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Table of Contents

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, DC 20549**

# FORM 10-Q

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

**For the quarterly period ended September 30, 2018**

**OR**

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

**For the transition period from_____ to_____**

**Commission File Number 1-5231**

# McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

| **Delaware** | **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) |

**(630) 623-3000**

(Registrant's Telephone Number, Including Area Code)

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 x No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted 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 x 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 x | 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 x

**770,910,250**
(Number of shares of common stock outstanding as of September 30, 2018)

Table of Contents

McDONALD'S CORPORATION

INDEX


| | Page Reference |
|---|---|
| Part I. Financial Information | |
| Item 1 – Financial Statements | |
| Condensed consolidated balance sheet, September 30, 2018 (unaudited) and December 31, 2017 | 3 |
| Condensed consolidated statement of income (unaudited), quarters and nine months ended September 30, 2018 and 2017 | 4 |
| Condensed consolidated statement of comprehensive income (unaudited), quarters and nine months ended September 30, 2018 and 2017 | 5 |
| Condensed consolidated statement of cash flows (unaudited), quarters and nine months ended September 30, 2018 and 2017 | 6 |
| Condensed consolidated statement of shareholders' equity (unaudited), for the nine months ended September 30, 2018 | 7 |
| Notes to condensed consolidated financial statements (unaudited) | 8 |
| Item 2 – Management's Discussion and Analysis of Financial Condition and Results of Operations | 14 |
| Item 3 – Quantitative and Qualitative Disclosures About Market Risk | 34 |
| Item 4 – Controls and Procedures | 34 |
| Part II. Other Information | |
| Item 1 – Legal Proceedings | 35 |
| Item 1A – Risk Factors | 35 |
| Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds | 35 |
| Item 6 – Exhibits | 36 |
| Signature | 39 |


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Table of Contents

**PART I – FINANCIAL INFORMATION**
**Item 1. Financial Statements**
**CONDENSED CONSOLIDATED BALANCE SHEET**

| In millions, except per share data | (unaudited) September 30, 2018 | December 31, 2017 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and equivalents | **$ 2,574.5** | $ 2,463.8 |
| Accounts and notes receivable | **2,266.8** | 1,976.2 |
| Inventories, at cost, not in excess of market | **41.9** | 58.8 |
| Prepaid expenses and other current assets | **669.9** | 828.4 |
| **Total current assets** | **5,553.1** | 5,327.2 |
| **Other assets** | | |
| Investments in and advances to affiliates | **1,135.5** | 1,085.7 |
| Goodwill | **2,345.0** | 2,379.7 |
| Miscellaneous | **2,406.5** | 2,562.8 |
| **Total other assets** | **5,887.0** | 6,028.2 |
| **Property and equipment** | | |
| Property and equipment, at cost | **36,946.4** | 36,626.4 |
| Accumulated depreciation and amortization | **(14,332.8)** | (14,178.1) |
| **Net property and equipment** | **22,613.6** | 22,448.3 |
| **Total assets** | **$ 34,053.7** | $ 33,803.7 |
| **Liabilities and shareholders' equity** | | |
| **Current liabilities** | | |
| Accounts payable | **$ 932.8** | $ 924.8 |
| Dividends payable | **888.0** | — |
| Income taxes | **160.0** | 265.8 |
| Other taxes | **256.4** | 275.4 |
| Accrued interest | **314.7** | 278.4 |
| Accrued payroll and other liabilities | **1,074.8** | 1,146.2 |
| **Total current liabilities** | **3,626.7** | 2,890.6 |
| **Long-term debt** | **31,895.2** | 29,536.4 |
| **Long-term income taxes** | **2,376.4** | 2,370.9 |
| **Deferred revenues - initial franchise fees** | **617.0** | — |
| **Other long-term liabilities** | **1,129.2** | 1,154.4 |
| **Deferred income taxes** | **1,201.8** | 1,119.4 |
| **Shareholders' equity (deficit)** | | |
| Preferred stock, no par value; authorized – 165.0 million shares; issued – none | **—** | — |
| Common stock, $.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares | **16.6** | 16.6 |
| Additional paid-in capital | **7,257.2** | 7,072.4 |
| Retained earnings | **49,076.2** | 48,325.8 |
| Accumulated other comprehensive income (loss) | **(2,508.3)** | (2,178.4) |
| Common stock in treasury, at cost; 889.7 and 866.5 million shares | **(60,634.3)** | (56,504.4) |
| **Total shareholders' equity (deficit)** | **(6,792.6)** | (3,268.0) |
| **Total liabilities and shareholders' equity (deficit)** | **$ 34,053.7** | $ 33,803.7 |

See Notes to condensed consolidated financial statements.

3

Table of Contents

**CONDENSED CONSOLIDATED STATEMENT OF INCOME**
**(UNAUDITED)**

| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **In millions, except per share data** | **2018** | 2017 | **2018** | 2017 |
| **Revenues** | | | | |
| Sales by Company-operated restaurants | **$2,511.0** | $3,064.3 | **$7,641.5** | $10,045.8 |
| Revenues from franchised restaurants | **2,858.4** | 2,690.3 | **8,220.7** | 7,434.4 |
| **Total revenues** | **5,369.4** | 5,754.6 | **15,862.2** | 17,480.2 |
| **Operating costs and expenses** | | | | |
| Company-operated restaurant expenses | **2,047.9** | 2,479.8 | **6,309.3** | 8,199.5 |
| Franchised restaurants-occupancy expenses | **499.4** | 457.3 | **1,463.6** | 1,325.4 |
| Selling, general & administrative expenses | **515.2** | 567.0 | **1,590.4** | 1,613.7 |
| Other operating (income) expense, net | **(110.8)** | (828.9) | **(324.2)** | (1,066.9) |
| **Total operating costs and expenses** | **2,951.7** | 2,675.2 | **9,039.1** | 10,071.7 |
| **Operating income** | **2,417.7** | 3,079.4 | **6,823.1** | 7,408.5 |
| Interest expense | **250.1** | 236.7 | **727.1** | 686.2 |
| Nonoperating (income) expense, net | **8.9** | 23.2 | **31.3** | 33.9 |
| **Income before provision for income taxes** | **2,158.7** | 2,819.5 | **6,064.7** | 6,688.4 |
| Provision for income taxes | **521.4** | 935.8 | **1,555.7** | 2,194.8 |
| **Net income** | **$1,637.3** | $1,883.7 | **$4,509.0** | $4,493.6 |
| **Earnings per common share-basic** | **$2.12** | $2.34 | **$5.77** | $5.54 |
| **Earnings per common share-diluted** | **$2.10** | $2.32 | **$5.72** | $5.48 |
| **Dividends declared per common share** | **$2.17** | $1.95 | **$4.19** | $3.83 |
| **Weighted-average shares outstanding-basic** | **772.8** | 805.3 | **781.2** | 811.8 |
| **Weighted-average shares outstanding-diluted** | **779.6** | 813.5 | **788.5** | 819.4 |

See Notes to condensed consolidated financial statements.

Table of Contents

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)**

| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **In millions** | **2018** | 2017 | **2018** | 2017 |
| Net income | **$1,637.3** | $1,883.7 | **$4,509.0** | $4,493.6 |
| Other comprehensive income (loss), net of tax | | | | |
| **Foreign currency translation adjustments:** | | | | |
| Gain (loss) recognized in accumulated other comprehensive income ("AOCI"), including net investment hedges | **(78.8)** | 247.3 | **(379.5)** | 780.6 |
| Reclassification of (gain) loss to net income | **—** | 4.9 | **—** | 109.3 |
| **Foreign currency translation adjustments-net of tax benefit (expense) of $(19.0), $104.0, $(90.6) and $376.4** | **(78.8)** | 252.2 | **(379.5)** | 889.9 |
| **Cash flow hedges:** | | | | |
| Gain (loss) recognized in AOCI | **8.6** | (14.5) | **33.2** | (44.8) |
| Reclassification of (gain) loss to net income | **(5.2)** | 9.1 | **10.4** | 3.2 |
| **Cash flow hedges-net of tax benefit (expense) of $(1.2), $3.1, $(13.0) and $23.5** | **3.4** | (5.4) | **43.6** | (41.6) |
| **Defined benefit pension plans:** | | | | |
| Gain (loss) recognized in AOCI | **—** | — | **(1.1)** | (0.3) |
| Reclassification of (gain) loss to net income | **2.1** | 2.9 | **7.1** | 8.2 |
| **Defined benefit pension plans-net of tax benefit (expense) of $0.0, $0.0, $(0.8) and $(0.5)** | **2.1** | 2.9 | **6.0** | 7.9 |
| Total other comprehensive income (loss), net of tax | **(73.3)** | 249.7 | **(329.9)** | 856.2 |
| **Comprehensive income (loss)** | **$1,564.0** | $2,133.4 | **$4,179.1** | $5,349.8 |

See Notes to condensed consolidated financial statements.

Table of Contents

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**(UNAUDITED)**

| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **In millions** | **2018** | 2017 | **2018** | 2017 |
| **Operating activities** | | | | |
| Net income | **$1,637.3** | $1,883.7 | **$4,509.0** | $4,493.6 |
| Adjustments to reconcile to cash provided by operations | | | | |
| Charges and credits: | | | | |
| Depreciation and amortization | **375.1** | 355.8 | **1,103.0** | 1,020.6 |
| Deferred income taxes | **31.1** | 225.1 | **114.7** | 375.6 |
| Share-based compensation | **36.0** | 39.5 | **99.7** | 83.5 |
| Net gain on sale of restaurant businesses | **(68.0)** | (902.0) | **(257.1)** | (1,065.2) |
| Other | **15.3** | (42.3) | **58.8** | (67.8) |
| Changes in working capital items | **444.3** | 124.7 | **(173.0)** | (398.4) |
| **Cash provided by operations** | **2,471.1** | 1,684.5 | **5,455.1** | 4,441.9 |
| **Investing activities** | | | | |
| Capital expenditures | **(703.8)** | (416.9) | **(1,867.9)** | (1,213.3) |
| Purchases of restaurant businesses | **(40.2)** | (20.8) | **(75.5)** | (38.9) |
| Sales of restaurant businesses | **109.5** | 1.9 | **439.4** | 851.8 |
| Proceeds from sale of businesses in China and Hong Kong | **—** | 1,597.0 | **—** | 1,597.0 |
| Sales of property | **11.3** | 59.2 | **135.8** | 153.3 |
| Other | **(98.1)** | (45.7) | **(203.0)** | (183.9) |
| **Cash provided by (used for) investing activities** | **(721.3)** | 1,174.7 | **(1,571.2)** | 1,166.0 |
| **Financing activities** | | | | |
| Net short-term borrowings | **(801.4)** | (55.8) | **(5.7)** | (834.3) |
| Long-term financing issuances | **1,791.9** | 0.4 | **3,792.1** | 2,530.5 |
| Long-term financing repayments | **(1.9)** | (3.6) | **(1,004.7)** | (407.1) |
| Treasury stock purchases | **(1,040.7)** | (2,081.7) | **(4,280.8)** | (3,937.4) |
| Common stock dividends | **(779.8)** | (755.3) | **(2,363.4)** | (2,287.4) |
| Proceeds from stock option exercises | **69.2** | 82.5 | **236.2** | 373.1 |
| Other | **(5.3)** | 3.5 | **(12.1)** | (1.1) |
| **Cash used for financing activities** | **(768.0)** | (2,810.0) | **(3,638.4)** | (4,563.7) |
| **Effect of exchange rates on cash and cash equivalents** | **(30.8)** | 76.2 | **(134.8)** | 229.6 |
| Cash and equivalents increase | **951.0** | 125.4 | **110.7** | 1,273.8 |
| Change in cash balances of businesses held for sale | — | 153.4 | — | 174.0 |
| Cash and equivalents at beginning of period | **1,623.5** | 2,392.4 | **2,463.8** | 1,223.4 |
| **Cash and equivalents at end of period** | **$2,574.5** | $2,671.2 | **$2,574.5** | $2,671.2 |

See Notes to condensed consolidated financial statements.

Table of Contents

## CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

| | *Common stock issued* | | | | *Accumulated other comprehensive income (loss)* | | | *Common stock in treasury* | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *In millions, except per share data* | *Shares* | *Amount* | *Additional paid-in capital* | *Retained earnings* | *Pensions* | *Cash flow hedges* | *Foreign currency translation* | *Shares* | *Amount* | *Total shareholders' equity* |
| 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 | | | | 4,509.0 | | | | | | 4,509.0 |
| Other comprehensive income (loss), net of tax | | | | | 6.0 | 43.6 | (379.5) | | | (329.9) |
| Comprehensive income | | | | | | | | | | 4,179.1 |
| 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) | | | | (3,251.4) | | | | | | (3,251.4) |
| Treasury stock purchases | | | | | | | | (26.7) | (4,280.8) | (4,280.8) |
| Share-based compensation | | | 99.7 | | | | | | | 99.7 |
| Stock option exercises and other | | | 85.1 | | | | | 3.5 | 150.9 | 236.0 |
| Balance at September 30, 2018 | 1,660.6 | 16.6 | 7,257.2 | 49,076.2 | (184.2) | 27.1 | (2,351.2) | (889.7) | (60,634.3) | (6,792.6) |

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers." Refer to the ***Recent Accounting Pronouncements*** footnote on page 9 for further details.

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." Refer to the ***Recent Accounting Pronouncements*** footnote on page 9 for further details.

See Notes to condensed consolidated financial statements.

Table of Contents

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**Basis of Presentation**

The accompanying condensed consolidated financial statements should be read in conjunction with the consolidated financial statements contained in the Company's December 31, 2017 Annual Report on Form 10-K. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. The results for the quarter and nine months ended September 30, 2018, do not necessarily indicate the results that may be expected for the full year.

**Restaurant Information**

The following table presents restaurant information by ownership type:

| **Restaurants at September 30,** | **2018** | 2017 |
|---|---|---|
| Conventional franchised | **21,586** | 21,214 |
| Developmental licensed | **7,103** | 6,824 |
| Foreign affiliated | **6,056** | 5,708 |
| Total Franchised | **34,745** | 33,746 |
| Company-operated | **2,812** | 3,230 |
| Systemwide restaurants | **37,557** | 36,976 |

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 condensed consolidated financial statements for the periods prior to purchase and sale.

**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 6.8 million shares and 8.2 million shares for the quarters 2018 and 2017, respectively, and 7.3 million shares and 7.6 million shares for the nine months 2018 and 2017, respectively. Stock options that would have been antidilutive, and therefore were not included in the calculation of diluted weighted-average shares, totaled 2.5 million shares and 0.1 million shares for the quarters 2018 and 2017, respectively, and 2.5 million shares and 0.7 million shares for the nine months 2018 and 2017, respectively.

In September 2018, McDonald's Board of Directors declared a fourth quarter dividend of $1.16 per share of common stock, resulting in $888.0 million of dividends payable in December 2018.

**Recent Accounting Pronouncements**

***Recently Issued Accounting Standards***

*Measurement Period - Tax Cuts and Jobs Act of 2017*

In December 2017, the Securities and Exchange Commission published Staff Accounting Bulletin No. 118 ("SAB 118"), which provides guidance on reporting for accounting impacts of the Tax Cuts and Jobs Act of 2017 ("Tax Act"). SAB 118 allowed the Company to provide reasonable estimates in its 2017 consolidated financial statements for the income tax effects of the Tax Act and to report those effects as provisional amounts in its financial statements through a limited measurement period. Under SAB 118, the measurement period may not extend beyond one year from the enactment of the Tax Act.

The Company has not completed the accounting for the tax effects of the enactment of the Tax Act, although it has made reasonable estimates of the effects on existing deferred tax balances and on the one-time transition tax on earnings of certain foreign subsidiaries. Certain aspects of the Tax Act are expected to be clarified, and as such, could impact these estimates. The Company will complete the accounting for the tax effects in the fourth quarter 2018. A net provisional tax cost of approximately $700 million was originally recognized in the Company's 2017 consolidated

financial statements, and the Company subsequently recorded an additional $47 million in the third quarter 2018, resulting in a total increase of $99 million for the nine months 2018.

*Lease Accounting*

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, “Leases (Topic 842),” to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Most prominent among the amendments is the recognition of assets and liabilities by lessees for those leases classified as operating leases under current U.S. GAAP. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years, with early adoption permitted. The Company will adopt the new standard effective January 1, 2019.

Table of Contents

At transition, the Company will recognize and measure leases using the required modified retrospective approach. The Company anticipates ASU 2016-02 will have a material impact on the consolidated balance sheet due to the significance of the Company's operating lease portfolio. The Company will elect an optional practical expedient to retain the classification of existing leases, and, therefore, anticipates a minimal initial impact on the consolidated statement of income. The impact of ASU 2016-02 is non-cash in nature; therefore, it will not affect the Company's cash flows.

***Recently Adopted Accounting Standards***

*Derivatives and Hedging*

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities." ASU 2017-12 expanded components of fair value hedging, specifies the recognition and presentation of the effects of hedging instruments, and eliminates the separate measurement and presentation of hedge ineffectiveness. The Company elected to early adopt the new standard in the first quarter of 2018 and applied the presentation and disclosure guidance on a prospective basis. The adoption of the standard did not have a material impact on the Company's condensed consolidated financial statements.

*Income Taxes*

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." The goal of this update 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 condensed consolidated balance sheet. The adoption of this standard did not have a material impact on the condensed consolidated statements of income and cash flows.

*Revenue Recognition*

In May 2014, the FASB issued guidance codified in ASC 606, "Revenue Recognition - Revenue from Contracts with Customers," which amended the guidance in former ASC 605, "Revenue Recognition." The core principle of the standard is to recognize revenue when control of the promised goods or services is transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The standard also requires additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

On January 1, 2018, the Company adopted ASC 606 using the modified retrospective method. Refer to the ***Revenues*** footnote below for further details.

**Revenues**

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

ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This standard does not impact the Company's recognition of revenue from Company-operated restaurants as those sales are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. The standard also does not change the recognition of royalties from restaurants operated by franchisees or licensed to affiliates and developmental licensees, which are based on a percent of sales and recognized at the time the underlying sales occur. Rental income from restaurants operated by conventional franchisees is also not impacted by this standard as those revenues are subject to the guidance in ASC 840, "Leases." The standard does change the timing in which the Company recognizes initial fees from franchisees for new restaurant openings and new franchise terms. The Company's accounting policy through December 31, 2017, was to recognize initial franchise fees when received, upon a new restaurant opening and at the start of a new franchise term. Beginning in January 2018, initial franchise fees are being recognized as the Company satisfies the performance obligation over the franchise term, which is

generally 20 years.

The Company adopted ASC 606 as of January 1, 2018, using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As such, comparative information in the Company's financial statements has not been restated and continues to be reported under the accounting standards in effect for those periods. The cumulative adjustment recorded upon adoption of ASC 606 consisted of deferred revenue of approximately $600 million within long-term liabilities and approximately $150 million of associated adjustments to the deferred tax balances which are recorded in Deferred income taxes and Miscellaneous other assets on the condensed consolidated balance sheet.

Table of Contents

The following table presents revenue disaggregated by revenue source (in millions):

| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| *Company-operated sales* | | | | |
| U.S. | **$637.3** | $798.7 | **$2,042.8** | $2,483.8 |
| International Lead Markets | **992.3** | 1,076.3 | **3,022.1** | 3,038.9 |
| High Growth Markets | **737.8** | 1,054.9 | **2,170.7** | 3,859.5 |
| Foundational Markets & Corporate | **143.6** | 134.4 | **405.9** | 663.6 |
| Total | **$2,511.0** | $3,064.3 | **$7,641.5** | $10,045.8 |
| *Franchised revenues* | | | | |
| U.S. | **$1,292.7** | $1,224.6 | **$3,715.6** | $3,516.9 |
| International Lead Markets | **948.2** | 894.2 | **2,726.8** | 2,388.3 |
| High Growth Markets | **302.4** | 267.2 | **855.7** | 679.0 |
| Foundational Markets & Corporate | **315.1** | 304.3 | **922.6** | 850.2 |
| Total* | **$2,858.4** | $2,690.3 | **$8,220.7** | $7,434.4 |
| *Total revenues* | | | | |
| U.S. | **$1,930.0** | $2,023.3 | **$5,758.4** | $6,000.7 |
| International Lead Markets | **1,940.5** | 1,970.5 | **5,748.9** | 5,427.2 |
| High Growth Markets | **1,040.2** | 1,322.1 | **3,026.4** | 4,538.5 |
| Foundational Markets & Corporate | **458.7** | 438.7 | **1,328.5** | 1,513.8 |
| Total | **$5,369.4** | $5,754.6 | **$15,862.2** | $17,480.2 |

The Company expects the application of ASC 606 to negatively impact 2018 annual franchised revenues by approximately $50 million.

* Results for the quarter and nine months ended September 30, 2018, reflected an impact of approximately $10 million and $25 million, respectively, due to the timing of new restaurant openings and new franchise terms.

**Fair Value Measurements**

The Company measures certain financial assets and liabilities at fair value. Fair value disclosures are reflected in a three-level hierarchy, maximizing the use of observable inputs and minimizing the use of unobservable inputs. The Company did not have any significant changes to the valuation techniques used to measure fair value as described in the Company's December 31, 2017 Annual Report on Form 10-K.

At September 30, 2018, the fair value of the Company’s debt obligations was estimated at $32.8 billion, compared to a carrying amount of $31.9 billion. The fair value was based upon quoted market prices, Level 2 within the valuation hierarchy. The carrying amounts of cash and equivalents, short-term investments and notes receivable approximate fair value.

Table of Contents

**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 following table presents the fair values of derivative instruments included on the condensed consolidated balance sheet:

| | Derivative Assets | | | Derivative Liabilities | | |
|---|---|---|---|---|---|---|
| *In millions* | Balance Sheet Classification | **September 30, 2018** | December 31, 2017 | Balance Sheet Classification | **September 30, 2018** | December 31, 2017 |
| Derivatives designated as hedging instruments | | | | | | |
| Foreign currency | Prepaid expenses and other current assets | **$ 24.7** | $ 0.5 | Accrued payroll and other liabilities | **$ (1.7)** | $ (31.0) |
| Interest rate | | | | Accrued payroll and other liabilities | **(0.6)** | (0.3) |
| Foreign currency | Miscellaneous other assets | **6.5** | 0.1 | Other long-term liabilities | **(0.3)** | (1.4) |
| Interest rate | Miscellaneous other assets | **3.0** | — | Other long-term liabilities | **(27.7)** | (5.9) |
| Total derivatives designated as hedging instruments | | **$ 34.2** | $ 0.6 | | **$ (30.3)** | $ (38.6) |
| Derivatives not designated as hedging instruments | | | | | | |
| Equity | Prepaid expenses and other current assets | **$ 166.4** | $ — | Accrued payroll and other liabilities | **$ (0.2)** | $ (1.3) |
| Foreign currency | Prepaid expenses and other current assets | **12.1** | — | Accrued payroll and other liabilities | **—** | (5.5) |
| Equity | Miscellaneous other assets | **—** | 167.3 | | | |
| Total derivatives not designated as hedging instruments | | **$ 178.5** | $ 167.3 | | **$ (0.2)** | $ (6.8) |
| Total derivatives | | **$ 212.7** | $ 167.9 | | **$ (30.5)** | $ (45.4) |

The following table presents the pre-tax amounts from derivative instruments affecting income and other comprehensive income ("OCI") for the nine months ended September 30, 2018 and 2017, respectively:

| | **Location of Gain or Loss Recognized in Income on Derivative** | **Gain (Loss) Recognized in Accumulated OCI** | | **Gain (Loss) Reclassified into Income from Accumulated OCI** | | **Gain (Loss) Recognized in Income on Derivative** | |
|---|---|---|---|---|---|---|---|
| *In millions* | | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Foreign currency | Nonoperating income/expense | **$42.9** | $(70.1) | **$(12.9)** | $(4.6) | | |
| Interest rate | Interest expense | **—** | — | **(0.8)** | (0.4) | | |
| **Cash flow hedges** | | **$42.9** | $(70.1) | **$(13.7)** | $(5.0) | | |
| Foreign currency denominated debt | Nonoperating income/expense | **$501.6** | $(1,376.1) | **$—** | $— | | |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Foreign currency derivatives | Nonoperating income/expense | **4.2** | (17.4 ) | **—** | 8.6 | | |
| Foreign currency derivatives[1] | Interest expense | | | | | **$1.6** | $— |
| **Net investment hedges** | | **$505.8** | $(1,393.5 ) | **$—** | $8.6 | **$1.6** | $— |
| Foreign currency | Nonoperating income/expense | | | | | **$17.4** | $(23.7 ) |
| Equity | Selling, general & administrative expenses | | | | | **17.3** | 64.0 |
| **Undesignated derivatives** | | | | | | **$34.7** | $40.3 |

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

Table of Contents

**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 September 30, 2018, the carrying amount of fixed-rate debt that was effectively converted was $724.7 million, which included a decrease of $25.3 million of cumulative hedging adjustments. For the nine months ended September 30, 2018, the Company recognized a $19.1 million loss on the fair value of interest rate swaps, and a corresponding gain on the fair value of the related hedged debt instrument to Interest expense.

**Cash Flow Hedges**

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of September 30, 2018, the Company had derivatives outstanding with an equivalent notional amount of $746.0 million that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at September 30, 2018, the $27.1 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

**Net Investment Hedges**

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of September 30, 2018, $11.7 billion of the Company's third party foreign currency denominated debt and $4.1 billion of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

**Undesignated Derivatives**

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

**Credit Risk**

The Company is exposed to credit-related losses in the event of non-performance by its derivative counterparties. The Company did not have significant exposure to any individual counterparty at September 30, 2018 and has master agreements that contain netting arrangements. For financial reporting purposes, the Company presents gross derivative balances in the financial statements and supplementary data, including for counterparties subject to netting arrangements. Some of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At September 30, 2018, the Company was required to post an immaterial amount of collateral due to the negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on certain hedges of the Company’s supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

Table of Contents

**Segment Information**

The Company franchises and operates McDonald's restaurants in the global restaurant industry. The following reporting segments reflect how management reviews and evaluates operating performance.

- U.S. - the Company's largest segment
- International Lead Markets - established markets including Australia, Canada, France, Germany, the U.K. and related markets
- High Growth Markets - markets the Company believes have relatively higher restaurant expansion and franchising potential including China, Italy, South Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, most of which operate under a largely franchised model. Corporate activities are also reported within this segment.

The following table presents the Company's revenues and operating income by segment:

| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
|---|---|---|---|---|
| **In millions** | **2018** | 2017 | **2018** | 2017 |
| **Revenues** | | | | |
| U.S. | **$1,930.0** | $2,023.3 | **$5,758.4** | $6,000.7 |
| International Lead Markets | **1,940.5** | 1,970.5 | **5,748.9** | 5,427.2 |
| High Growth Markets | **1,040.2** | 1,322.1 | **3,026.4** | 4,538.5 |
| Foundational Markets & Corporate | **458.7** | 438.7 | **1,328.5** | 1,513.8 |
| **Total revenues** | **$5,369.4** | $5,754.6 | **$15,862.2** | $17,480.2 |
| **Operating Income** | | | | |
| U.S. | **$1,061.8** | $1,034.6 | **$3,059.0** | $3,055.4 |
| International Lead Markets | **913.9** | 913.6 | **2,613.5** | 2,356.2 |
| High Growth Markets | **330.1** | 1,073.8 | **847.1** | 1,724.0 |
| Foundational Markets & Corporate | **111.9** | 57.4 | **303.5** | 272.9 |
| **Total operating income** | **$2,417.7** | $3,079.4 | **$6,823.1** | $7,408.5 |

**Subsequent Events**

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

Table of Contents

**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

The Company franchises and operates McDonald's restaurants. Of the 37,557 restaurants in 120 countries at September 30, 2018, 34,745 were licensed to franchisees (comprised of 21,586 franchised to conventional franchisees, 7,103 licensed to developmental licensees and 6,056 licensed to foreign affiliates ("affiliates") – primarily in Japan and China) and 2,812 were operated by the Company.

Under McDonald's conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant business, and by reinvesting in the business over time. The Company generally owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. This maintains long-term occupancy rights, helps control related costs and assists in alignment with franchisees enabling restaurant performance levels that are among the highest in the industry. In certain circumstances, the Company participates in the reinvestment for conventional franchised restaurants in an effort to accelerate implementation of certain initiatives.

Under McDonald's developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company generally has no capital invested. In addition, the Company has an equity investment in a limited number of affiliates that invest in real estate and operate or franchise restaurants within a market.

McDonald's is primarily a franchisor and believes franchising is paramount to delivering great-tasting food, locally-relevant customer experiences and driving profitability. Franchising enables an individual to be his or her own employer and maintain control over all employment-related matters, marketing and pricing decisions, while also benefiting from the financial strength and global experience of McDonald's. However, directly operating restaurants is important to being a credible franchisor and provides Company personnel with restaurant operations experience. In Company-operated restaurants, and in collaboration with franchisees, McDonald's further develops and refines operating standards, marketing concepts and product and pricing strategies, so that only those that the Company believes are most beneficial are introduced in the restaurants. McDonald's continually reviews its mix of Company-operated and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term.

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

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales with minimum rent payments, and initial fees. Revenues from restaurants licensed to affiliates and developmental licensees include a royalty based on a percent of sales, and generally include initial fees. Fees vary by type of site, amount of Company investment, if any, and local business conditions. These fees, along with occupancy and operating rights, are stipulated in franchise/license agreements that generally have 20-year terms.

The business is structured into segments that combine markets with similar characteristics and opportunities for growth, and reflect how management reviews and evaluates operating performance. Significant reportable segments include the United States ("U.S."), International Lead Markets and High Growth Markets. In addition, throughout this report we present the Foundational Markets & Corporate segment which includes markets in over 80 countries, as well as Corporate activities. For the nine months ended September 30, 2018, the U.S., the International Lead Markets and the High Growth Markets accounted for 36%, 36% and 19% of total revenues, respectively.

**Strategic Direction**

The Company is focused on delivering long-term growth through systemwide execution of its customer-centric growth strategy - the Velocity Growth Plan. The plan is designed to drive sustainable guest count growth, a reliable long-term measure of the Company's strength that is vital to growing sales and shareholder value.

The Company continues to focus on restaurant execution and elevating the overall customer experience, including convenience, value and food offerings. These actions will enable the Company to deliver on the plan's key pillars of retaining existing customers, regaining lost customers and converting casual customers to committed customers. In each of these pillars, McDonald's has established platforms that enable each market to engage with franchisees to execute the plan, and markets remain focused on acting with speed, efficiency and impact.

With the evolution of the Company's business model to a more heavily franchised structure, the Company recently announced changes it will make to its global operating structure in January 2019. The Company believes this structure further enables the right level of support that contributes to the success of our franchisees and developmental licensees, as well as the sharing of best solutions across international markets.

Table of Contents

Additionally, the Company continues to scale the following growth accelerators:

•**Experience of the Future ("EOTF").** Focuses on restaurant modernization and technology, in order to transform the restaurant service experience and enhance the brand in the eyes of the customer. The modernization efforts are designed to drive incremental customer visits and higher average check. McDonald’s currently has EOTF deployed in over 40% of the restaurants globally, with over half of the U.S. restaurants expected to be deployed by the end of 2018.

•**Digital.** Emphasizes improving the Company's existing service model (i.e., eat in, take out, or drive-thru) and strengthens relationships with customers through technology. By evolving the technology platform, the Company is expanding choices for how customers order, pay and are served through additional functionality on its global mobile app, self-order kiosks and technology driven models that enable table service and curb-side pick-up.

•**Delivery.** Offers a platform of added convenience, bringing McDonald's food to customers on their terms. Delivery is now available from over 15,000 McDonald's restaurants in over 65 markets. In addition to added convenience, delivery transactions tend to realize a higher average check and a high customer satisfaction rating. The Company remains focused on expanding the number of restaurants offering delivery as well as raising awareness and demand in the areas where delivery is already offered.

The Company continues to execute on this aggressive and holistic growth strategy making substantial progress modernizing restaurants and enhancing hospitality. Management is encouraged by the success of restaurants that have already implemented the growth accelerators, and remains confident that the Velocity Growth Plan will drive long-term sustainable growth.

**Financial Performance**

Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as adjustments to the provisional amounts recorded in December 2017 under the Tax Act, and generally bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.

Global comparable sales increased 4.2% for the quarter and 4.5% for the nine months. The refranchising strategy has been a key part of transforming McDonald's into a more stable and more efficient organization focused on continuing to grow top-line sales.

U.S. comparable sales increased 2.4% for the quarter and 2.6% for the nine months, driven by growth in average check resulting from both product mix shifts and menu price increases.

International Lead segment comparable sales increased 5.4% for the quarter and 6.0% for the nine months, reflecting positive results across all markets, primarily driven by the U.K.

High Growth segment comparable sales increased 4.6% for the quarter and 3.9% for the nine months, led by strong performance in Italy and positive results across most of the segment.

Results for the quarter and nine months 2017 reflected a pre-tax gain of approximately $850 million on the sale of the Company's businesses in China and Hong Kong, partly offset by $111 million of unrelated impairment charges, for a net benefit of $0.56 and $0.52 per share, respectively. Results for the nine months 2018 included pre-tax strategic restructuring charges of $94 million, or $0.09 per share (of which $85 million relates to the restructuring of the U.S. business).

Excluding the above items, net income for the quarter increased 14% (17% in constant currencies) and diluted earnings per share increased 19% (22% in constant currencies), and for the nine months net income increased 13% (11% in constant currencies) and diluted earnings per share increased 17% (15% in constant currencies). Results for the quarter and nine months reflected an increase in sales-driven franchised margin dollars and a lower effective tax rate, partly offset by lower Company-operated margin dollars due to the impact of refranchising.

**Third Quarter and Nine Months 2018 Highlights:**

- Global comparable sales increased 4.2% for the quarter and 4.5% for the nine months, reflecting positive comparable sales in all segments.
- Due to the impact of the Company's strategic refranchising initiative, consolidated revenues decreased 7% (5% in constant currencies) for the quarter and 9% (11% in constant currencies) for the nine months.
-

Systemwide sales increased 5% in constant currencies for the quarter and 6% in constant currencies for the nine months.

- Consolidated operating income decreased 21% (20% in constant currencies) for the quarter and 8% (10% in constant currencies) for the nine months. Diluted earnings per share of $2.10 decreased 9% (7% in constant currencies) for the quarter and $5.72 for the nine months increased 4% (3% in constant currencies).

Results for the quarter and nine months 2017 reflected a pre-tax gain of approximately $850 million on the sale of the Company's businesses in China and Hong Kong, partly offset by $111 million of unrelated impairment charges.

Results for the nine months 2018 included pre-tax strategic restructuring charges of $94 million (of which $85 million relates to the restructuring of the U.S. business).

Table of Contents

Excluding these current year and prior year items:

- Consolidated operating income increased 2% (4% in constant currencies) for the quarter and 3% (1% in constant currencies) for the nine months.
- Diluted earnings per share for the quarter increased 19% (22% in constant currencies) and 17% (15% in constant currencies) for the nine months.
- Returned $1.7 billion to shareholders through share repurchases and dividends for the quarter. This brings the nine months return to shareholders to $6.6 billion.

**Outlook**

While the Company does not provide specific guidance on earnings per share, the following information is provided to assist in forecasting the Company's future results.

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion, and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1 percentage point to 2018 Systemwide sales growth (in constant currencies).
- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point change in comparable sales for either the U.S. or the International Lead segment would change annual diluted earnings per share by about 5 to 6 cents.
- Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers." This standard changed the way initial fees from franchisees for new restaurant openings and new franchise terms are recognized. Under the new guidance, initial franchise fees will be recognized evenly over the franchise term. The Company expects the adoption of this guidance to negatively impact 2018 Consolidated franchised revenues and franchised margins by approximately $50 million.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2018, costs for the total basket of goods are expected to increase about 2% in the U.S. and International Lead segments.
- The Company expects full-year 2018 selling, general and administrative expenses to decrease about 1% to 2% in constant currencies.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2018 to increase about 6% to 7% due primarily to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 70% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 30 cents.
- While the Company expects the effective income tax rate for the full-year 2018 to be in the 24% to 26% range, during the fourth quarter the Company will finalize the provisional amounts recorded in December 2017 under the Tax Act, which may cause the final full-year tax rate to be below this range.
- The Company expects capital expenditures for 2018 to be approximately $2.5 billion. About $1.6 billion will be dedicated to our U.S. business, primarily focused on accelerating the pace of EOTF. We expect to complete EOTF in about 4,000 additional U.S. restaurants in 2018, and, as a result, about half of the total U.S. restaurants will have EOTF by the end of 2018. Of the remaining capital, about half will be dedicated to new restaurant openings and the remainder will be primarily allocated to reinvestment in continued expansion of EOTF around the world. The Company will contribute capital towards about 250 restaurant openings, while developmental licensees and affiliates will contribute capital towards the opening of approximately 750 restaurants, for a total of about 1,000 expected restaurant openings in 2018. The Company expects net additions of about 600 restaurants in 2018.

**Long-Term Outlook**

- As detailed in the Company's Form 8-K filed with the Securities and Exchange Commission on September 21, 2018, the Company increased its return to shareholder target to about $25 billion for the 3-year period ending 2019.
- The Company has other long-term targets that are detailed in its Form 10-K for the year ended December 31, 2017.

**The Following Definitions Apply to these Terms as Used Throughout this Form 10-Q:**

Information in constant currency is 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

Table of Contents

strategic charges and gains, as well as adjustments to the provisional amounts recorded in December 2017 under the Tax Act, and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.

- 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.
- Comparable sales represent sales at all restaurants and 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. 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 sales from hyper-inflationary markets (currently only Venezuela). Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management believes that these exclusions more accurately reflect the underlying business trends. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends.

Table of Contents

**CONSOLIDATED OPERATING RESULTS**

| Dollars in millions, except per share data | Quarter Ended September 30, 2018 | | Nine Months Ended September 30, 2018 | |
|---|---|---|---|---|
| | Amount | Increase/ (Decrease) | Amount | Increase/ (Decrease) |
| **Revenues** | | | | |
| Sales by Company-operated restaurants | $2,511.0 | (18)% | $7,641.5 | (24)% |
| Revenues from franchised restaurants | 2,858.4 | 6 | 8,220.7 | 11 |
| **Total revenues** | 5,369.4 | (7) | 15,862.2 | (9) |
| **Operating costs and expenses** | | | | |
| Company-operated restaurant expenses | 2,047.9 | (17) | 6,309.3 | (23) |
| Franchised restaurants-occupancy expenses | 499.4 | 9 | 1,463.6 | 10 |
| Selling, general & administrative expenses | 515.2 | (9) | 1,590.4 | (1) |
| Other operating (income) expense, net | (110.8) | 87 | (324.2) | 70 |
| **Total operating costs and expenses** | 2,951.7 | 10 | 9,039.1 | (10) |
| **Operating income** | 2,417.7 | (21) | 6,823.1 | (8) |
| Interest expense | 250.1 | 6 | 727.1 | 6 |
| Nonoperating (income) expense, net | 8.9 | (62) | 31.3 | (8) |
| **Income before provision for income taxes** | 2,158.7 | (23) | 6,064.7 | (9) |
| Provision for income taxes | 521.4 | (44) | 1,555.7 | (29) |
| **Net income** | $1,637.3 | (13)% | $4,509.0 | 0 % |
| **Earnings per common share-basic** | $2.12 | (9)% | $5.77 | 4 % |
| **Earnings per common share-diluted** | $2.10 | (9)% | $5.72 | 4 % |

Table of Contents

**Impact of Foreign Currency Translation**

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. Results excluding the effect of foreign currency translation (also referred to as constant currency) are calculated by translating current year results at prior year average exchange rates.

**IMPACT OF FOREIGN CURRENCY TRANSLATION**

*Dollars in millions, except per share data*

| **Quarters Ended September 30,** | **2018** | 2017 | Currency Translation Benefit/ (Cost) **2018** |
|---|---|---|---|
| Revenues | **$5,369.4** | $5,754.6 | **$ (120.6)** |
| Company-operated margins | **463.1** | 584.5 | **(16.2)** |
| Franchised margins | **2,359.0** | 2,233.0 | **(41.8)** |
| Selling, general & administrative expenses | **515.2** | 567.0 | **4.3** |
| Operating income | **2,417.7** | 3,079.4 | **(54.6)** |
| Net income | **1,637.3** | 1,883.7 | **(36.8)** |
| Earnings per share-diluted | **$2.10** | $2.32 | **$ (0.05)** |

| **Nine Months Ended September 30,** | **2018** | 2017 | Currency Translation Benefit/ (Cost) **2018** |
|---|---|---|---|
| Revenues | **$15,862.2** | $17,480.2 | **$ 289.1** |
| Company-operated margins | **1,332.2** | 1,846.3 | **21.6** |
| Franchised margins | **6,757.1** | 6,109.0 | **114.4** |
| Selling, general & administrative expenses | **1,590.4** | 1,613.7 | **(19.7)** |
| Operating income | **6,823.1** | 7,408.5 | **120.2** |
| Net income | **4,509.0** | 4,493.6 | **70.0** |
| Earnings per share-diluted | **$5.72** | $5.48 | **$ 0.09** |

Foreign currency had a negative impact of $0.05 on diluted earnings per share for the quarter primarily due to the weakening of most major currencies. The nine months reflected a positive foreign currency impact of $0.09, primarily due to the stronger Euro and British Pound.

**Net Income and Diluted Earnings per Common Share**

For the quarter, net income decreased 13% (11% in constant currencies) to $1,637.3 million, and diluted earnings per share decreased 9% (7% in constant currencies) to $2.10. Foreign currency translation had a negative impact of $0.05 on diluted earnings per share.

For the nine months, net income was flat (decreased 1% in constant currencies) at $4,509 million, and diluted earnings per share increased 4% (3% in constant currencies) to $5.72. Foreign currency translation had a positive impact of $0.09 on diluted earnings per share.

Results for the quarter and nine months 2017 reflected a pre-tax gain of approximately $850 million on the sale of the Company's businesses in China and Hong Kong, partly offset by $111 million of unrelated impairment charges, for a net benefit of $0.56 and $0.52 per share, respectively. Results for the nine months 2018 included pre-tax strategic restructuring charges of $94 million, or $0.09 per share (of which $85 million relates to the restructuring of the U.S. business).

Excluding the above items, net income for the quarter increased 14% (17% in constant currencies) and diluted earnings per share increased 19% (22% in constant currencies), and for the nine months net income increased 13%

(11% in constant currencies) and diluted earnings per share increased 17% (15% in constant currencies). Results for the quarter and nine months reflected an increase in sales-driven franchised margin dollars and a lower effective tax rate, partly offset by lower Company-operated margin dollars due to the impact of refranchising.

Diluted earnings per share for both periods benefited from a decrease in diluted weighted-average shares outstanding due to share repurchases. During the quarter, the Company repurchased 5.9 million shares of stock for $944.7 million, bringing total purchases for the nine months to 26.7 million shares or $4.3 billion. In addition, the Company paid a quarterly dividend of $1.01 per share, or $779.8 million, bringing total dividends paid for the nine months to $2.4 billion.

Table of Contents

**Revenues**

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

Beginning in 2015, the Company accelerated the pace of refranchising to optimize its restaurant ownership mix, with a goal to be approximately 95% franchised over the long term. Although refranchising allows the Company to generate more stable and predictable revenue and cash flow streams while operating with a less resource-intensive structure, the shift to a greater percentage of franchised restaurants negatively impacts consolidated revenues as Company-operated sales are replaced by franchised revenues, where the Company receives rent and/or royalty revenue based on a percentage of sales.

Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers." This standard changed the way initial fees from franchisees for new restaurant openings and new franchise terms are recognized. Under the new guidance, initial franchise fees are being recognized evenly over the franchise term rather than immediately upon receipt. The Company expects this change to negatively impact 2018 annual franchised revenues by approximately $50 million. Results for the quarter and nine months reflected an impact of approximately $10 million and $25 million, respectively, due to the timing of new restaurant openings and new franchise terms.

Table of Contents

**REVENUES**
*Dollars in millions*

| **Quarters Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|
| *Company-operated sales* | | | | |
| U.S. | **$637.3** | $798.7 | (20)% | (20)% |
| International Lead Markets | **992.3** | 1,076.3 | (8) | (5) |
| High Growth Markets | **737.8** | 1,054.9 | (30) | (26) |
| Foundational Markets & Corporate | **143.6** | 134.4 | 7 | 11 |
| Total | **$2,511.0** | $3,064.3 | (18)% | (16)% |
| *Franchised revenues* | | | | |
| U.S. | **$1,292.7** | $1,224.6 | 6 % | 6 % |
| International Lead Markets | **948.2** | 894.2 | 6 | 9 |
| High Growth Markets | **302.4** | 267.2 | 13 | 15 |
| Foundational Markets & Corporate | **315.1** | 304.3 | 3 | 9 |
| Total | **$2,858.4** | $2,690.3 | 6 % | 8 % |
| *Total revenues* | | | | |
| U.S. | **$1,930.0** | $2,023.3 | (5)% | (5)% |
| International Lead Markets | **1,940.5** | 1,970.5 | (2) | 1 |
| High Growth Markets | **1,040.2** | 1,322.1 | (21) | (18) |
| Foundational Markets & Corporate | **458.7** | 438.7 | 5 | 10 |
| Total | **$5,369.4** | $5,754.6 | (7)% | (5)% |

| **Nine Months Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|
| *Company-operated sales* | | | | |
| U.S. | **$2,042.8** | $2,483.8 | (18)% | (18)% |
| International Lead Markets | **3,022.1** | 3,038.9 | (1) | (5) |
| High Growth Markets | **2,170.7** | 3,859.5 | (44) | (44) |
| Foundational Markets & Corporate | **405.9** | 663.6 | (39) | (40) |
| Total | **$7,641.5** | $10,045.8 | (24)% | (25)% |
| *Franchised revenues* | | | | |
| U.S. | **$3,715.6** | $3,516.9 | 6 % | 6 % |
| International Lead Markets | **2,726.8** | 2,388.3 | 14 | 10 |
| High Growth Markets | **855.7** | 679.0 | 26 | 20 |
| Foundational Markets & Corporate | **922.6** | 850.2 | 8 | 8 |
| Total | **$8,220.7** | $7,434.4 | 11 % | 9 % |
| *Total revenues* | | | | |
| U.S. | **$5,758.4** | $6,000.7 | (4)% | (4)% |
| International Lead Markets | **5,748.9** | 5,427.2 | 6 | 2 |
| High Growth Markets | **3,026.4** | 4,538.5 | (33) | (34) |
| Foundational Markets & Corporate | **1,328.5** | 1,513.8 | (12) | (13) |
| Total | **$15,862.2** | $17,480.2 | (9)% | (11)% |

- ***Revenues:*** Revenues decreased 7% (5% in constant currencies) for the quarter and decreased 9% (11% in constant currencies) for the nine months due to the Company's strategic refranchising initiative.

- ***U.S.:*** Revenues decreased for both periods as the benefit from positive comparable sales was more than offset by the impact of refranchising.
- ***International Lead Markets:*** Revenues decreased for the quarter and increased for the nine months. In constant currencies, revenues increased for both periods as positive comparable sales across all markets were partly offset by the impact of refranchising.
- ***High Growth Markets:*** Revenues decreased for both periods as positive comparable sales across most markets were more than offset by the impact of refranchising the Company's businesses in China and Hong Kong in third quarter 2017.

Table of Contents

**Comparable Sales and Guest Counts**

The following table presents the percent change in comparable sales for the quarters and nine months ended September 30, 2018 and 2017:

**COMPARABLE SALES**

| | **Increase/ (Decrease)** | | | |
|---|---|---|---|---|
| | **Quarters Ended September 30,** | | **Nine Months Ended September 30,** | |
| | **2018** | 2017 | **2018** | 2017 |
| U.S. | **2.4 %** | 4.1 % | **2.6 %** | 3.3 % |
| International Lead Markets | **5.4** | 5.7 | **6.0** | 5.0 |
| High Growth Markets | **4.6** | 6.2 | **3.9** | 5.7 |
| Foundational Markets & Corporate | **6.0** | 8.0 | **7.1** | 9.3 |
| Total | **4.2 %** | 5.6 % | **4.5 %** | 5.2 % |

On a consolidated basis, comparable guest counts (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) increased 0.1% and 2.1% for the nine months ended 2018 and 2017, respectively.

**Systemwide Sales and Franchised Sales**

The following table presents the percent change in Systemwide sales for the quarter and nine months ended September 30, 2018:

**SYSTEMWIDE SALES***

| | **Quarter Ended September 30, 2018** | | **Nine Months Ended September 30, 2018** | |
|---|---|---|---|---|
| | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
| U.S. | 2 % | 2 % | 2 % | 2 % |
| International Lead Markets | 3 | 6 | 11 | 7 |
| High Growth Markets | 6 | 8 | 11 | 8 |
| Foundational Markets & Corporate | 2 | 9 | 9 | 10 |
| Total | 3 % | 5 % | 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.

Table of Contents

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 health of the franchisee base. The following table presents Franchised sales and the related increases/(decreases):

**FRANCHISED SALES**

*Dollars in millions*

| **Quarters Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|
| U.S. | **$9,240.5** | $8,869.2 | 4 % | 4 % |
| International Lead Markets | **5,473.3** | 5,175.7 | 6 | 9 |
| High Growth Markets* | **2,584.4** | 2,083.6 | 24 | 26 |
| Foundational Markets & Corporate | **4,957.3** | 4,876.1 | 2 | 9 |
| Total | **$22,255.5** | $21,004.6 | 6 % | 8 % |
| | | | | |
| *Ownership type* | | | | |
| Conventional franchised | **$16,366.0** | $15,611.2 | 5 % | 6 % |
| Developmental licensed | **3,463.5** | 3,436.5 | 1 | 10 |
| Foreign affiliated* | **2,426.0** | 1,956.9 | 24 | 25 |
| Total | **$22,255.5** | $21,004.6 | 6 % | 8 % |

| **Nine Months Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|
| U.S. | **$26,699.8** | $25,574.8 | 4 % | 4 % |
| International Lead Markets | **15,720.7** | 13,787.1 | 14 | 10 |
| High Growth Markets* | **7,379.1** | 4,709.3 | 57 | 50 |
| Foundational Markets & Corporate | **14,674.9** | 13,227.8 | 11 | 13 |
| Total | **$64,474.5** | $57,299.0 | 13 % | 11 % |
| | | | | |
| *Ownership type* | | | | |
| Conventional franchised | **$47,222.8** | $43,856.6 | 8 % | 6 % |
| Developmental licensed | **10,149.0** | 9,111.2 | 11 | 15 |
| Foreign affiliated* | **7,102.7** | 4,331.2 | 64 | 60 |
| Total | **$64,474.5** | $57,299.0 | 13 % | 11 % |

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

Table of Contents

**Restaurant Margins**

**FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS**

*Dollars in millions*

| | Percent | | Amount | | | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|---|---|
| **Quarters Ended September 30,** | **2018** | 2017 | **2018** | 2017 | Inc/ (Dec) | |
| *Franchised* | | | | | | |
| U.S. | **81.5 %** | 82.9 % | **$1,052.9** | $1,014.9 | 4 % | 4 % |
| International Lead Markets | **82.0** | 81.6 | **777.8** | 729.5 | 7 | 10 |
| High Growth Markets | **77.3** | 76.0 | **233.9** | 203.1 | 15 | 17 |
| Foundational Markets & Corporate | **93.5** | 93.8 | **294.4** | 285.5 | 3 | 9 |
| Total | **82.5 %** | 83.0 % | **$2,359.0** | $2,233.0 | 6 % | 8 % |
| *Company-operated* | | | | | | |
| U.S. | **12.8 %** | 15.5 % | **$81.3** | $124.2 | (35)% | (35)% |
| International Lead Markets | **22.5** | 21.9 | **223.2** | 235.5 | (5) | (3) |
| High Growth Markets | **17.1** | 18.5 | **126.3** | 195.5 | (35) | (31) |
| Foundational Markets & Corporate | **22.5** | 21.8 | **32.3** | 29.3 | 10 | 15 |
| Total | **18.4 %** | 19.1 % | **$463.1** | $584.5 | (21)% | (18)% |

| | Percent | | Amount | | | Inc/ (Dec) Excluding Currency Translation |
|---|---|---|---|---|---|---|
| **Nine Months Ended September 30,** | **2018** | 2017 | **2018** | 2017 | Inc/ (Dec) | |
| *Franchised* | | | | | | |
| U.S. | **81.6 %** | 82.4 % | **$3,033.0** | $2,898.9 | 5 % | 5 % |
| International Lead Markets | **81.1** | 80.7 | **2,211.4** | 1,927.5 | 15 | 10 |
| High Growth Markets | **76.1** | 72.8 | **651.4** | 494.4 | 32 | 26 |
| Foundational Markets & Corporate | **93.4** | 92.7 | **861.3** | 788.2 | 9 | 10 |
| Total | **82.2 %** | 82.2 % | **$6,757.1** | $6,109.0 | 11 % | 9 % |
| *Company-operated* | | | | | | |
| U.S. | **14.9 %** | 15.8 % | **$304.6** | $392.3 | (22)% | (22)% |
| International Lead Markets | **21.3** | 21.2 | **643.6** | 643.2 | 0 | (4) |
| High Growth Markets | **13.9** | 17.9 | **302.6** | 689.6 | (56) | (55) |
| Foundational Markets & Corporate | **20.1** | 18.3 | **81.4** | 121.2 | (33) | (34) |
| Total | **17.4 %** | 18.4 % | **$1,332.2** | $1,846.3 | (28)% | (29)% |

- ***Franchised:*** Franchised margin dollars increased $126.0 million or 6% (8% in constant currencies) for the quarter and increased $648.1 million or 11% (9% in constant currencies) for the nine months. Both periods benefited from expansion and the impact of refranchising, as well as positive comparable sales performance across all segments.
- ***U.S.:*** The decrease in the franchised margin percent for the quarter and nine months was primarily due to higher depreciation costs related to investments in EOTF, partly offset by the benefit from positive comparable sales.
- ***International Lead Markets:*** The increase in the franchised margin percent for the quarter and nine months primarily reflected the benefit from strong comparable sales performance.
- ***High Growth Markets:*** The increase in the franchised margin percent for the quarter and nine months was primarily due to the impact of refranchising, largely related to the 2017 sale of the Company's businesses in China and Hong Kong, and positive comparable sales performance.
- ***Company-operated:*** Company-operated margin dollars decreased $121.4 million or 21% (18% in constant currencies) for the quarter and decreased $514.1 million or 28% (29% in constant currencies) for the nine months, reflecting the impact of refranchising.

- ***U.S.:*** The decrease in the Company-operated margin percent for the quarter and nine months reflected the impact of accelerated deployment of EOTF (including the related decrease in labor productivity and higher depreciation expense), and higher labor and commodity costs, which more than offset the benefit from positive comparable sales and refranchising.
- ***International Lead Markets:*** The Company-operated margin percent increased for the quarter and nine months, reflecting strong comparable sales partly offset by higher labor, commodity and occupancy costs.
- ***High Growth Markets:*** The decrease in the Company-operated margin percent for the quarter and nine months was primarily due to the impact of refranchising related to the 2017 sale of the Company's businesses in China and Hong Kong.

Table of Contents

The following table presents Company-operated restaurant margin components as a percent of sales:

**CONSOLIDATED COMPANY-OPERATED RESTAURANT EXPENSES AND MARGINS AS A PERCENT OF SALES**

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Food & paper | **31.2 %** | 31.4 % | **31.4 %** | 31.7 % |
| Payroll & employee benefits | **28.8** | 27.6 | **29.4** | 27.5 |
| Occupancy & other operating expenses | **21.6** | 21.9 | **21.8** | 22.4 |
| Total expenses | **81.6 %** | 80.9 % | **82.6 %** | 81.6 % |
| Company-operated margins | **18.4 %** | 19.1 % | **17.4 %** | 18.4 % |

**Selling, General & Administrative Expenses**

- Selling, general and administrative expenses decreased $51.8 million or 9% (8% in constant currencies) for the quarter and decreased $23.3 million or 1% (3% in constant currencies) for the nine months. Both periods reflected lower employee-related costs, partly offset by investment in restaurant technology. The nine months also reflected costs related to the 2018 Worldwide Owner/Operator Convention and sponsorship of the 2018 Winter Olympics.
- For the nine months, selling, general and administrative expenses as a percent of Systemwide sales decreased to 2.2% for 2018 compared with 2.4% for 2017.

**Other Operating (Income) Expense, Net**

**OTHER OPERATING (INCOME) EXPENSE, NET**

*Dollars in millions*

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Gains on sales of restaurant businesses | **$(68.0)** | $(63.1) | **$(256.7)** | $(230.9) |
| Equity in (earnings) losses of unconsolidated affiliates | **(38.6)** | (30.9) | **(116.2)** | (101.1) |
| Asset dispositions and other (income) expense, net | **(4.7)** | (29.0) | **(45.1)** | (47.1) |
| Impairment and other charges (gains), net | **0.5** | (705.9) | **93.8** | (687.8) |
| Total | **$(110.8)** | $(828.9) | **$(324.2)** | $(1,066.9) |

- Gains on sales of restaurant businesses increased primarily due to activity within the U.K. for the quarter and within the U.S. for the nine months.
- Equity in earnings of unconsolidated affiliates for the quarter and nine months reflected improved performance in Japan, partly offset by a higher effective tax rate in Japan in 2018 compared to 2017. Results in 2018 also reflected the retained 20% ownership in the entity that operates the Company's businesses in China and Hong Kong subsequent to the refranchising transaction that occurred in third quarter 2017.
- Asset dispositions and other income, net for the quarter primarily reflected the comparison to a prior year gain on the strategic sale of property in Australia.
- Impairment and other charges (gains), net for the quarter and nine months 2017 reflected a gain on the Company's sale of its businesses in China and Hong Kong of approximately $850 million, partly offset by $111 million of unrelated impairment charges. The nine months 2018 included the strategic restructuring charge in the U.S. of $85 million.

Table of Contents

**Operating Income**

**OPERATING INCOME**

*Dollars in millions*

| **Quarters Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Increase Excluding Currency Translation |
|---|---|---|---|---|
| U.S. | **$ 1,061.8** | $ 1,034.6 | 3 % | 3 % |
| International Lead Markets | **913.9** | 913.6 | 0 | 3 |
| High Growth Markets | **330.1** | 1,073.8 | (69) | (68) |
| Foundational Markets & Corporate | **111.9** | 57.4 | 95 | n/m |
| Total | **$ 2,417.7** | $ 3,079.4 | (21)% | (20)% |

| **Nine Months Ended September 30,** | **2018** | 2017 | Inc/ (Dec) | Increase Excluding Currency Translation |
|---|---|---|---|---|
| U.S. | **$ 3,059.0** | $ 3,055.4 | 0 % | 0 % |
| International Lead Markets | **2,613.5** | 2,356.2 | 11 | 7 |
| High Growth Markets | **847.1** | 1,724.0 | (51) | (52) |
| Foundational Markets & Corporate | **303.5** | 272.9 | 11 | 12 |
| Total | **$ 6,823.1** | $ 7,408.5 | (8)% | (10)% |

n/m Not meaningful

- ***Operating Income:*** Operating income decreased $661.7 million or 21% (20% in constant currencies) for the quarter and decreased $585.4 million or 8% (10% in constant currencies) for the nine months. Both the quarter and nine months 2017 reflected a gain of approximately $850 million on the sale of the Company's businesses in China and Hong Kong, partly offset by $111 million of unrelated impairment charges. Results for the nine months 2018 included strategic restructuring charges of $94 million (of which $85 million relates to the restructuring of the U.S. business). Excluding these current year and prior year items, operating income increased $44.2 million or 2% (4% in constant currencies) for the quarter and $196.2 million or 3% (1% in constant currencies) for the nine months.
- ***U.S.:*** Results for both periods reflected higher franchised margin dollars and lower G&A costs, partly offset by lower Company-operated margin dollars. Results for the nine months also reflected higher gains on sales of restaurant businesses and the $85 million strategic restructuring charge. Excluding this charge, operating income for the nine months increased 3%.
- ***International Lead Markets:*** The constant currency operating income increase for the quarter and nine months was primarily due to sales-driven improvements in franchised margin dollars across all markets, to a prior year gain on the strategic sale of property in Australia.
- ***High Growth Markets:*** Excluding the 2017 gain on the sale of the Company's businesses in China and Hong Kong, as well as unrelated impairment charges, operating income decreased 5% (1% in constant currencies) for the quarter and 15% (17% in constant currencies) for the nine months due to the impact of refranchising.
- ***Foundational Markets & Corporate:*** The constant currency operating income increase for the quarter and nine months reflected higher sales-driven improvements in franchised margin dollars.
- ***Operating Margin:*** Operating margin is defined as operating income as a percent of total revenues. Operating margin was 43.0% and 42.4% for the nine months ended 2018 and 2017, respectively. Excluding the previously described 2018 strategic restructuring charges and the 2017 gain and unrelated restructuring and impairment charges, operating margin was 43.6% and 38.4% for the nine months ended 2018 and 2017, respectively.

**Interest Expense**

- Interest expense increased 6% (6% in constant currencies) for the quarter and increased 6% (5% in constant currencies) for the nine months, primarily reflecting higher average debt balances, partly offset by lower average

interest rates.

Table of Contents

**Nonoperating (Income) Expense, Net**

**NONOPERATING (INCOME) EXPENSE, NET**

*Dollars in millions*

| | Quarters Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| Interest income | **$1.2** | $(6.5) | **$(4.4)** | $(6.4) |
| Foreign currency and hedging activity | **(2.9)** | 15.4 | **16.3** | 11.1 |
| Other (income) expense, net | **10.6** | 14.3 | **19.4** | 29.2 |
| Total | **$8.9** | $23.2 | **$31.3** | $33.9 |

**Income Taxes**

- The effective income tax rate was 24.2% and 33.2% for the quarters ended 2018 and 2017, respectively, and 25.7% and 32.8% for the nine months ended 2018 and 2017, respectively.
- The decrease in the tax rate for the quarter and nine months primarily reflected the lower enacted U.S. corporate tax rate. The tax rate for both periods also reflected a tax cost related to adjustments to the provisional amounts recorded in December 2017 under the Tax Act of $47 million for the quarter and $99 million for the nine months, as well as tax benefits resulting from continued refinement of estimates related to certain aspects of the Tax Act.

**Cash Flows and Financial Position**

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

Cash provided by operations totaled $5.5 billion and exceeded capital expenditures by $3.6 billion for the nine months 2018. Cash provided by operations increased $1.0 billion compared with the nine months 2017, primarily due to lower tax payments and other working capital changes.

Cash used for investing activities totaled $1.6 billion for the nine months 2018, an increase of $2.7 billion compared with the nine months 2017. The increase was primarily due to lower proceeds from the sale of restaurant businesses in 2018, as well as higher capital expenditures. The lower proceeds from the sale of restaurant businesses was primarily due to the Company's 2017 sale of its businesses in China and Hong Kong, as well as the 2017 sale of its businesses in Denmark, Finland, Norway and Sweden (referred to as the "Nordics") and Taiwan to developmental licensees.

Cash used for financing activities totaled $3.6 billion for the nine months 2018, a decrease of $925.3 million compared with the nine months 2017, as higher net debt issuances were partly offset by higher treasury stock purchases.

Debt obligations at September 30, 2018 totaled $31.9 billion compared with $29.5 billion at December 31, 2017. The increase was primarily due to net debt issuances, partly offset by the impact of foreign currency translation.

**Recent Accounting Pronouncements**

Recent accounting pronouncements are discussed in Part I, Item 1, page 8 of this Form 10-Q.

**Other Matters**

In December 2015, the European Commission opened a formal investigation against the Luxembourg government to examine whether decisions by the tax authorities in Luxembourg with regard to the corporate income tax paid by certain of our subsidiaries comply with European Union rules on state aid. In September 2018, the European Commission concluded that Luxembourg’s tax treatment of these McDonald’s subsidiaries did not constitute state aid under the European Union rules. This decision resulted in no impact to the Company’s financial statements as of September 30, 2018.

27

Table of Contents

**Risk Factors and Cautionary Statement Regarding Forward-Looking Statements**

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

**If we do not successfully evolve and execute against our business strategies, we may not be able to increase operating income.**

To drive future results, our business strategies must be effective in delivering increased guest counts to drive operating income growth. Whether these strategies are successful depends mainly on our System's ability to:

- Continue to innovate and differentiate the McDonald's experience by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;
- Utilize our new organizational structure to build on our progress and execute against our initiatives at an accelerated pace;
- Strengthen customer appeal and augment our digital initiatives, including mobile ordering and delivery, along with Experience of the Future ("EOTF"), particularly in the U.S.;
- Identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants; and
- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations.

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

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

We will continue to build upon our investments in EOTF, which focus on restaurant modernization and technology and digital engagement in order to transform the restaurant experience. As we accelerate our pace of converting restaurants to EOTF, we are placing renewed emphasis on improving our service model and strengthening relationships with customers, in part through digital channels and loyalty initiatives, as well as mobile ordering and payment systems. We also continue to build on delivery initiatives, which may not generate expected returns. We may not fully realize the intended benefits of these significant investments, or these initiatives may not be well executed, and therefore our business results may suffer.

**If we do not anticipate and address evolving consumer preferences, our business could suffer.**

Our continued success depends on our System's ability to anticipate and respond effectively to continuously shifting consumer demographics, and trends in food sourcing, food preparation, food offerings and consumer preferences in the "informal eating out" ("IEO") segment. In order to deliver a relevant experience for our customers amidst a highly competitive, value-driven operating environment, we must implement initiatives to adapt at an aggressive pace. There is no assurance that these initiatives will be successful and, if they are not, our financial results could be adversely impacted.

**Activities relating to our refranchising and cost savings initiatives remain ongoing and entail various risks.**

Our previously announced refranchising and cost saving initiatives remain ongoing. With a more heavily franchised structure, the existing risks we face in our business may be intensified. Our efforts to reduce costs and capital expenditures depend, in part, upon our refranchising efforts, which, in turn, depend upon our selection and integration

of capable third parties. Our cost savings initiatives also depend upon a variety of factors, including our ability to achieve efficiencies through the consolidation of global, back-office functions and to direct resources to most effectively support McDonald's restaurants, particularly in the U.S. If these various initiatives are not successful, take longer to complete than initially projected, or are not well executed, or if our cost reduction efforts adversely impact our effectiveness, our business operations, financial results and results of operations could be adversely affected.

**If pricing, promotional and marketing plans are not effective, our results may be negatively impacted.**

Our results depend on the impact of pricing, promotional and marketing plans across the System, and the ability to adjust these plans to respond quickly and effectively to evolving customer preferences, as well as shifting economic and competitive conditions. Existing or future pricing strategies, and the value proposition they represent, are expected to continue to be important components of

Table of Contents

our business strategy; however, they may not be successful and could negatively impact sales and margins. Further, the promotion of menu offerings may yield results below the desired levels.

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

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

To be successful in the future, we believe we must preserve, enhance and leverage the value of our brand. Brand value is based in part on consumer perceptions. Those perceptions are affected by a variety of factors, including the nutritional content and preparation of our food, the ingredients we use, our business practices and the manner in which we source the commodities we use. Consumer acceptance of our offerings is subject to change for a variety of reasons, and some changes can occur rapidly. For example, nutritional, health and other scientific studies and conclusions, which constantly evolve and may have contradictory implications, drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that affect the IEO segment or perceptions of our brand generally or relative to available alternatives. Consumer perceptions may also be affected by third parties presenting or promoting adverse commentary or portrayals of the quick-service category of the IEO segment, our brand and/or our operations, our suppliers or our franchisees. If we are unsuccessful in addressing such adverse commentary or portrayals, our brand and our financial results may suffer.

Additionally, the ongoing relevance of our brand may depend on the success of our sustainability initiatives, which require System- wide coordination and alignment. If we are not effective in addressing social and environmental responsibility matters or achieving relevant sustainability goals, consumer trust in our brand may suffer. In particular, business incidents or practices that erode consumer trust or confidence, particularly if such incidents or practices receive considerable publicity or result in litigation, can significantly reduce brand value and have a negative impact on our financial results.

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

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

We compete on the basis of product choice, quality, affordability, service and location. In particular, we believe our ability to compete successfully in the current market environment depends on our ability to improve existing products, develop new products, price our products appropriately, deliver a relevant customer experience, manage the complexity of our restaurant operations and respond effectively to our competitors' actions or disruptive actions from others which we do not foresee. Recognizing these dependencies, we have intensified our focus on strategies to achieve these goals. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics.

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

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

Our results of operations are also affected by fluctuations in currency exchange rates, which may adversely affect reported earnings.

**Supply chain interruptions may increase costs or reduce revenues.**

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

Table of Contents

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

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

**Our franchise business model presents a number of risks.**

As the Company's business model has evolved to a more heavily franchised structure, our success increasingly relies 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. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us. Our refranchising efforts increase that dependence and the potential effect of those factors.

Our success also increasingly depends on the willingness and ability of our independent franchisees and affiliates to implement major initiatives, which may include financial investment, and to remain aligned with us on operating, promotional and capital-intensive reinvestment plans. Franchisees' ability to contribute to the achievement of our plans is dependent in large part on the availability to them of funding at reasonable interest rates and may be negatively impacted by the financial markets in general, by the creditworthiness of our franchisees or the Company or by banks' lending practices. Our operating performance could also be negatively affected if our franchisees experience food safety or other operational problems or project an image inconsistent with our brand and values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subjected to litigation and potential delays. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, our brand's image and reputation could be harmed, which in turn could hurt our business and operating results.

Our ownership mix also affects our results and financial condition. The decision to own restaurants or to operate under franchise or license agreements is driven by many factors whose interrelationship is complex and changing. Our ability to achieve the benefits of our refranchising strategy, which involves a significant percentage of franchised restaurants, including an increased number of restaurants run by developmental licensees and affiliates, depends on various factors. Those factors include whether we have effectively selected franchisees, licensees and/or affiliates that meet our rigorous standards, and whether their performance and the resulting ownership mix supports our brand and financial objectives.

**Challenges with respect to talent management could harm our business.**

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

**Challenges with respect to labor availability could impact our business and results of operations.**

Our success depends in part on our System's ability to recruit, motivate and retain a qualified workforce to work in our restaurants in an intensely competitive environment. Increased costs associated with recruiting, motivating and retaining qualified employees to work in our Company-operated restaurants could have a negative impact on our Company-operated margins. Similar concerns apply to our franchisees.

We are also impacted by the costs and other effects of compliance with U.S. and international regulations affecting our workforce, which includes our staff and employees working in our Company-operated restaurants. These regulations are increasingly focused on employment issues, including wage and hour, healthcare, immigration, retirement and other employee benefits and workplace practices. Our potential exposure to reputational and other

harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (or perceptions thereof) could have a negative impact on consumer perceptions of us and our business. Additionally, economic action, such as boycotts, protests, work stoppages or campaigns by labor organizations, could adversely affect us (including our ability to recruit and retain talent) or the franchisees and suppliers that are also part of the McDonald's System and whose performance may have a material impact on our results.

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

We are increasingly reliant on technological systems, such as point-of-sale and other systems or platforms, technologies supporting McDonald’s order, delivery and digital solutions, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, customers, employees or independent third parties to conduct our business, including technology-enabled systems

Table of Contents

provided to us by third parties. Any failure of these systems could significantly impact our operations and customer experience and perceptions.

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

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

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

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

Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our, our franchisees' or our suppliers' operations, and asset seizures. The cost and disruption of responding to governmental investigations or inquiries, whether or not they have merit, or the impact of these other measures, may impact our results and could cause reputational or other harm. Our international success depends in part on the effectiveness of our strategies and brand-building initiatives to reduce our exposure to such governmental investigations or inquiries.

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

We may also face challenges and uncertainties in developed markets. For example, as a result of the U.K.'s decision to leave the European Union through a negotiated exit over a period of time, including its recent formal commencement of exit proceedings, it is possible that there will be increased regulatory complexities, as well as potential referenda in the U.K. and/or other European countries, that could cause uncertainty in European or worldwide economic conditions. The decision created volatility in certain foreign currency exchange rates that may or may not continue. Any of these effects, and others we cannot anticipate, could adversely affect our business, results of operations, financial condition and cash flows.

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

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations, including changes and uncertainties resulting from proposals for

comprehensive or corporate tax reforms in the U.S. or elsewhere. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. While we have estimated the effects of the Tax Act, we continue to refine those estimates with the possibility they could change, and those changes could be material. We are also impacted by settlements of pending or any future adjustments proposed by taxing 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.

Table of Contents

The commodity markets for some of the ingredients we use, such as beef and chicken, are particularly volatile due to factors such as seasonal shifts, climate conditions, industry demand, international commodity markets, food safety concerns, product recalls and government regulation, all of which are beyond our control and, in many instances, unpredictable. We can only partially address future price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

**Increasing regulatory complexity may adversely affect restaurant operations and our financial results.**

Our regulatory environment worldwide exposes us to complex compliance and similar risks that could affect our operations and results in material ways. In many of our markets, we are subject to increasing regulation, which has increased our cost of doing business. We are affected by the cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by multiple governmental authorities can adversely affect our business and increase our exposure to litigation or governmental investigations or proceedings.

Our success depends in part on our ability to manage the impact of new, potential or changing regulations that can affect our business plans and operations. These regulations include product packaging, marketing, the nutritional content and safety of our food and other products, labeling and other disclosure practices. Compliance efforts with those regulations may be affected by ordinary variations in food preparation among our own restaurants and the need to rely on the accuracy and completeness of information from third-party suppliers (particularly given varying requirements and practices for testing and disclosure).

Additionally, we are working to manage the risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, and diminishing energy and water resources. These risks include the increased public focus, including by governmental and nongovernmental organizations, on these and other environmental sustainability matters, such as packaging and waste, animal health and welfare, deforestation and land use. These risks also include the increased pressure to make commitments, set targets or establish additional goals and take actions to meet them. These risks could expose us to market, operational and execution costs or risks. If we are unable to effectively manage the risks associated with our complex regulatory environment, it could have a material adverse effect on our business and financial condition.

**We are subject to increasing legal complexity and could be party to litigation that could adversely affect us.**

Increasing legal complexity will continue to affect our operations and results in material ways. We could be subject to legal proceedings that may adversely affect our business, including class actions, administrative proceedings, government investigations, employment and personal injury claims, landlord/tenant disputes, disputes with current or former suppliers, claims by current or former franchisees and intellectual property claims (including claims that we infringed another party's trademarks, copyrights or patents).

Inconsistent standards imposed by governmental authorities can adversely affect our business and increase our exposure to regulatory proceedings or litigation.

Litigation involving our relationship with franchisees and the legal distinction between our franchisees and us for employment law purposes, if determined adversely, could increase costs, negatively impact the business prospects of our franchisees and subject us to incremental liability for their actions. Similarly, although our commercial relationships with our suppliers remain independent, there may be attempts to challenge that independence, which, if determined adversely, could also increase costs, negatively impact the business prospects of our suppliers, and subject us to incremental liability for their actions. We are also subject to legal and compliance risks and associated liability, such as in the areas of privacy and data collection, protection and management, as it relates to information associated with our technology-related services and platforms made available to business partners, customers, employees or other third parties.

Our operating results could also be affected by the following:

- The relative level of our defense costs, which vary from period to period depending on the number, nature and procedural status of pending proceedings;
- The cost and other effects of settlements, judgments or consent decrees, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products;
-

- Adverse results of pending or future litigation, including litigation challenging the composition and preparation of our products, or the appropriateness or accuracy of our marketing or other communication practices; and
- The scope and terms of insurance or indemnification protections that we may have.

A judgment significantly in excess of any applicable insurance coverage or third party indemnity could materially adversely affect our financial condition or results of operations. Further, adverse publicity resulting from these claims may hurt our business.

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

The success of our business depends on our continued ability to use our existing trademarks and service marks in order to increase brand awareness and further develop our branded products in both domestic and international markets. We rely on a combination of

Table of Contents

trademarks, copyrights, service marks, trade secrets, patents and other intellectual property rights to protect our brand and branded products.

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

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

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

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

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

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

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

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

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

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

- The impact on our results of corporate actions and market and third-party perceptions and assessments of such actions, such as those we may take from time to time as we implement our strategies in light of changing business, legal and tax considerations and evolve our corporate structure.

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

Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the

Table of Contents

local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2017 regarding this matter.

**Item 4. Controls and Procedures**

**Disclosure Controls**

An evaluation was conducted under the supervision and with the participation of the Company's management, including the Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of September 30, 2018. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission 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 September 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

**PART II – OTHER INFORMATION**

**Item 1. Legal Proceedings**

There were no material changes to the disclosure made in our Annual Report on Form 10-K for the year ended December 31, 2017 regarding these matters.

**Item 1A. Risk Factors**

For a discussion of risk factors affecting our business, refer to statements appearing under the caption “Risk Factors and Cautionary Statement Regarding Forward-Looking Statements” in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this Form 10-Q.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

**Issuer Purchases of Equity Securities***

The following table presents information related to repurchases of common stock the Company made during the quarter ended September 30, 2018:

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (1) | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| July 1-31, 2018 | 2,681,648 | $ 157.88 | 2,681,648 | $ 8,502,410,182 |
| August 1-31, 2018 | 1,674,088 | 159.06 | 1,674,088 | 8,236,125,923 |
| September 1-30, 2018 | 1,578,929 | 161.51 | 1,578,929 | 7,981,117,950 |
| Total | 5,934,665 | $ 159.18 | 5,934,665 | |

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

(1) On July 27, 2017, the Company's Board of Directors approved a share repurchase program, effective July 28, 2017, that authorizes the purchase of up to $15 billion of the Company's outstanding common stock with no specified expiration date.

Table of Contents

## Item 6. Exhibits

| Exhibit Number | | Description |
|---|---|---|
| (3) | (a) | Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2012. |
| | (b) | By-Laws, as amended and restated with effect as of October 26, 2015, incorporated herein by reference from Exhibit 3(b) of Form 8-K (File No. 001-05231), filed October 28, 2015. |
| (4) | | Instruments defining the rights of security holders, including Indentures:* |
| | (a) | Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. |
| | (b) | Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996. |
| (10) | | Material Contracts |
| | (a) | Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.** |
| | (b) | McDonald's Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (file No. 001-05231), for the year ended December 31, 2016.** |
| | (i) | First Amendment to the McDonald's Deferred Compensation Plan, effective as of May 1, 2018, filed herewith.** |
| | (c) | McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.** |
| | (i) | First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.** |
| | (ii) | Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.** |
| | (d) | McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.** |
| | (i) | First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.** |

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

(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**

(f) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**

(g) McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**

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

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

(j) McDonald's Corporation Severance Plan, as Amended and Restated, effective September 30, 2015, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**

(i) First Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

Table of Contents

| Exhibit Number | Description |
|---|---|
| (ii) | Second Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(ii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.** |
| (iii) | Third Amendment to the McDonald's Corporation Severance Plan, effective as of July 15, 2016, incorporated herein by reference from Exhibit 10(l)(iii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.** |
| (iv) | Fourth Amendment to the McDonald's Corporation Severance Plan, effective as of July 1, 2017, incorporated herein by reference from Exhibit 10(k)(iv) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2017.** |
| (v) | Fifth Amendment to the McDonald's Corporation Severance Plan, effective as of June 5, 2018, incorporated herein by reference from Exhibit 10(j)(v) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2018. ** |
| (k) | Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.** |
| (l) | Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.** |
| (m) | Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.** |
| (n) | Offer Letter between Silvia Lagnado and the Company, dated June 8, 2015, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2017.** |
| (o) | Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. ** |
| (p) | Form of 2018 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. ** |
| (q) | Termination Agreement and General Release between Gloria Santona and the Company, dated March 3, 2017, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2018. ** |
| (12) | Computation of Ratios. |

| | |
|---|---|
| (31.1) | Rule 13a-14(a) Certification of Chief Executive Officer. |
| (31.2) | Rule 13a-14(a) Certification of Chief Financial Officer. |
| (32.1) | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (32.2) | Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| (101.INS) | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| (101.SCH) | XBRL Taxonomy Extension Schema Document. |
| (101.CAL) | XBRL Taxonomy Extension Calculation Linkbase Document. |
| (101.DEF) | XBRL Taxonomy Extension Definition Linkbase Document. |
| (101.LAB) | XBRL Taxonomy Extension Label Linkbase Document. |
| (101.PRE) | XBRL Taxonomy Extension Presentation Linkbase Document. |

Table of Contents

* 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.

Table of Contents

SIGNATURE

Pursuant to the requirements 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)

/s/ Kevin M. Ozan

Date: November 1, 2018 Kevin M. Ozan
Corporate Executive Vice President and Chief Financial Officer