	—
Income taxes	**331.7**	228.3
Other taxes	**247.5**	253.7
Accrued interest	**337.8**	297.0
Accrued payroll and other liabilities	**1,035.7**	986.6
Current maturities of long-term debt	**59.1**	—
Total current liabilities	**3,621.0**	2,973.5
Long-term debt	**34,118.1**	31,075.3
Long-term lease liability	**12,757.8**	—
Long-term income taxes	**2,265.9**	2,081.2
Deferred revenues - initial franchise fees	**660.6**	627.8
Other long-term liabilities	**979.6**	1,096.3
Deferred income taxes	**1,318.1**	1,215.5
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	**—**	—
Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	**16.6**	16.6
Additional paid-in capital	**7,653.9**	7,376.0
Retained earnings	**52,930.5**	50,487.0
Accumulated other comprehensive income (loss)	**(2,482.7)**	(2,609.5)
Common stock in treasury, at cost; 914.3 and 893.5 million shares	**(66,328.6)**	(61,528.5)
Total shareholders' equity (deficit)	**(8,210.3)**	(6,258.4)
Total liabilities and shareholders' equity (deficit)	**$ 47,510.8**	$ 32,811.2

See Notes to consolidated financial statements.

Consolidated Statement of Cash Flows

In millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Operating activities			
Net income	**$ 6,025.4**	$ 5,924.3	$ 5,192.3
Adjustments to reconcile to cash provided by operations			
Charges and credits:			
Depreciation and amortization	**1,617.9**	1,482.0	1,363.4
Deferred income taxes	**149.7**	102.6	(36.4)
Share-based compensation	**109.6**	125.1	117.5
Net gain on sale of restaurant businesses	**(128.2)**	(308.8)	(1,155.8)
Other	**49.2**	114.2	1,050.7
Changes in working capital items:			
Accounts receivable	**27.0**	(479.4)	(340.7)
Inventories, prepaid expenses and other current assets	**128.8**	(1.9)	(37.3)
Accounts payable	**(26.8)**	129.4	(59.7)
Income taxes	**173.4**	(33.4)	(396.4)
Other accrued liabilities	**(3.9)**	(87.4)	(146.4)
Cash provided by operations	**8,122.1**	6,966.7	5,551.2
Investing activities			
Capital expenditures	**(2,393.7)**	(2,741.7)	(1,853.7)
Purchases of restaurant and other businesses	**(540.9)**	(101.7)	(77.0)
Sales of restaurant businesses	**340.8**	530.8	974.8
Proceeds from sale of businesses in China and Hong Kong	—	—	1,597.0
Sales of property	**151.2**	160.4	166.8
Other	**(628.5)**	(302.9)	(245.9)
Cash provided by (used for) investing activities	**(3,071.1)**	(2,455.1)	562.0
Financing activities			
Net short-term borrowings	**799.2**	95.9	(1,050.3)
Long-term financing issuances	**4,499.0**	3,794.5	4,727.5
Long-term financing repayments	**(2,061.9)**	(1,759.6)	(1,649.4)
Treasury stock purchases	**(4,976.2)**	(5,207.7)	(4,685.7)
Common stock dividends	**(3,581.9)**	(3,255.9)	(3,089.2)
Proceeds from stock option exercises	**350.5**	403.2	456.8
Other	**(23.5)**	(20.0)	(20.5)
Cash (used for) financing activities	**(4,994.8)**	(5,949.6)	(5,310.8)
Effect of exchange rates on cash and equivalents	**(23.7)**	(159.8)	264.0
Cash and equivalents increase (decrease)	**32.5**	(1,597.8)	1,066.4
Change in cash balances of businesses held for sale	**—**	—	174.0
Cash and equivalents at beginning of year	**866.0**	2,463.8	1,223.4
Cash and equivalents at end of year	**$ 898.5**	$ 866.0	$ 2,463.8
Supplemental cash flow disclosures			
Interest paid	**$ 1,066.5**	$ 959.6	$ 885.2
Income taxes paid	**1,589.7**	1,734.4	2,786.3

See Notes to consolidated financial statements.

Consolidated Statement of Shareholders' Equity

In millions, except per share data	*Common stock issued*		*Additional paid-in capital*	*Retained earnings*	*Accumulated other comprehensive income (loss)*			*Common stock in treasury*		*Total shareholders' equity*
	Shares	*Amount*			*Pensions*	*Cash flow hedges*	*Foreign currency translation*	*Shares*	*Amount*	
Balance at December 31, 2016	1,660.6	$ 16.6	$ 6,757.9	$46,222.7	$ (207.1)	$ 22.9	$(2,908.7)	(841.3)	$ (52,108.6)	$ (2,204.3)
Net income				5,192.3						5,192.3
Other comprehensive income (loss), net of tax					16.9	(39.4)	937.0			914.5
Comprehensive income										6,106.8
Common stock cash dividends ($3.83 per share)				(3,089.2)						(3,089.2)
Treasury stock purchases								(31.4)	(4,650.5)	(4,650.5)
Share-based compensation			117.5							117.5
Stock option exercises and other			197.0					6.2	254.7	451.7
Balance at December 31, 2017	1,660.6	16.6	7,072.4	48,325.8	(190.2)	(16.5)	(1,971.7)	(866.5)	(56,504.4)	(3,268.0)
Net income				5,924.3						5,924.3
Other comprehensive income (loss), net of tax					(26.4)	48.9	(453.6)			(431.1)
Comprehensive income										5,493.2
Adoption of ASC 606 [1]				(450.2)						(450.2)
Adoption of ASU 2016-16 [2]				(57.0)						(57.0)
Common stock cash dividends ($4.19 per share)				(3,255.9)						(3,255.9)
Treasury stock purchases								(32.2)	(5,247.5)	(5,247.5)
Share-based compensation			125.1							125.1
Stock option exercises and other			178.5					5.2	223.4	401.9
Balance at December 31, 2018	1,660.6	16.6	7,376.0	50,487.0	(216.6)	32.4	(2,425.3)	(893.5)	(61,528.5)	(6,258.4)
Net income				**6,025.4**						**6,025.4**
Other comprehensive income (loss), net of tax					**(27.1)**	**(20.4)**	**174.3**			**126.8**
Comprehensive income										**6,152.2**
Common stock cash dividends ($4.73 per share)				**(3,581.9)**						**(3,581.9)**
Treasury stock purchases								**(25.0)**	**(4,980.5)**	**(4,980.5)**
Share-based compensation			**109.6**							**109.6**
Stock option exercises and other			**168.3**					**4.2**	**180.4**	**348.7**
Balance at December 31, 2019	**1,660.6**	**$ 16.6**	**$ 7,653.9**	**$52,930.5**	**$ (243.7)**	**$ 12.0**	**$(2,251.0)**	**(914.3)**	**$ (66,328.6)**	**$ (8,210.3)**

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers."

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory."

See Notes to consolidated financial statements.

Summary of Significant Accounting Policies

NATURE OF BUSINESS

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

The following table presents restaurant information by ownership type:

Restaurants at December 31,	***2019***	*2018*	*2017*
Conventional franchised	**21,837**	21,685	21,366
Developmental licensed	**7,648**	7,225	6,945
Foreign affiliated	**6,574**	6,175	5,797
Total Franchised	**36,059**	35,085	34,108
Company-operated	**2,636**	2,770	3,133
Total Systemwide restaurants	**38,695**	37,855	37,241

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

CONSOLIDATION

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

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

ESTIMATES IN FINANCIAL STATEMENTS

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

FOREIGN CURRENCY TRANSLATION

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

RECENT ACCOUNTING PRONOUNCEMENTS

Recently Adopted Accounting Pronouncements

Lease Accounting

The Company adopted ASC Topic 842, "Leases" ("ASC 842") as of January 1, 2019, using the modified retrospective method. As discussed further in the "Franchise Arrangements" and "Leasing Arrangements" footnotes, the Company is engaged in a significant amount of leasing activity, both from a lessor and a lessee perspective.

The Company has elected the package of practical expedients, which allows the Company to retain the classification of existing leases; therefore, there was minimal initial impact in the Consolidated Statement of Income, and no cumulative adjustment to retained earnings was recognized upon adoption. As the Company enters into new ground leases or as existing ground leases are modified, many of these may be reclassified from operating classification to financing classification, which will change the timing and classification of a portion of lease expense between Operating income and Interest expense. It is not possible to quantify the impact at this time, due to the unknown timing of new leases and lease modifications, however the Company does not expect the impact to be material to any given year. The Company has also made an accounting policy election to keep leases with an initial term of 12 months or less off of the balance sheet. These types of leases primarily relate to leases of office equipment, and are not significant in comparison to the Company's overall lease portfolio. Payments related to those leases will continue to be recognized in the Consolidated Statement of Income on a straight-line basis over the lease term.

The Company has certain leases subject to index adjustments. Historically, the Company has calculated and disclosed future minimum payments for these leases using the index as of the end of the reporting period. As part of the transition, the Company used the index in effect at transition for adoption of ASC 842 in its disclosure of future minimum lease payments and its calculation of the lease liability. For leases entered into after January 1, 2019, the index at lease inception date will be used to calculate the lease liability until lease modification.

The Company recorded a Right of Use Asset and Lease Liability on the Condensed Consolidated Balance Sheet of $12.5 billion upon adoption. The Lease Liability reflects the present value of the Company's estimated future minimum lease payments over the lease term, which includes options that are reasonably assured of being exercised, discounted using a collateralized incremental borrowing rate. The impact of the new lease guidance is non-cash in nature, therefore, it does not affect the Company's cash flows.

Recent Accounting Pronouncements Not Yet Adopted

Financial Instruments - Credit Losses

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", that modifies the measurement and recognition of expected credit losses on financial assets. The Company will adopt this guidance effective January 1, 2020, prospectively. The adoption of this standard is not expected to have a material impact on the Company's consolidated financial statements.

REVENUE RECOGNITION

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

Sales by Company-operated restaurants are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. Royalty revenues are based on a percent of sales and recognized at the time the underlying sales occur. Rental income includes both minimum rent payments, which are recognized straight-line over the franchise term, and variable rent payments based on a percent of sales, which are recognized at the time the underlying sales occur. The Company's accounting policy through December 31, 2017, was to recognize initial franchise fees when received, upon a new restaurant opening and at the start of a new franchise term. Beginning in January 2018, initial fees are recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years.

PROPERTY AND EQUIPMENT

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

CAPITALIZED SOFTWARE

Capitalized software is stated at cost and amortized using the straight-line method over the estimated useful life of the software, which primarily ranges from 2 to 7 years. Customer facing software is typically amortized over a shorter useful life, while back office and Corporate systems may have a longer useful life. Capitalized software less accumulated amortization is recorded within Miscellaneous Other Assets on the Consolidated Balance Sheet and was (in millions): 2019-$665.4; 2018-$609.7; 2017-$535.6.

LONG-LIVED ASSETS

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

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

GOODWILL

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

The following table presents the 2019 activity in goodwill by segment:

In millions	*U.S.*	*International Operated Markets*	*International Developmental Licensed Markets & Corporate*	*Consolidated*
Balance at December 31, 2018	$1,276.5	$ 1,055.0	$ —	$2,331.5
Business acquisitions	348.8	—	—	348.8
Net restaurant purchases (sales)	(9.5)	5.7	99.4	95.6
Impairment losses	—	—	(99.4)	(99.4)
Currency translation	—	0.9	—	0.9
Balance at December 31, 2019	**$1,615.8**	**$ 1,061.6**	**$ —**	**$2,677.4**

The Company conducts goodwill impairment testing in the fourth quarter of each year or whenever an indicator of impairment exists. If an indicator of impairment exists (e.g., estimated earnings multiple value of a reporting unit is less than its carrying value), the goodwill impairment test compares the fair value of a reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of a reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. Historically, goodwill impairment has not significantly impacted the consolidated financial statements. Goodwill on the Consolidated Balance Sheet reflects accumulated impairment losses of $113.9 million and $15.6 million as of December 31, 2019 and 2018, respectively.

ADVERTISING COSTS

Advertising costs included in operating expenses of Company-operated restaurants primarily consist of contributions to advertising cooperatives and were (in millions): 2019–$365.8; 2018–$388.8; 2017–$532.9. Production costs for radio and television advertising are expensed when the commercials are initially aired. These production costs, primarily in the U.S., as well as other marketing-related expenses are included in Selling, general & administrative expenses and were (in millions): 2019–$81.5; 2018–$88.0; 2017–$100.2. Costs related to the Olympics sponsorship are included in the expenses for 2018. In addition, significant advertising costs are incurred by franchisees through contributions to advertising cooperatives in individual markets. The costs incurred by these advertising cooperatives are approved and managed jointly by vote of both Company-operated restaurants and franchisees.

INCOME TAXES

Income Tax Uncertainties

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

The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

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

The Tax Act requires a U.S. shareholder of a foreign corporation to include GILTI in taxable income. The accounting policy of the Company is to record any tax on GILTI in the provision for income taxes in the year it is incurred.

FAIR VALUE MEASUREMENTS

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

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

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

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

Certain Financial Assets and Liabilities Measured at Fair Value

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

12/31/2019

In millions	*Level 1* [1]	*Level 2*	*Carrying Value*
Derivative assets	$ 179.1	$ 45.6	$ 224.7
Derivative liabilities		$ (11.3)	$ (11.3)

12/31/2018

In millions	*Level 1* [1]	*Level 2*	*Carrying Value*
Derivative assets	$ 167.1	$ 39.2	$ 206.3
Derivative liabilities		$ (16.6)	$ (16.6)

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

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

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis, but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). For the year ended December 31, 2019, the Company recorded fair value adjustments to its long-lived assets, primarily to goodwill, based on Level 3 inputs which includes the use of a discounted cash flow valuation approach.

Certain Financial Assets and Liabilities not Measured at Fair Value

At December 31, 2019, the fair value of the Company's debt obligations was estimated at $37.6 billion, compared to a carrying amount of $34.2 billion. The fair value was based on quoted market prices, Level 2 within the valuation hierarchy. The carrying amount for both cash equivalents and notes receivable approximate fair value.

FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

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

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

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

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

The following table presents the fair values of derivative instruments included on the Consolidated Balance Sheet as of December 31, 2019 and 2018:

	Derivative Assets			Derivative Liabilities		
In millions	*Balance Sheet Classification*	***2019***	*2018*	*Balance Sheet Classification*	***2019***	*2018*
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	**$ 10.0**	$ 30.9	Accrued payroll and other liabilities	**$ (5.2)**	$ (0.7)
Interest rate	Prepaid expenses and other current assets			Accrued payroll and other liabilities	**—**	(0.1)
Foreign currency	Miscellaneous other assets	**9.5**	3.8	Other long-term liabilities	**(1.2)**	(1.3)
Interest rate	Miscellaneous other assets	**12.1**	—	Other long-term liabilities	**—**	(11.8)
Total derivatives designated as hedging instruments		**$ 31.6**	$ 34.7		**$ (6.4)**	$ (13.9)
Derivatives not designated as hedging instruments						
Equity	Prepaid expenses and other current assets	**$ 1.6**	$ 167.1	Accrued payroll and other liabilities	**$ (0.1)**	$ (2.7)
Foreign currency	Prepaid expenses and other current assets	**12.4**	4.5	Accrued payroll and other liabilities	**(4.8)**	—
Equity	Miscellaneous other assets	**179.1**	—			
Total derivatives not designated as hedging instruments		**$ 193.1**	$ 171.6		**(4.9)**	$ (2.7)
Total derivatives		**$ 224.7**	$ 206.3		**$ (11.3)**	$ (16.6)

The following table presents the pre-tax amounts from derivative instruments affecting income and AOCI for the year ended December 31, 2019 and 2018, respectively:

	Location of Gain or Loss Recognized in Income on Derivative	Gain (Loss) Recognized in AOCI		Gain (Loss) Reclassified into Income from AOCI		Gain (Loss) Recognized in Income on Derivative	
In millions		***2019***	*2018*	***2019***	*2018*	***2019***	*2018*
Foreign currency	Nonoperating income/expense	**$ 22.5**	$ 60.0	**$ 50.3**	$ (2.2)		
Interest rate	Interest expense			**(1.3)**	(1.2)		
Cash flow hedges		**$ 22.5**	$ 60.0	**$ 49.0**	$ (3.4)		
Foreign currency denominated debt	Nonoperating income/expense	**$ 317.3**	$ 682.9				
Foreign currency derivatives	Nonoperating income/expense	**11.8**	1.3				
Foreign currency derivatives[(1)]	Interest expense					**$ 11.7**	$ 4.0
Net investment hedges		**$ 329.1**	$ 684.2			**$ 11.7**	$ 4.0
Foreign currency	Nonoperating income/expense					**$ 14.2**	$ 22.1
Equity	Selling, general & administrative expenses					**71.8**	0.4
Undesignated derivatives						**$ 86.0**	$ 22.5

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

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At December 31, 2019, the carrying amount of fixed-rate debt that was effectively converted was an equivalent notional amount of $998.5 million, which included an increase of $12.1 million of cumulative hedging adjustments. For the year ended December 31, 2019, the Company recognized a $24.0 million gain on the fair value of interest rate swaps, and a corresponding loss on the fair value of the related hedged debt instrument to interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of December 31, 2019, the Company had derivatives outstanding with an equivalent notional amount of $754.7 million that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at December 31, 2019, the $12.0 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of Other comprehensive income ("OCI") and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of December 31, 2019, $11.9 billion of the Company's third party foreign currency denominated debt and $642.6 million of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

The Company enters into certain derivatives that are not designated for hedge accounting, therefore the changes in the fair value of these derivatives are recognized immediately in earnings together with the gain or loss from the hedged balance sheet position. As an example, the Company enters into equity derivative contracts, including total return swaps, to hedge market-driven changes in certain of its supplemental benefit plan liabilities. Changes in the fair value of these derivatives are recorded in selling, general & administrative expenses together with the changes in the supplemental benefit plan liabilities. In addition, the Company uses foreign currency forwards to mitigate the change in fair value of certain foreign currency denominated assets and liabilities. The changes in the fair value of these derivatives are recognized in nonoperating (income) expense, net, along with the currency gain or loss from the hedged balance sheet position.

Credit Risk

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at December 31, 2019 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2019, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on certain hedges of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

SHARE-BASED COMPENSATION

Share-based compensation includes the portion vesting of all share-based awards granted based on the grant date fair value.

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

In millions, except per share data	***2019***	*2018*	*2017*
Share-based compensation expense	**$ 109.6**	$ 125.1	$ 117.5
After tax	**$ 94.2**	$ 108.1	$ 82.0
Earnings per common share-diluted	**$ 0.12**	$ 0.14	$ 0.10

Compensation expense related to share-based awards is generally amortized on a straight-line basis over the vesting period in Selling, general & administrative expenses. As of December 31, 2019, there was $107.5 million of total unrecognized compensation cost related to nonvested share-based compensation that is expected to be recognized over a weighted-average period of 2.1 years.

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The following table presents the weighted-average assumptions used in the option pricing model for the 2019, 2018 and 2017 stock option grants. The expected life of the options represents the period of time the options are expected to be outstanding and is based on historical trends. Expected stock price volatility is generally based on the historical volatility of the Company's stock for a period approximating the expected life. The expected dividend yield is based on the Company's most recent annual dividend rate. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant with a term equal to the expected life.

Weighted-average assumptions

	2019	*2018*	*2017*
Expected dividend yield	**2.7%**	2.6%	3.1%
Expected stock price volatility	**18.9%**	18.7%	18.4%
Risk-free interest rate	**2.5%**	2.7%	2.2%
Expected life of options *(in years)*	**5.8**	5.8	5.9
Fair value per option granted	**$ 25.60**	$ 23.80	$ 16.10

The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

PER COMMON SHARE INFORMATION

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation calculated using the treasury stock method, of (in millions of shares): 2019–6.8; 2018–7.3; 2017–8.1. Share-based compensation awards that were not included in diluted weighted-average shares because they would have been antidilutive were (in millions of shares): 2019–0.1; 2018–0.5; 2017–0.1.

CASH AND EQUIVALENTS

The Company considers short-term, highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Segment and Geographic Information

On February 25, 2019, the Company provided investors with segment summary financial information and other data in accordance with its new organizational structure for the previously reported years ended December 31, 2016 through 2018. Effective January 1, 2019, McDonald’s operates under an organizational structure with the following global business segments reflecting how management reviews and evaluates operating performance:

- U.S. - the Company’s largest market. The segment is 95% franchised as of December 31, 2019.
- International Operated Markets - comprised of markets, or countries in which the Company operates and franchises restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K. The segment is 84% franchised as of December 31, 2019.
- International Developmental Licensed Markets & Corporate - comprised primarily of developmental licensee and affiliate markets in the McDonald’s system. Corporate activities are also reported in this segment. The segment is 98% franchised as of December 31, 2019.

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

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

In millions	***2019***	*2018*	*2017*
U.S.	**$ 7,842.7**	$ 7,665.8	$ 8,006.4
International Operated Markets	**11,398.6**	11,506.7	11,115.9
International Developmental Licensed Markets & Corporate	**1,835.2**	1,852.7	3,698.1
Total revenues	**$ 21,076.5**	$ 21,025.2	$ 22,820.4
U.S.	**$ 4,068.7**	$ 4,015.6	$ 4,022.4
International Operated Markets	**4,789.0**	4,643.2	4,173.6
International Developmental Licensed Markets & Corporate	**212.1**	163.8	1,356.7
Total operating income	**$ 9,069.8**	$ 8,822.6	$ 9,552.7
U.S.	**$ 21,376.9**	$ 14,483.8	$ 12,648.6
International Operated Markets	**22,847.5**	17,302.3	16,254.8
International Developmental Licensed Markets & Corporate	**3,286.4**	1,025.1	4,900.3
Total assets *	**$ 47,510.8**	$ 32,811.2	$ 33,803.7
U.S.	**$ 1,480.5**	$ 1,849.8	$ 861.2
International Operated Markets	**886.6**	762.4	808.0
International Developmental Licensed Markets & Corporate	**26.6**	129.5	184.5
Total capital expenditures	**$ 2,393.7**	$ 2,741.7	$ 1,853.7
U.S.	**$ 730.2**	$ 598.4	$ 524.1
International Operated Markets	**669.3**	703.9	687.1
International Developmental Licensed Markets & Corporate	**218.4**	179.7	152.2
Total depreciation and amortization	**$ 1,617.9**	$ 1,482.0	$ 1,363.4

* Total assets increased from 2018 to 2019 primarily due to the Company's right-of-use asset recorded as a result of the adoption of ASC 842.

Total long-lived assets, primarily property and equipment and beginning in 2019, the Company's lease right-of-use asset, were (in millions)–Consolidated: 2019–$38,291.5; 2018– $23,671.1; U.S. based: 2019–$19,487.6; 2018–$12,250.3.

Property and Equipment

Net property and equipment consisted of:

In millions	December 31, 2019	*2018*
Land	**$ 6,026.4**	$ 5,521.4
Buildings and improvements on owned land	**17,003.7**	15,377.4
Buildings and improvements on leased land	**12,605.9**	12,863.6
Equipment, signs and seating	**2,994.5**	2,942.6
Other	**420.4**	488.6
Property and equipment, at cost	**39,050.9**	37,193.6
Accumulated depreciation and amortization	**(14,890.9)**	(14,350.9)
Net property and equipment	**$ 24,160.0**	$ 22,842.7

Depreciation and amortization expense for property and equipment was (in millions): 2019–$1,392.2; 2018–$1,302.9; 2017–$1,227.5.

Franchise Arrangements

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

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

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

Revenues from franchised restaurants consisted of:

In millions	***2019***	*2018*	*2017*
Rents	**$ 7,500.2**	$ 7,082.2	$ 6,496.3
Royalties	**4,107.1**	3,886.3	3,518.7
Initial fees	**48.4**	44.0	86.5
Revenues from franchised restaurants	**$ 11,655.7**	$ 11,012.5	$ 10,101.5

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

In millions	*Owned sites*	*Leased sites*	*Total*
2020	$ 1,558.5	$ 1,449.8	$ 3,008.3
2021	1,501.4	1,382.5	2,883.9
2022	1,439.3	1,310.5	2,749.8
2023	1,384.8	1,246.4	2,631.2
2024	1,344.4	1,196.7	2,541.1
Thereafter	11,155.2	9,354.5	20,509.7
Total minimum payments	$18,383.6	$ 15,940.4	$34,324.0

At December 31, 2019, net property and equipment under franchise arrangements totaled $19.2 billion (including land of $5.4 billion) after deducting accumulated depreciation and amortization of $10.9 billion.

Leasing Arrangements

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

The following table provides detail of rent expense:

In millions	***2019***	*2018*	*2017*
Restaurants	**$1,530.4**	$1,433.9	$1,562.5
Other	**76.4**	87.9	82.0
Total rent expense	**$1,606.8**	$1,521.8	$1,644.5

Rent expense included percent rents in excess of minimum rents (in millions) as follows–Company-operated restaurants: 2019–$74.4; 2018–$82.1; 2017–$115.6. Franchised restaurants: 2019–$200.7; 2018–$200.8; 2017–$204.9.

The amount of the Right of Use Asset and Lease Liability recorded at transition included known escalations and renewal option periods reasonably assured of being exercised. Typically, renewal options are considered reasonably assured of being exercised if the associated asset lives of the building or leasehold improvements exceed that of the initial lease term, and the sales performance of the restaurant remains strong. Therefore, the Right of Use Asset and Lease Liability include an assumption on renewal options that have not yet been exercised by the Company, and are not currently a future obligation.

The Company has elected not to separate non-lease components from lease components in our lessee portfolio. To the extent that occupancy costs, such as site maintenance, are included in the Asset and Liability, the impact is immaterial and is generally limited to Company-owned restaurant locations. For franchised locations, which represent the majority of the restaurant portfolio, the related occupancy costs including property taxes, insurance and site maintenance are generally required to be paid by the franchisees as part of the franchise arrangement.

In addition, the Company is the lessee under non-restaurant related leases such as office buildings, vehicles and office equipment. These leases are not a material subset of the Company's lease portfolio.

As the rate implicit in each lease is not readily determinable, the Company uses an incremental borrowing rate to calculate the lease liability that represents an estimate of the interest rate the Company would incur to borrow on a collateralized basis over the term of a lease within a particular currency environment. The weighted average discount rate used for operating leases was 4.0% as of December 31, 2019.

As of December 31, 2019, maturities of lease liabilities for our operating leases were as follows:

In millions	*Total **
2020	$ 1,161.9
2021	1,132.8
2022	1,091.4
2023	1,052.6
2024	1,010.3
Thereafter	13,573.6
Total lease payments	19,022.6
Less: imputed interest	(5,643.8)
Present value of lease liability	$ 13,378.8

* Total lease payments include option periods that are reasonably assured of being exercised. See contractual cash outflows for operating leases within the Contractual Obligations and Commitments section on page 19.

The increase in the present value of the lease liability since adoption of ASC 842 is approximately $0.9 billion. The lease liability will continue to be impacted by new leases, lease modifications, lease terminations, reevaluation of likely-term due to new facts and circumstances, and foreign currency.

As of December 31, 2019, the Weighted Average Lease Term remaining that is included in the maturities of lease liabilities was 20 years.

As of December 31, 2018, prior to the adoption of ASC 842, future minimum payments required under existing operating leases with initial terms of one year or more were:

In millions	*Restaurant*	*Other*	*Total **
2019	$ 1,093.4	$ 51.3	$ 1,144.7
2020	1,032.1	51.0	1,083.1
2021	955.5	45.7	1,001.2
2022	873.8	35.7	909.5
2023	806.0	24.6	830.6
Thereafter	7,132.3	164.9	7,297.2
Total minimum payments	$ 11,893.1	$ 373.2	$ 12,266.3

* Future minimum payments exclude option periods that have not yet been exercised.

Contingencies

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

Other Operating (Income) Expense, Net

In millions	***2019***	*2018*	*2017*
Gains on sales of restaurant businesses	**$ (127.5)**	$ (304.1)	$ (295.4)
Equity in earnings of unconsolidated affiliates	**(153.8)**	(151.5)	(183.7)
Asset dispositions and other (income) expense, net	**23.1**	(12.9)	18.7
Impairment and other charges (gains), net	**74.3**	231.7	(702.8)
Total	**$ (183.9)**	$ (236.8)	$ (1,163.2)

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

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

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

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

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

Asset dispositions and other (income) expense, net consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings and uncollectible receivables, asset write-offs due to restaurant reinvestment (including investment in EOTF), strategic sale of properties, and other miscellaneous income and expenses.

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

Impairment and other charges (gains), net includes losses that result from the write down of goodwill and long-lived assets from their carrying value to their fair value, as well as charges associated with strategic initiatives, such as refranchising and restructuring activities. The realized gains/losses from the sale of McDonald's businesses in certain markets are reflected in this category, including the 2017 gain on the sale of the Company's businesses in China and Hong Kong.

Income Taxes

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

In millions	***2019***	*2018*	*2017*
U.S.	**$ 2,159.1**	$ 2,218.0	$ 2,242.0
Outside the U.S.	**5,859.0**	5,598.1	6,331.5
Income before provision for income taxes	**$ 8,018.1**	$ 7,816.1	$ 8,573.5

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The goal of this update was to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. The Company adopted this standard on January 1, 2018 using a modified retrospective method, resulting in a cumulative catch up adjustment of $57 million, the majority of which was recorded within Miscellaneous other assets on the Consolidated Balance Sheet. The adoption of this standard did not have a material impact on the consolidated statements of income and cash flows.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in SAB 118. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings.

One-time transition tax: The one-time transition tax is based on the Company's total post-1986 earnings and profits ("E&P"), the tax on which it previously deferred from U.S. income taxes under U.S. law. The Company recorded a provisional amount for its one-time transition tax liability of approximately $1.2 billion at December 31, 2017. Upon further analysis of the Tax Act and notices and regulations issued and proposed by the U.S. Department of the Treasury and the IRS, the Company increased its December 31, 2017 provisional amount by approximately $75 million during 2018. The Company has elected to pay its transition tax over the eight-year period provided in the Tax Act.

Deferred tax assets and liabilities: As of December 31, 2017, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they were expected to reverse in the future (generally 21%), by recording a provisional amount of approximately $500 million. No adjustment to the provisional amount was made in 2018.

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

In millions	***2019***	*2018*	*2017*
U.S. federal	**$ 521.8**	$ 292.9	$2,030.8
U.S. state	**194.7**	183.9	169.8
Outside the U.S.	**1,126.5**	1,312.4	1,217.0
Current tax provision	**1,843.0**	1,789.2	3,417.6
U.S. federal	**38.5**	145.7	(120.1)
U.S. state	**20.0**	18.7	12.8
Outside the U.S.	**91.2**	(61.8)	70.9
Deferred tax provision	**149.7**	102.6	(36.4)
Provision for income taxes	**$1,992.7**	$1,891.8	$3,381.2

Net deferred tax liabilities consisted of:

In millions	*December 31,* ***2019***	*2018*
Lease right-of-use asset	**$3,296.8**	$ —
Property and equipment	**1,316.4**	1,288.9
Intangible assets	**334.8**	312.3
Other	**511.1**	347.9
Total deferred tax liabilities	**5,459.1**	1,949.1
Lease liability	**(3,331.1)**	—
Intangible assets	**(1,051.0)**	(1,081.5)
Property and equipment	**(585.6)**	(658.9)
Deferred foreign tax credits	**(311.2)**	(216.6)
Employee benefit plans	**(192.3)**	(213.3)
Deferred revenue	**(145.5)**	(138.9)
Operating loss carryforwards	**(81.5)**	(45.7)
Other	**(323.6)**	(269.2)
Total deferred tax assets before valuation allowance	**(6,021.8)**	(2,624.1)
Valuation allowance	**741.9**	671.1
Net deferred tax (assets) liabilities	**$ 179.2**	$ (3.9)
Balance sheet presentation:		
Deferred income taxes	**$1,318.1**	$1,215.5
Other assets-miscellaneous	**(1,138.9)**	(1,219.4)
Net deferred tax (assets) liabilities	**$ 179.2**	$ (3.9)

At December 31, 2019, the Company had net operating loss carryforwards of $360.3 million, of which $232.7 million has an indefinite carryforward. The remainder will expire at various dates from 2020 to 2038.

Prior to 2018, the Company's effective income tax rate was generally lower than the U.S. statutory tax rate primarily because foreign income was generally subject to local statutory country tax rates that were below the 35% U.S. statutory tax rate and reflected the impact of global transfer pricing. Beginning in 2018, the Tax Act reduced the U.S. statutory tax rate to 21%. As a result, the Company’s 2019 and 2018 effective income tax rates are higher than the U.S. statutory tax rate of 21% primarily due to the impact of state income taxes and foreign income that is subject to local statutory country tax rates that are above the 21% U.S. statutory tax rate.

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

	2019	2018	2017
Statutory U.S. federal income tax rate	**21.0%**	21.0%	35.0%
State income taxes, net of related federal income tax benefit	**1.8**	1.8	1.2
Foreign income taxed at different rates	**1.6**	1.5	(4.6)
Transition tax	—	1.0	13.7
US net deferred tax liability remeasurement	—	—	(6.0)
Foreign tax credit redetermination regulations	**(1.0)**	—	—
Other, net	**1.5**	(1.1)	0.1
Effective income tax rates	**24.9%**	24.2%	39.4%

As of December 31, 2019 and 2018, the Company's gross unrecognized tax benefits totaled $1,439.1 million and $1,342.8 million, respectively. After considering the deferred tax accounting impact, it is expected that about $880 million of the total as of December 31, 2019 would favorably affect the effective tax rate if resolved in the Company's favor.

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

In millions	**2019**	2018
Balance at January 1	**$ 1,342.8**	$ 1,180.4
Decreases for positions taken in prior years	**(18.3)**	(64.1)
Increases for positions taken in prior years	**107.1**	180.8
Increases for positions related to the current year	**88.3**	75.1
Settlements with taxing authorities	**(68.6)**	(24.1)
Lapsing of statutes of limitations	**(12.2)**	(5.3)
Balance at December 31[(1)]	**$ 1,439.1**	$ 1,342.8

(1) Of this amount, $1,285.3 million and $1,313.7 million are included in Long-term income taxes for 2019 and 2018, respectively, and $138.8 million and $12.5 million are included in Prepaid expenses and other current assets for 2019 and 2018, respectively, on the Consolidated Balance Sheet. The remainder is included in Deferred income taxes on the Consolidated Balance Sheet.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and, during 2019, the Company and the IRS Appeals team continued to have a dialogue regarding these disagreed transfer pricing matters. As of December 31, 2019, the Company does not yet have a signed closing agreement with the IRS related to the settlement of these issues.

In 2017, the IRS completed its examination of the Company's U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process. The Company is also under audit in multiple foreign tax jurisdictions for matters primarily related to transfer pricing, and the Company is under audit in multiple state tax jurisdictions. It is reasonably possible that the total amount of unrecognized tax benefits could decrease up to $980 million within the next 12 months, of which only an immaterial amount would favorably affect the effective tax rate. This would be due to the possible settlement of the IRS transfer pricing matters, completion of the aforementioned foreign and state tax audits and the expiration of the statute of limitations in multiple tax jurisdictions.

In addition, it is reasonably possible that, as a result of audit progression in both the U.S. and foreign tax audits within the next 12 months, there may be new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, it believes that the liabilities recorded are appropriate and adequate.

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

The Company had $174.4 million and $152.0 million accrued for interest and penalties at December 31, 2019 and 2018, respectively. The Company recognized interest and penalties related to tax matters of $39.9 million in 2019, $13.9 million in 2018, and $34.9 million in 2017, which are included in the provision for income taxes.

As of December 31, 2019, the Company has accumulated undistributed earnings generated by our foreign subsidiaries, which were predominantly taxed in the U.S. as a result of the transition tax provisions enacted under the Tax Act. Management does not assert that these previously-taxed unremitted earnings are indefinitely reinvested in operations outside the U.S. Accordingly, the Company has provided deferred taxes for the tax effects incremental to the transition tax. We have not provided for deferred taxes on outside basis differences in our investments in our foreign subsidiaries that are unrelated to these accumulated undistributed earnings, as these outside basis differences are indefinitely reinvested. A determination of the unrecognized deferred taxes related to these other components of our outside basis differences is not practicable.

Employee Benefit Plans

The Company's 401k Plan is maintained for U.S.-based employees and includes a 401(k) feature, as well as an employer match. The 401(k) feature allows participants to make pre-tax contributions that are matched each pay period (with an annual true-up) from cash contributions and through July 31, 2018 from shares released under the Employee Stock Ownership Plan. Effective August 1, 2018, the contributions are matched only through cash contributions.

All current account balances, future contributions and related earnings can be invested in eight investment alternatives as well as McDonald's stock in accordance with each participant's investment elections. Future participant contributions are limited to 20% investment in McDonald's stock. Participants may choose to make separate investment choices for current account balances and future contributions.

The Company also maintains certain nonqualified supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the 401k Plan because of IRS limitations. The investment alternatives and returns are based on certain market-rate investment alternatives under the 401k Plan. Total liabilities were $435.0 million at December 31, 2019 and $437.4 million at December 31, 2018, and were primarily included in other long-term liabilities on the Consolidated Balance Sheet.

The Company has entered into derivative contracts to hedge market-driven changes in certain of the liabilities. At December 31, 2019, derivatives with a fair value of $179.1 million indexed to the Company's stock and a total return swap with a notional amount of $187.7 million indexed to certain market indices were included at their fair value in Miscellaneous other assets and Prepaid expenses and other current assets, respectively, on the Consolidated Balance Sheet. Changes in liabilities for these nonqualified plans and in the fair value of the derivatives are recorded primarily in Selling, general & administrative expenses. Changes in fair value of the derivatives indexed to the Company's stock are recorded in the income statement because the contracts provide the counterparty with a choice to settle in cash or shares.

Total U.S. costs for the 401k Plan, including nonqualified benefits and related hedging activities, were (in millions): 2019–$30.4; 2018–$18.0; 2017–$19.3. Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 2019–$35.3; 2018–$33.7; 2017–$43.3.

The total combined liabilities for international retirement plans were $42.3 million and $40.6 million at December 31, 2019 and 2018, respectively. Other post-retirement benefits and post-employment benefits were immaterial to the Consolidated Income Statement.

LINE OF CREDIT AGREEMENTS

At December 31, 2019, the Company had a line of credit agreement, of which $3.5 billion expires in December 2023. The Company incurs fees of 0.080% per annum on the total commitment, which remained unused. Fees and interest rates on this line are primarily based on the Company's long-term credit rating assigned by Moody's and Standard & Poor's. In addition, the Company's subsidiaries had unused lines of credit that were primarily uncommitted, short-term and denominated in various currencies at local market rates of interest.

The weighted-average interest rate of short-term borrowings was 1.9% at December 31, 2019 (based on $242.4 million of foreign currency bank line borrowings and $899.3 million of commercial paper outstanding) and 2.6% at December 31, 2018 (based on $253.5 million of foreign currency bank line borrowings and $99.9 million of commercial paper outstanding).

DEBT OBLIGATIONS

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

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

		Interest rates[1] December 31		Amounts outstanding December 31	
In millions of U.S. Dollars	*Maturity dates*	***2019***	*2018*	***2019***	*2018*
Fixed		**4.0%**	4.0%	**$19,340.2**	$18,075.8
Floating		**2.2**	3.4	**2,049.3**	1,349.9
Total U.S. Dollar	2020-2049			**21,389.5**	19,425.7
Fixed		**1.5**	1.6	**8,671.8**	8,069.1
Floating		**2.3**	—	**337.0**	1,264.1
Total Euro	2020-2031			**9,008.8**	9,333.2
Fixed		**3.4**	—	**771.0**	—
Floating		**2.0**	—	**210.6**	—
Total Australian Dollar	2024-2029			**981.6**	—
Total British Pounds Sterling - Fixed	2020-2054	**4.6**	5.3	**1,386.3**	952.3
Total Canadian Dollar - Fixed	2021-2025	**3.1**	3.1	**768.6**	732.0
Total Japanese Yen - Fixed	2030	**2.9**	2.9	**115.1**	114.0
Fixed		**0.2**	0.3	**413.8**	414.9
Floating		**2.2**	2.6	**241.8**	244.2
Total other currencies[2]	2020-2024			**655.6**	659.1
Debt obligations before fair value adjustments and deferred debt costs[3]				**34,305.5**	31,216.3
Fair value adjustments[4]				**12.1**	(12.0)
Deferred debt costs				**(140.4)**	(129.0)
Total debt obligations				**$34,177.2**	$31,075.3

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

(2) Consists of Swiss Francs and Korean Won.

(3) Aggregate maturities for 2019 debt balances, before fair value adjustments and deferred debt costs, are as follows (in millions): 2020–$59.1; 2021–$2,132.2; 2022–$2,250.1; 2023–$6,007.0; 2024–$2,819.0; Thereafter–$21,038.1. These amounts include a reclassification of short-term obligations totaling $3.5 billion to long-term obligations as they are supported by a long-term line of credit agreement expiring in December 2023.

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

Share-based Compensation

The Company maintains a share-based compensation plan which authorizes the granting of various equity-based incentives including stock options and restricted stock units to employees and nonemployee directors. The number of shares of common stock reserved for issuance under the plans was 42.5 million at December 31, 2019, including 26.5 million available for future grants.

STOCK OPTIONS

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

Intrinsic value for stock options is defined as the difference between the current market value of the Company's stock and the exercise price. During 2019, 2018 and 2017, the total intrinsic value of stock options exercised was $356.1 million, $364.4 million and $353.6 million, respectively. Cash received from stock options exercised during 2019 was $350.5 million and the tax benefit realized from stock options exercised totaled $70.5 million. The Company uses treasury shares purchased under the Company's share repurchase program to satisfy share-based exercises.

A summary of the status of the Company's stock option grants as of December 31, 2019, 2018 and 2017, and changes during the years then ended, is presented in the following table:

	2019				2018		2017	
Options	*Shares in millions*	*Weighted-average exercise price*	*Weighted-average remaining contractual life in years*	*Aggregate intrinsic value in millions*	*Shares in millions*	*Weighted-average exercise price*	*Shares in millions*	*Weighted-average exercise price*
Outstanding at beginning of year	**16.6**	**$113.06**			18.9	$ 101.55	21.5	$ 92.25
Granted	**2.0**	**175.17**			2.7	157.95	4.0	128.74
Exercised	**(3.6)**	**97.70**			(4.5)	89.31	(5.6)	81.77
Forfeited/expired	**(0.4)**	**154.65**			(0.5)	137.08	(1.0)	118.38
Outstanding at end of year	**14.6**	**$124.21**	**5.9**	**$1,074.6**	16.6	$ 113.06	18.9	$ 101.55
Exercisable at end of year	**9.2**	**$107.51**	**4.7**	**$ 826.4**	10.0		11.3	

RSUs

RSUs generally vest 100% on the third anniversary of the grant and are payable in either shares of McDonald's common stock or cash, at the Company's discretion. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. Separately, Company executives have been awarded RSUs that vest based on Company performance. For performance-based RSUs, the Company includes a relative TSR modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

A summary of the Company's RSU activity during the years ended December 31, 2019, 2018 and 2017 is presented in the following table:

	2019		2018		2017	
RSUs	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*	*Shares in millions*	*Weighted-average grant date fair value*
Nonvested at beginning of year	**1.5**	**$132.56**	1.6	$107.34	1.9	$ 94.13
Granted	**0.6**	**171.48**	0.6	158.28	0.6	123.98
Vested	**(0.6)**	**116.42**	(0.6)	91.20	(0.7)	87.18
Forfeited	**(0.1)**	**153.58**	(0.1)	132.14	(0.2)	117.24
Nonvested at end of year	**1.4**	**$150.95**	1.5	$132.56	1.6	$107.34

The total fair value of RSUs vested during 2019, 2018 and 2017 was $111.0 million, $117.9 million and $87.6 million, respectively. The tax benefit realized from RSUs vested during 2019 was $21.3 million.

SUBSEQUENT EVENTS

In December 2019, a novel strain of coronavirus was reported to have surfaced in China. The spread of this virus has caused business disruption beginning in January 2020, due to the closure of some restaurants, modified operating hours in certain restaurants that remain open, and resulting traffic declines in our China market. While the disruption is currently expected to be temporary, there is uncertainty around the duration. Therefore, while we expect this matter to negatively impact our results, the related financial impact cannot be reasonably estimated at this time. For the year ended December 31, 2019, the China market represented approximately 5% of Systemwide sales, 1% of consolidated revenues and 3% of consolidated operating income.

Quarterly Results (Unaudited)

In millions, except per share data	Quarters ended December 31		Quarters ended September 30		Quarters ended June 30		Quarters ended March 31	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Revenues								
Sales by Company-operated restaurants	**$2,363.3**	$2,371.2	**$2,416.6**	$2,511.0	**$2,400.4**	$2,594.9	**$2,240.5**	$2,535.6
Revenues from franchised restaurants	**2,985.7**	2,791.8	**3,014.0**	2,858.4	**2,940.9**	2,759.0	**2,715.1**	2,603.3
Total revenues	**5,349.0**	5,163.0	**5,430.6**	5,369.4	**5,341.3**	5,353.9	**4,955.6**	5,138.9
Company-operated margin	**423.7**	414.6	**448.9**	463.1	**433.3**	464.4	**354.3**	404.7
Franchised margin	**2,422.4**	2,282.1	**2,454.5**	2,359.0	**2,396.2**	2,275.1	**2,182.0**	2,123.0
Operating income	**2,292.6**	1,999.5	**2,409.3**	2,417.7	**2,273.9**	2,262.3	**2,094.0**	2,143.1
Net income	**$1,572.2**	$1,415.3	**$1,607.9**	$1,637.3	**$1,516.9**	$1,496.3	**$1,328.4**	$1,375.4
Earnings per common share—basic	**$ 2.10**	$ 1.84	**$ 2.13**	$ 2.12	**$ 1.99**	$ 1.92	**$ 1.74**	$ 1.74
Earnings per common share—diluted	**$ 2.08**	$ 1.82	**$ 2.11**	$ 2.10	**$ 1.97**	$ 1.90	**$ 1.72**	$ 1.72
Dividends declared per common share	**$ —**	$ —	**$ 2.41** (1)	$ 2.17 (1)	**$ 1.16**	$ 1.01	**$ 1.16**	$ 1.01
Weighted-average common shares—basic	**749.2**	769.5	**756.6**	772.8	**761.8**	780.0	**764.9**	790.9
Weighted-average common shares—diluted	**755.6**	776.6	**763.9**	779.6	**768.7**	787.1	**771.6**	798.7

(1) Includes a $1.16 and $1.01 per share dividend declared and paid in third quarter of 2019 and 2018, respectively, and a $1.25 and $1.16 per share dividend declared in the third quarter and paid in fourth quarter of 2019 and 2018, respectively.

Management's Assessment of Internal Control Over Financial Reporting

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

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

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

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

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

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

Management assessed the design and effectiveness of the Company's internal control over financial reporting as of December 31, 2019. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control – Integrated Framework (2013 Framework).

Based on management's assessment using those criteria, as of December 31, 2019, management believes that the Company's internal control over financial reporting is effective.

Ernst & Young, LLP, independent registered public accounting firm, has audited the financial statements of the Company for the fiscal years ended December 31, 2019, 2018 and 2017 and the Company's internal control over financial reporting as of December 31, 2019. Their reports are presented on the following pages. The independent registered public accountants and internal auditors advise management of the results of their audits, and make recommendations to improve the system of internal controls. Management evaluates the audit recommendations and takes appropriate action.

McDONALD'S CORPORATION

February 26, 2020

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of McDonald’s Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of McDonald’s Corporation (the Company) as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Adoption of New Accounting Standards

As discussed in the Summary of Significant Accounting Policies note to the consolidated financial statements, the Company changed its method of accounting for leases in 2019 due to the adoption of ASU No. 2016-02, Leases (Topic 842).

Basis for Opinion

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

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

Critical Audit Matters

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

Unrecognized Tax Benefits

Description of the Matter	As described in the income taxes footnote to the consolidated financial statements, the Company's unrecognized tax benefits, which includes transfer pricing matters, totaled $1,439 million at December 31, 2019. The Company, like other multi-national companies, is regularly audited by federal, state and foreign tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may still be recorded depending on management's assessment of how the tax position will ultimately be settled. Auditing the measurement of unrecognized tax benefits related to transfer pricing used in intercompany transactions was challenging because the measurement is based on judgmental interpretations of complex tax laws and legal rulings and because the pricing of the intercompany transactions is based on studies that may produce a range of outcomes (e.g., the price that would be charged in an arm's-length transaction).
How We Addressed the Matter in Our Audit	We obtained an understanding, evaluated the design, and tested the operating effectiveness of controls over the Company's process to assess the technical merits and measure unrecognized tax benefits related to transfer pricing used in intercompany transactions. For example, we tested management's review of the unrecognized tax benefit calculations, which included evaluation of the comparable transactions used to determine the ranges of outcomes, pricing conclusions reached in management's transfer pricing studies, and the assessment of other third-party information. With the assistance of our income tax professionals, we performed audit procedures that included, among others, evaluating the technical merits of the Company's position and testing the measurement of unrecognized tax benefits related to transfer pricing. For example, we assessed the inputs utilized and the pricing conclusions reached in the transfer pricing studies executed by management, and compared the methods used to alternative methods and industry benchmarks. We also reviewed the Company's communications with the relevant tax authorities and any advice obtained by the Company from third-party advisors. In addition, we used our knowledge of historical settlement activity, income tax laws, and other market information to evaluate the technical merits of the positions and the measurement of unrecognized tax benefits related to transfer pricing.

ERNST & YOUNG LLP

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

Chicago, Illinois
February 26, 2020

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

The Board of Directors and Shareholders of McDonald's Corporation

Opinion on Internal Control over Financial Reporting

We have audited McDonald's Corporation's internal control over financial reporting as of December 31, 2019, based on criteria established in Internal Control- Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, McDonald's Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of McDonald's Corporation as of December 31, 2019 and 2018, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2019, and the related notes and our report dated February 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

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

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

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

Definition and Limitations of Internal Control Over Financial Reporting

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

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

ERNST & YOUNG LLP

Chicago, Illinois
February 26, 2020

Controls and Procedures

DISCLOSURE CONTROLS

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), over the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2019. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms.

INTERNAL CONTROL OVER FINANCIAL REPORTING

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended December 31, 2019 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

MANAGEMENT'S REPORT

Management's Report and the Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting are set forth in the Consolidated Financial Statements.

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

The following table summarizes information about the Company's equity compensation plans as of December 31, 2019. All outstanding awards relate to the Company's common stock. Shares issued under all of the following plans may be from the Company's treasury, newly issued or both.

Equity compensation plan information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	16,029,240 (1)	$ 126.54	26,481,096
Equity compensation plans not approved by security holders	—	—	—
Total	16,029,240	$ 126.54	26,481,096

(1) Includes 1,587,414 stock options granted under the McDonald's Corporation 2001 Omnibus Stock Ownership Plan and 13,049,313 stock options and 1,392,513 restricted stock units granted under the McDonald's Corporation 2012 Omnibus Stock Ownership Plan.

Additional matters are incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

Exhibits and Financial Statement Schedules

a. (1) All financial statements

Consolidated financial statements filed as part of this report and are included on pages 33 through 54 of this Form 10-K.

(2) Financial statement schedules

No schedules are required because either the required information is not present or is not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or the notes thereto.

b. Exhibits

The exhibits listed in the accompanying index are filed as part of this report.

McDonald's Corporation Exhibit Index

Exhibit Number	Description
(3)	(a) Restated Certificate of Incorporation, effective as of May 23, 2019, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), filed August 6, 2019.
	(b) By-Laws, as amended and restated with effect as of December 6, 2019, incorporated herein by reference from Exhibit 3 of Form 8-K (File No. 001-05231), filed December 10, 2019.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, dated as of October 19, 1996, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b) Subordinated Debt Securities Indenture, dated as of October 18, 1996, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(c) Description of Securities.
(10)	Material Contracts
	(a) Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
	(b) McDonald's Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (File No. 001-05231), for the year ended December 31, 2016.**
	(i) First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, incorporated herein by reference from Exhibit 10(b)(i) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2018.**
	(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**
	(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**
	(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**
	(d) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**
	(i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**
	(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**
	(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**
	(f) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**
	(g) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

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

(i) Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

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

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

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

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

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

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

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

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

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

(12)	Computation of Ratios.
(21)	Subsidiaries of the Registrant.
(23)	Consent of Independent Registered Public Accounting Firm.
(24)	Power of Attorney.
(31.1)	Rule 13a-14(a) Certification of Chief Executive Officer.
(31.2)	Rule 13a-14(a) Certification of Chief Financial Officer.
(32.1)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101.INS)	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
(101.SCH)	Inline XBRL Taxonomy Extension Schema Document.
(101.CAL)	Inline XBRL Taxonomy Extension Calculation Linkbase Document.
(101.DEF)	Inline XBRL Taxonomy Extension Definition Linkbase Document.
(101.LAB)	Inline XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	Inline XBRL Taxonomy Extension Presentation Linkbase Document.
(104)	Cover Page Interactive Data File - the cover page XBRL tags are embedded within the Inline XBRL document.

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

** Denotes compensatory plan.

Form 10-K Cross-Reference Index

(a) - Incorporated herein by reference from the Company's definitive proxy statement, which will be filed no later than 120 days after December 31, 2019.

Signatures

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

McDonald's Corporation
(Registrant)

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

February 26, 2020

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in their capacities indicated below on the 26th day of February, 2020:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Exhibit 4(c)

MCDONALD'S CORPORATION
DESCRIPTION OF SECURITIES

DESCRIPTION OF COMMON STOCK

McDonald's may issue, from time to time, shares of our common stock, the general terms and provisions of which are summarized below. This summary does not purport to be complete and is subject to, and is qualified in its entirety by express reference to, the applicable provisions of our Restated Certificate of Incorporation, our Amended and Restated By-Laws, and the DGCL. The prospectus supplement relating to an offering of our common stock will describe the details of the offering including the number of shares offered, the initial offering price and updated market price and dividend information.

Authorized Shares

McDonald's is authorized to issue up to 3.5 billion shares of common stock with one cent ($0.01) par value per share. As of December 31, 2019, we had approximately 1.7 billion shares of common stock issued (including approximately 914.3 million shares held in treasury) and had reserved approximately 42.5 million shares of common stock for issuance under various employee or director incentive compensation and option plans. Shares of common stock are listed on the New York Stock Exchange under the symbol "MCD".

Dividend Rights

Holders of common stock are entitled to receive dividends when, as and if declared by the Board of Directors, out of assets legally available for their payment, subject to the rights of holders of any preferred stock outstanding.

Voting Rights

Subject to any rights of the holders of any series of preferred stock pursuant to applicable law or the provision of the certificate of designation creating that series, all voting rights are vested in the holders of shares of common stock. Each holder of common stock is entitled to one vote per share, and voting rights are noncumulative.

Liquidation Rights

In the event of our voluntary or involuntary liquidation, dissolution or winding up, the holders of common stock will be entitled to share equally in any of our assets available for distribution after the payment in full of all debts and distributions and after the holders of any series of outstanding preferred stock have received their liquidation preferences in full.

Other Rights

Holders of shares of common stock are not entitled to preemptive rights. Shares of common stock are not convertible into shares of any other class of capital stock. If we merge or consolidate with or into another company and as a result our common stock is converted into or exchangeable for shares of stock, other securities or property (including cash), all holders of common stock will be entitled to receive the same kind and amount of consideration per share of common stock.

Transfer Agent and Registrar

Computershare Investor Services, LLC is the transfer agent and registrar for our common stock.

Provisions Related to a Change in Control

Some provisions of our Restated Certificate of Incorporation, our Amended and Restated By-Laws and the DGCL may have the effect of delaying, deferring or preventing a tender offer for or the attempted takeover of the Company. Our Restated Certificate of Incorporation and Amended and Restated By-Laws, in accordance with the DGCL, provide for the following:

Board of Directors. That (a) the Board of Directors may establish the number of directors who constitute the Board of Directors; and (b) newly-created directorships and vacancies on the Board of Directors other than at the annual meeting are filled by majority vote of the remaining directors.

Special Meetings. That special meetings of stockholders may be called only by our Board of Directors pursuant to a resolution approved by a majority of the entire Board of Directors or by the Secretary of the Company at the written request of stockholders who have a "net long position" (as defined in our Restated Certificate of Incorporation) of not less than 25% of the outstanding shares of our common stock.

Stockholder Action by Written Consent. That all stockholder action be taken at a duly called annual or special meeting of the stockholders and not by any consent in writing.

Requirements for Advance Notification of Stockholder Nominations and Proposals. That we must be given advance notice for a stockholder to nominate directors for election and to present any other business at a stockholder meeting.

Delaware Takeover Statute. We are subject to Section 203 of the DGCL. In general, Section 203 prohibits a publicly-held Delaware corporation from engaging in a "business combination" with an "interested stockholder" for a period of three years following the date the person became an interested stockholder, unless the "business combination" or the transaction in which the person became an interested stockholder is approved in a prescribed manner or, upon consummation of the transaction which resulted in the stockholder becoming an interested stockholder, the interested stockholder owns at least 85% of the corporation's voting stock outstanding at the time the transaction commenced, excluding for purposes of determining the outstanding voting stock (but not the outstanding voting stock owned by the interested stockholder) those shares owned (i) by persons who are directors and also officers, and (ii) employee stock plans in which employee participants do not have the right to determine confidentially whether shares held subject to the plan will be tendered in a tender or exchange offer. Generally, a "business combination" includes a merger, asset or stock sale, or other transaction resulting in a financial benefit to the interested stockholder. Generally, an "interested stockholder" is a person who (i) owns 15% or more of a corporation's outstanding voting stock, or (ii) is an affiliate or associate of a corporation who owns or, within three years prior to the determination of interested stockholder status, did own, 15% or more of a corporation's outstanding voting stock; and the affiliates and associates of such person. The existence of this provision may have an anti-takeover effect with respect to transactions not approved in advance by the Board of Directors, including discouraging attempts that might result in a premium over the market price for the shares of common stock held by stockholders.

Additional Authorized Shares of Capital Stock. The additional shares of authorized common stock and preferred stock available for issuance could be issued at such times, under such circumstances and with such terms and conditions as to further delay, deter or prevent a change in control.

Exhibit 12. Computation of Ratios

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

Dollars in millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Total debt obligations	**$34,177.2**	$31,075.3	$29,536.4
Fair value adjustments	**(12.1)**	12.0	6.2
Deferred debt costs	**140.4**	129.0	120.5
Debt obligations before fair value adjustments and deferred debt costs	**$34,305.5**	$31,216.3	$29,663.1
Fixed-rate debt	**$31,466.8**	$28,358.1	$26,345.0
Fixed-rate debt as a percent of total debt	**92%**	91%	89%

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

(2) Includes the effect of interest rate swaps.

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

Dollars in millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Total debt obligations	**$34,177.2**	$31,075.3	$29,536.4
Fair value adjustments	**(12.1)**	12.0	6.2
Deferred debt costs	**140.4**	129.0	120.5
Debt obligations before fair value adjustments and deferred debt costs	**$34,305.5**	$31,216.3	$29,663.1
Foreign currency-denominated debt	**$12,916.0**	$11,790.6	$12,379.8
Foreign currency-denominated debt as a percent of total debt	**38%**	38%	42%

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

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

Dollars in millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Total debt obligations	**$34,177.2**	$31,075.3	$29,536.4
Fair value adjustments	**(12.1)**	12.0	6.2
Deferred debt costs	**140.4**	129.0	120.5
Debt obligations before fair value adjustments and deferred debt costs	**$34,305.5**	$31,216.3	$29,663.1
Total capitalization	**$26,095.2**	$24,957.9	$26,395.1
Total debt as a percent of total capitalization	**131%**	125%	112%

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

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

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

Dollars in millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Total debt obligations	**$34,177.2**	$31,075.3	$29,536.4
Fair value adjustments	**(12.1)**	12.0	6.2
Deferred debt costs	**140.4**	129.0	120.5
Debt obligations before fair value adjustments and deferred debt costs	**$34,305.5**	$31,216.3	$29,663.1
Cash provided by operations	**$ 8,122.1**	$ 6,966.7	$ 5,551.2
Cash provided by operations as a percent of total debt	**24%**	22%	19%

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

Free Cash Flow and Free Cash Flow Conversion Rate

Dollars in millions	*Years ended December 31,* ***2019***	*2018*	*2017*
Cash Provided by Operations	**$ 8,122.1**	$ 6,966.7	$ 5,551.2
Less: Capital expenditures	**2,393.7**	2,741.7	1,853.7
Free cash flow	**$ 5,728.4**	$ 4,225.0	$ 3,697.5
Divided by: Net income	**6,025.4**	5,924.3	5,192.3
Free cash flow conversion rate	**95.1%**	71.3%	71.2%

Reconciliation of Returns on Incremental Invested Capital

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

The denominator is the weighted-average cash used for investing activities during the applicable one-or three-year period. The weighted-average cash used for investing activities is based on a weighting applied on a quarterly basis. These weightings are used to reflect the estimated contribution of each quarter's investing activities to incremental operating income. For example, fourth quarter 2019 investing activities are weighted less because the assets purchased have only recently been deployed and would have generated little incremental operating income (12.5% of fourth quarter 2019 investing activities are included in the one-year and three-year calculations). In contrast, fourth quarter 2018 is heavily weighted because the assets purchased were deployed more than 12 months ago, and therefore have a full-year impact on 2019 operating income, with little or no impact to the base period (87.5% and 100.0% of fourth quarter 2018 investing activities are included in the one-year and three-year calculations, respectively). Cash used for investing activities can vary significantly by quarter, resulting in a weighted-average that may be higher or lower than the simple average of the periods presented. Management believes that weighting cash used for investing activities provides a more accurate reflection of the relationship between its investments and returns than a simple average.

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

One-year ROIIC calculation (dollars in millions):

Years ended December 31,	***2019***	*2018*	*Increase/ (decrease)*
NUMERATOR:			
Operating income	**$ 9,069.8**	$8,822.6	$ 247.2
Depreciation and amortization	**1,617.9**	1,482.0	135.9
Currency translation[(1)]			307.2
Change in operating income plus depreciation and amortization (at constant foreign exchange rates)			**$ 690.3**
DENOMINATOR:			
Weighted-average cash used for investing activities[(2)]			$3,013.8
Currency translation[(1)]			8.1
Weighted-average cash used for investing activities (at constant foreign exchange rates)			**$3,021.9**
One-year ROIIC[(3)]			**22.8%**

Three-year ROIIC calculation (dollars in millions):

Years ended December 31,	***2019***	*2016*	*Increase/ (decrease)*
NUMERATOR:			
Operating income	**$ 9,069.8**	$7,744.5	$ 1,325.3
Depreciation and amortization	**1,617.9**	1,516.5	101.4
Currency translation[(1)]			171.5
Change in operating income plus depreciation and amortization (at constant foreign exchange rates)			**$ 1,598.2**
DENOMINATOR:			
Weighted-average cash used for investing activities[(2)]			$ 3,931.1
Currency translation[(1)]			7.5
Weighted-average cash used for investing activities (at constant foreign exchange rates)			**$ 3,938.6**
Three-year ROIIC[(3)]			**40.6%**

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

(2) Represents one-year and three-year, respectively, weighted-average cash used for investing activities, determined by applying the weightings below to the cash (provided by) used for investing activities for each quarter in the two-year and four-year periods ended December 31, 2019.

	Years ended December 31,	
	2019	*2018*
Cash (provided by) used for investing activities	***$ 3,071.1***	*$ 2,455.1*
AS A PERCENT		
Quarters ended:		
March 31	***87.5%***	*12.5%*
June 30	***62.5***	*37.5*
September 30	***37.5***	*62.5*
December 31	***12.5***	*87.5*

	Years ended December 31,			
	2019	*2018*	*2017*	*2016*
Cash (provided by) used for investing activities	***$ 3,071.1***	*$ 2,455.1*	*$ (562.0)*	*$ 981.6*
AS A PERCENT				
Quarters ended:				
March 31	***87.5%***	*100.0%*	*100.0%*	*12.5%*
June 30	***62.5***	*100.0*	*100.0*	*37.5*
September 30	***37.5***	*100.0*	*100.0*	*62.5*
December 31	***12.5***	*100.0*	*100.0*	*87.5*

(3) Significant investing cash flows resulting from the Company's strategic refranchising initiatives impacted the three-year ROIIC calculation by 16.0%. Excluding these cash flows, three-year ROIIC was 24.6%.

Exhibit 21. Subsidiaries of the Registrant

Name of Subsidiary [State or Country of Incorporation]

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

Foreign Subsidiaries
3072447 Nova Scotia Company [Canada]
HanGook McDonald's Co. Ltd. [South Korea]
Limited Liability Company "NRO" [Russia]
Moscow-McDonalds [Russia]
McDonald's Limited Liability Company [Russia]
McD APMEA Singapore Investments Pte. Ltd. [Singapore]
MCD Europe Limited [United Kingdom]
MCD Global Franchising Limited [United Kingdom]
McDonald's Australia Limited [Australia]
McDonald's France S.A.S. [France]
McDonald's Franchise GmbH [Austria]
McDonald's GmbH [Germany]
McDonald's Immobilien Gesellschaft mit beschränkter Haftung [Germany]
McDonald's Liegenschaftsverwaltung Gesellschaft m.b.H [Austria]
McDonald's Nederland B.V. [Netherlands]
McDonald's Polska Sp. z o.o [Poland]
McDonald's Real Estate LLP [United Kingdom]
McDonald's Restaurants Limited [United Kingdom]
McDonald's Restaurants of Canada Limited [Canada]
McDonald's Suisse Development Sàrl [Switzerland]
McDonald's Suisse Franchise Sàrl [Switzerland]
McDonald's Suisse Restaurants Sàrl [Switzerland]
Restaurantes McDonald's, S.A.U. [Spain]

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

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

Exhibit 23. Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements of McDonald's Corporation (listed below) and in the related prospectuses of our reports dated February 26, 2020 with respect to the consolidated financial statements of McDonald's Corporation and the effectiveness of internal control over financial reporting of McDonald's Corporation, included in this Annual Report (Form 10-K) for the year ended December 31, 2019.

Commission File No. for Registration Statements

Forms S-8	Form S-3
333-230498	333-226380
333-225280	
333-71656	
333-115770	
333-149990	
333-177314	
333-193015	

ERNST & YOUNG LLP

Chicago, Illinois
February 26, 2020

Exhibit 24. Power of Attorney

Power of Attorney

KNOW ALL PERSONS BY THESE PRESENTS, that each of the undersigned, being a director or officer, or both, of McDonald's Corporation, a Delaware corporation (the “Company”), hereby constitutes and appoints Denise A. Horne, Catherine Hoovel, Kevin M. Ozan and Jerome N. Krulewitch, and each one of them, as his or her true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him or her and in his or her name, place and stead, in any and all capacities to execute any and all amendments to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2019, to be filed with the U.S. Securities and Exchange Commission by the Company under the Securities Exchange Act of 1934, as amended, with all exhibits thereto, and other documents in connection therewith, granting unto said attorneys-in-fact and agents, and each one of them, full power and authority to do and perform each and every act and thing requisite or necessary to be done in and about the premises, as fully to all intents and purposes as he or she might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any one of them, or their or his or her substitutes, may lawfully do or cause to be done by virtue hereof.

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

IN WITNESS WHEREOF, each of the undersigned has executed this Power of Attorney on and as of the 26th day of February, 2020.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

I, Christopher J. Kempczinski, certify that:

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

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Christopher J. Kempczinski

Christopher J. Kempczinski

President and Chief Executive Officer

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

I, Kevin M. Ozan, certify that:

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

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

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

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

  (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

  (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

  (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

  (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

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

  (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

  (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 26, 2020

/s/ Kevin M. Ozan

Kevin M. Ozan

Corporate Executive Vice President and
Chief Financial Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2019 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2020

/s/ Christopher J. Kempczinski

Christopher J. Kempczinski

President and Chief Executive Officer

Exhibit 32.2. Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Annual Report on Form 10-K for the year ended December 31, 2019 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 26, 2020

/s/ Kevin M. Ozan

Kevin M. Ozan

Corporate Executive Vice President and
Chief Financial Officer