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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM
10-K

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from to

Commission File Number 1-5231

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

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

Registrant’s telephone

number, including area code:
(630) 623-3000

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

Title of each class	Name of each exchange on which registered
Common stock, $.01 par value	New York Stock Exchange

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

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

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

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 pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant’s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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

Large accelerated filer 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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 29, 2018 was $121,530,450,454.

The number of shares outstanding of the registrant’s common stock as of January 31, 2019 was 765,317,332.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant’s 2019 definitive proxy statement, which will be filed no later than 120 days after December 31, 2018.

McDONALD'S CORPORATION
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Page reference

Exhibits

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

PART I

ITEM 1. Business

McDonald’s Corporation, the registrant, together with its subsidiaries, is referred to herein as the “Company.”

a. General

For the year ended December 31, 2018, there were no material changes to the Company's corporate structure or in its method of conducting business. The business was structured with segments that combine markets with similar characteristics and opportunities for growth. Significant reportable segments included 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.

As detailed in the Company's Form 8-K filed with the U.S. Securities and Exchange Commission ("SEC") on September 24, 2018, the Company announced changes to its global operating structure, effective January 1, 2019. Refer to the Segment and Geographic Information section included in Part II, Item 8, page 49 of this Form 10-K for additional information.

b. Narrative description of business

General

The Company operates and franchises McDonald’s restaurants, which serve a locally-relevant menu of quality food and beverages in more than 100 countries. McDonald’s franchised restaurants are owned and operated under one of the following structures - conventional franchise, developmental license or affiliate. The optimal ownership structure for an individual restaurant, trading area or market (country) is based on a variety of factors, including the availability of individuals with the entrepreneurial experience and financial resources, as well as the local legal and regulatory environment in critical areas such as property ownership and franchising. We continually review our mix of Company-owned and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term. The business relationship between McDonald’s and its independent franchisees is supported by adhering to standards and policies and is of fundamental importance to overall performance and to protecting the McDonald’s brand.

The Company is primarily a franchisor, with approximately 93% of McDonald's restaurants currently owned and operated by independent franchisees. 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 strength of McDonald’s global brand, operating system and financial resources.

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

Conventional Franchise

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

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

The Company’s typical franchise term is 20 years. The Company requires franchisees to meet rigorous standards and generally does not work with passive investors. The business relationship with franchisees is designed to facilitate consistency and high quality at all McDonald’s restaurants. Conventional franchisees contribute to the Company’s revenue, primarily through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees paid upon the opening of a new restaurant or grant of a new franchise. This structure enables McDonald’s to generate significant levels of cash flow.

Developmental License or Affiliate

Under a developmental license or affiliate arrangement, licensees are responsible for operating and managing the business, providing capital (including the real estate interest) and developing and opening new restaurants. The Company generally does not invest any capital under a developmental license or affiliate arrangement, and it receives a royalty based upon a percent of sales and generally will receive initial fees upon the opening of a new restaurant or grant of a new term. While developmental license and affiliate arrangements are largely the same, affiliate arrangements are used in a limited number of foreign markets where the

Company also has an equity investment and records its share of net results in Equity in earnings of unconsolidated affiliates.

Supply chain, food safety, and quality assurance

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

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

Products

McDonald's restaurants offer a substantially uniform menu, although there are geographic variations to suit local consumer preferences and tastes. In addition, McDonald's tests new products on an ongoing basis.

McDonald's menu includes hamburgers and cheeseburgers, Big Mac, Quarter Pounder with Cheese, Filet-O-Fish, several chicken sandwiches, Chicken McNuggets, wraps, french fries, salads, oatmeal, shakes, McFlurry desserts, sundaes, soft serve cones, pies, soft drinks, coffee, McCafé beverages and other beverages. In addition, the restaurants sell a variety of other products during limited-time promotions.

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

Quality, choice and nutrition are increasingly important to our customers and we are continuously evolving our menu to meet our customers' needs.

Marketing

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

Intellectual property

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

Seasonal operations

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

Working capital practices

Information about the Company's working capital practices is incorporated herein by reference to Management's Discussion and Analysis of Financial Condition and Results of Operations for the years ended December 31, 2018, 2017 and 2016 in Part II, Item 7, pages 15 through 31, and the Consolidated Statement of Cash Flows for the years ended December 31, 2018, 2017 and 2016 in Part II, Item 8, page 35 of this Form 10-K.

Customers

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

Backlog

Company-operated restaurants have no backlog orders.

Government contracts

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

Competition

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

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

Based on data from Euromonitor International, the global IEO segment was composed of approximately 9 million outlets and generated $1.3 trillion in annual sales in 2017, the most recent year for which data is available. McDonald's Systemwide2017 restaurant business accounted for 0.4% of those outlets and 7.1% of the sales.

Management also on occasion benchmarks McDonald's against the entire restaurant industry, including the IEO segment defined above and all other full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 19 million outlets and generated $2.5 trillion in annual sales in 2017. McDonald’s Systemwide restaurant business accounted for 0.2% of those outlets and 3.7% of the sales.

Environmental matters

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

Increased focus by certain governmental authorities on environmental matters may lead to new governmental initiatives. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly. Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs for the Company. Also, there is a possibility that governmental initiatives, or actual or perceived effects of changes in weather patterns, climate, or water resources, could have a direct impact on the operations of the Company, its franchisees and suppliers (collectively referred to as the "System") in ways which we cannot predict at this time.

The Company monitors developments related to environmental matters and plans to respond to governmental initiatives in a timely and appropriate manner. In addition, the Company launched its Scale for Good framework in 2018, which includes the environmental-related pillars of climate action, packaging and recycling, and sustainable sourcing. These include goals and initiatives to reduce System greenhouse gas emissions, responsibly source ingredients and packaging, and increase the availability of recycling in restaurants to reduce waste.

Number of employees

The Company's number of employees worldwide, including its corporate office employees and Company-owned and operated restaurant employees, was approximately 210,000 as of year-end 2018.

c. Available information

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

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

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

Information on the Company's website is not incorporated into this Form 10-K or the Company's other securities filings and is not a part of them.

ITEM 1A. Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

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

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

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

- Continue to innovate and differentiate the McDonald's experience, including by preparing and serving our food in a way that balances value and convenience to our customers with profitability;
- Capitalize on our global scale, iconic brand and local market presence to enhance our ability to retain, regain and convert key customer groups;

- Utilize our new organizational structure to build on our progress and execute against our business strategies;
- Augment our digital and delivery initiatives, including mobile ordering, 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;

- Operate restaurants with high service levels and optimal capacity while managing the increasing complexity of our restaurant operations and create efficiencies through innovative use of technology; and
- Accelerate our existing strategies through growth opportunities, investments and partnerships.

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

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

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

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

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

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

Additionally, we operate in a complex and costly advertising environment. Our marketing and advertising programs may not be successful in retaining, regaining and converting customers. Our success depends in part on whether the allocation of our advertising and marketing resources across different channels 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 adverse commentary from third parties, including through social media or conventional media outlets, regarding the quick-service category of the IEO segment, our brand, our operations, our suppliers or our franchisees. If we are unsuccessful in addressing adverse commentary, whether or not accurate, our brand and our financial results may suffer.

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

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

We compete primarily in the IEO segment, which is highly competitive. We also face sustained, intense competition from traditional, fast casual and other competitors, which may include many non-traditional market participants such as convenience stores, grocery stores and coffee shops. We expect our environment to continue to be highly competitive, and our results in any particular reporting period may be impacted by 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. There can be no assurance these strategies will be effective, and some strategies may be effective at improving some metrics while adversely affecting other metrics, which could have the overall effect of harming our business.

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

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

Food safety concerns may have an adverse effect on our business.
Our ability to increase sales and profits depends on our System’s ability to meet expectations for safe food and on our ability to manage the potential impact on McDonald’s of food-borne illnesses and food or product safety issues that may arise in the future. Food safety is a top priority, and we dedicate substantial resources to offer safe food products to our customers, including as our menu and service model evolve. However, food safety events, including instances of food-borne illness, occur within the food industry and our System from time to time and, in addition, 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 relies to large degree on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. Business risks affecting our operations also affect our franchisees. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us.

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

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

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

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

Challenges with respect to labor availability and cost could impact our business and results of operations.
Our success depends in part on our System’s ability to proactively recruit, motivate and retain 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. Claims of non-compliance with these regulations could result in liability and expense to us. Our potential exposure to reputational and other harm regarding our workplace practices or conditions or those of our independent franchisees or suppliers (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 digital and delivery 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 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 manner, 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. Further, the General Data Protection Regulation (“GDPR”) requires entities processing the personal data of individuals in the European Union to meet certain requirements regarding the handling of that data. Failure to meet GDPR requirements could result in substantial penalties and materially adversely impact our financial results. The occurrence of any of these incidents could result in reputational damage, adverse publicity, loss of consumer confidence, reduced sales and profits, complications in executing our growth initiatives and regulatory and legal risk, including criminal penalties or civil liabilities.
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 and brand perceptions. Planned initiatives may not have appeal across multiple markets with McDonald's customers and could drive unanticipated changes in customer perceptions and guest counts.
Disruptions in operations or price volatility in a market can also result from governmental actions, such as price, foreign exchange or changes in trade-related tariffs or controls, sanctions and counter sanctions, government-mandated closure of our 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 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. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

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

Increasing regulatory 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 and proceedings, 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). Regardless of whether any claims against us are valid or whether we are found to be liable, claims may be expensive to defend and may divert management's attention away from operations which could have a material adverse effect on our business and financial condition.

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

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

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 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 claims may hurt our business.

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

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

We have registered certain trademarks and have other trademark registrations pending in the U.S. and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the U.S. in which we do business or may do business in the future and may never be registered in all of these countries. The steps we have taken to protect our intellectual property in the U.S. and foreign countries may not be adequate. In addition, the steps we have taken may not adequately confirm 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 guarantee that franchisees and other third parties who hold licenses to our intellectual property will not take actions that hurt the value of our intellectual property.

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

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

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

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

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

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

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

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

Events such as severe weather conditions, natural disasters, hostilities and social unrest, among others, can adversely affect our results and prospects.
Severe weather conditions, natural disasters, hostilities and social unrest, terrorist activities, health epidemics or pandemics (or expectations about them) can adversely affect consumer spending and confidence levels and supply availability and costs, as well as the local operations in impacted markets, all of which can affect our results and prospects. Our receipt of proceeds under any insurance we maintain with respect to some of these risks may be delayed or the proceeds may be insufficient to cover our losses fully.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the System. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns the land and building or secures long-term leases for conventional franchised and Company-operated restaurant sites, which facilitates long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network.
In addition, the Company owns and leases real estate in connection with its corporate headquarters and field offices.
Additional information about the Company's properties is included in Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II, Item 7, pages 15 through 31 and in Financial statements and supplementary data in Part II, Item 8, pages 31 through 52 of this Form 10-K.

ITEM 3. Legal Proceedings

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

Franchising

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

Suppliers

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

Employees

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

Customers

Restaurants owned by subsidiaries of the Company regularly serve a broad segment of the public. In so doing, disputes arise as to products, service, incidents, pricing, advertising, nutritional and other disclosures, as well as other matters common to an extensive restaurant business such as that of the Company.

Intellectual Property

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

Government Regulations

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

ITEM 4. Mine Safety Disclosures

Not applicable.

Executive Officers of the Registrant

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

Ian Borden, 50, is President - International Developmental Licensed Markets, a position he has held since January 1, 2019. Prior to that, Mr. Borden served as President - Foundational Markets, from July 2015 through December 2018. From January 2014 through June 2015, Mr. Borden served as Vice President and Chief Financial Officer - McDonald’s Asia/Pacific, Middle East and Africa. Prior to that time, Mr. Borden served as Regional Vice President of Europe’s East Division from April 2011 to December 2013 and as Managing Director - McDonald’s Ukraine from December 2007 to December 2013. He has served the Company for 24 years.

Francesca A. DeBiase, 53, is Corporate Executive Vice President - Worldwide Supply Chain Sustainability, a position she has held since April 1, 2018. Prior to that, Ms. DeBiase served as Corporate Senior Vice President - Worldwide Supply Chain and Sustainability, from March 2015 through March 2018. From August 2007 through February 2015, Ms. DeBiase served as Corporate Vice President - Worldwide Strategic Sourcing. Prior to that, Ms. DeBiase served as Europe Vice President - Supply Chain, from January 2006 through July 2007. Ms. DeBiase has served the Company for 27 years.

Stephen Easterbrook, 51, is President and Chief Executive Officer, a position he has held since March 2015. Mr. Easterbrook was also elected a Director of the Company effective March 2015. From May 2014 through February 2015, Mr. Easterbrook served as Corporate Senior Executive Vice President and Global Chief Brand Officer. From June 2013 through April 2014, Mr. Easterbrook served as Corporate Executive Vice President and Global Chief Brand Officer. From September 2012 through May 2013, Mr. Easterbrook served as the Chief Executive Officer of Wagamama Limited, a pan-Asian restaurant chain, and from September 2011 to September 2012, he served as the Chief Executive Officer of PizzaExpress Limited, an Italian restaurant brand. From December 2010 to September 2011, he held the position of President, McDonald’s Europe. Prior to that, Mr. Easterbrook served in a number of roles with the Company. Mr. Easterbrook has served the Company for 25 years.

Joseph Erlinger, 45, is President - International Operated Markets, a position he has held since January 1, 2019. Prior to that, Mr. Erlinger served as President - High Growth Markets, from September 2016 through December 2018. From March 2015 to January 2017, Mr. Erlinger served as Vice President and Chief Financial Officer - High Growth Markets (serving in dual roles from September 2016 through January 2017), as Managing Director of McDonald’s Korea from April 2013 to January 2016 (serving in dual roles from March 2015 through January 2016), and US Vice President - GM for the Indianapolis region from December 2010 to March 2013. He has served the Company for 17 years.

David Fairhurst, 50, is Corporate Executive Vice President & Chief People Officer, a position he has held since October 2015. Mr. Fairhurst served as Corporate Senior Vice President, International Human Resources and Strategy from April 2015 to September 2015. Prior to that time, he served as Europe Vice President - Chief People Officer from January 2011 to March 2015. Mr. Fairhurst has served the Company for 13 years.

Robert Gibbs, 47, is Corporate Executive Vice President and Global Chief Communications Officer, a position he has held since June 2015. Mr. Gibbs joined the Company from The Incite Agency, a strategic communications advisory firm that he co-founded in 2013. Prior to that, Mr. Gibbs held several senior advisory roles in the White House, serving as the White House Press Secretary beginning in 2009, then as Senior Advisor in the 2012 re-election campaign. Mr. Gibbs has been with the Company for 4 years.

Daniel Henry, 48, is Corporate Executive Vice President - Chief Information Officer, a position he has held since May 1, 2018. From October 2017 through April 2018, Mr. Henry served as Corporate Vice President - Chief Information Officer. Prior to that, Mr. Henry served as Vice President of Customer Technology and Enterprise Architecture at American Airlines from April 2012 to October 2017.

Catherine Hoovel, 47, is Corporate Vice President - Chief Accounting Officer, a position she has held since October 2016. Ms. Hoovel served as Controller for the McDonald's restaurants owned and operated by McDonald's USA from April 2014 to September 2016. Prior to that time, Ms. Hoovel served as a Senior Director of Finance from February 2012 to April 2014 and was a Divisional Director from August 2010 to February 2012. Ms. Hoovel has served the Company for 23 years.

Christopher Kempczinski, 50, is President, McDonald’s USA, a position he has held since January 2017. Prior to that, Mr. Kempczinski served as Corporate Executive Vice President - Strategy, Business Development and Innovation, from October 2015 through December 2016. Mr. Kempczinski joined the Company from Kraft Heinz, a manufacturer and marketer of food and beverage products, where he most recently served as Executive Vice President of Growth Initiatives and President of Kraft International from December 2014 to September 2015. Prior to that, Mr. Kempczinski served as President of Kraft Canada from July 2012 through December 2014 and as Senior Vice President - U.S. Grocery from December 2008 to July 2012. Mr. Kempczinski has been with the Company for 3 years.

Jerome Krulewitch, 54, is Corporate Executive Vice President, General Counsel and Secretary, a position he has held since March 2017. From May 2011 until March 2017, Mr. Krulewitch served as Corporate Senior Vice President - Chief Counsel, Global Operations. Prior to that, Mr. Krulewitch was Corporate Senior Vice President - General Counsel, The Americas from September 2010 to April 2011. Mr. Krulewitch has served the Company for 17 years.

Silvia Lagnado, 55, is Corporate Executive Vice President, Global Chief Marketing Officer, a position she has held since August 2015. Ms. Lagnado served as Chief Marketing Officer of Bacardi Limited, a spirits company, from September 2010 to October 2012. Prior to that, Ms. Lagnado served more than 20 years in positions of increased responsibility at Unilever. Ms. Lagnado has been with the Company for 3 years.

Kevin Ozan, 55, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since March 2015. From February 2008 through February 2015, Mr. Ozan served as Corporate Senior Vice President - Controller. Mr. Ozan has served the Company for 21 years.

PART II

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

MARKET INFORMATION AND DIVIDEND POLICY

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

The number of shareholders of record and beneficial owners of the Company’s common stock as of January 31, 2019 was estimated to be 2,150,000.

Given the Company’s returns on incremental invested capital and significant cash provided by operations, management believes it is prudent to reinvest in the business in markets with acceptable returns and/or opportunity for long-term growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 43 consecutive years through 2018 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 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)
October 1-31, 2018	1,696,789	168.75	1,696,789	$ 7,694,783,993
November 1-30, 2018	1,483,658	182.15	1,483,658	7,424,533,360
December 1-31, 2018	2,297,726	178.44	2,297,726	7,014,533,413
Total	5,478,173	176.44	5,478,173	

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

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

Stock Performance Graph

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

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

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2018. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was $100 at December 31, 2013. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

Company/Index	**12/31/2013**	**12/31/2014**	**12/31/2015**	**12/31/2016**	**12/31/2017**	**12/31/2018**
McDonald's Corporation	$100	$100	$130	$138	$201	$212
S&P 500 Index	100	114	115	129	157	150
Dow Jones Industrials	100	110	110	128	165	159

Source: S&P Capital IQ

ITEM 6. Selected Financial Data

6-Year Summary

Years ended December 31,

In millions, except per share and unit amounts	***2018***	*2017*	*2016*	*2015*	*2014*	*2013*
Consolidated Statement of Income Data						
Revenues						
Sales by Company-operated restaurants	**$10,013**	$12,719	$15,295	$16,488	$18,169	$18,875
Revenues from franchised restaurants	**11,012**	10,101	9,327	8,925	9,272	9,231
Total revenues	**21,025**	22,820	24,622	25,413	27,441	28,106
Operating income	**8,823**	9,553	7,745	7,146	7,949	8,764
Net income	**5,924**	5,192	4,687	4,529	4,758	5,586
Consolidated Statement of Cash Flows Data						
Cash provided by operations	**$6,967**	$5,551	$6,060	$6,539	$6,730	$7,121
Cash used for (provided by) investing activities	**2,455**	(562)	982	1,420	2,305	2,674
Capital expenditures	**2,742**	1,854	1,821	1,814	2,583	2,825
Cash used for (provided by) financing activities	**5,950**	5,311	11,262	(735)	4,618	4,043
Treasury stock purchases[(1)]	**5,247**	4,651	11,142	6,182	3,175	1,810
Common stock dividends	**3,256**	3,089	3,058	3,230	3,216	3,115
Financial Position						
Total assets	**$32,811**	$33,804	$31,024	$37,939	$34,227	$36,626
Total debt	**31,075**	29,536	25,956	24,122	14,936	14,130
Total shareholders' equity (deficit)	**(6,258)**	(3,268)	(2,204)	7,088	12,853	16,010
Shares outstanding	**767**	794	819	907	963	990
Per Common Share Data						
Earnings-diluted	**$7.54**	$6.37	$5.44	$4.80	$4.82	$5.55
Dividends declared	**4.19**	3.83	3.61	3.44	3.28	3.12
Market price at year end	**177.57**	172.12	121.72	118.44	93.70	97.03
Restaurant Information and Other Data						
Restaurants at year end						
Company-operated restaurants	**2,770**	3,133	5,669	6,444	6,714	6,738
Franchised restaurants	**35,085**	34,108	31,230	30,081	29,544	28,691
Total Systemwide restaurants	**37,855**	37,241	36,899	36,525	36,258	35,429
Franchised sales[(2)]	**$86,134**	$78,191	$69,707	$66,226	$69,617	$70,251

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

(2) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent approximately 93% of McDonald's restaurants worldwide at December 31, 2018.

ITEM 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

DESCRIPTION OF THE BUSINESS

The Company operates and franchises McDonald's restaurants. Of the 37,855 restaurants in 120 countries at year-end 2018, 35,085 were franchised.

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

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

Under McDonald's developmental license or affiliate arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company generally has no capital invested. The Company also has an equity investment in a limited number of foreign affiliates (primarily in China and Japan).

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 strength of McDonald's global brand, operating system and financial resources.

Directly operating McDonald's restaurants contributes significantly to our ability to act as a credible franchisor. One of the strengths of the franchising model is that the expertise from operating Company-owned restaurants allows McDonald's to improve the operations and success of all restaurants while innovations from franchisees can be tested and, when viable, efficiently implemented across relevant restaurants. Having Company-owned and operated restaurants provides Company personnel with a venue for restaurant operations training experience. In addition, in our Company-owned and operated restaurants, and in collaboration with franchisees, we are able to further develop and refine operating standards, marketing concepts and product and pricing strategies that will ultimately benefit McDonald's restaurants. McDonald's continually reviews its mix of Company-operated and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term.

The Company's revenues consist of sales by Company-operated restaurants and fees from restaurants operated by franchisees. Revenues from conventional franchised restaurants include rent and royalties based on a percent of sales along with minimum rent payments, and initial fees. Revenues from developmental licensees and affiliate restaurants include a royalty based on a percent of sales, and generally include initial fees upon the opening of a new restaurant or grant of a new license. 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.

Through the end of 2018, the business was structured into the following segments that combined markets with similar characteristics and ownership structure, and reflected how management reviewed and evaluated operating performance:

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

Beginning in 2019, the Company changed its global operating structure as detailed in the Company's Form 8-K filed with the SEC on September 24, 2018. Refer to the Strategic Direction and Financial Performance section on the next page for additional information as well as the Segment and Geographic Information section included in Part II, Item 8, page 49 of this Form 10-K.

MANAGEMENT'S VIEW OF THE BUSINESS

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

- Constant currency results exclude the effects of foreign currency translation and are calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results in constant currencies and bases most incentive compensation plans on these results because the Company believes this better represents its underlying business trends.

Comparable sales and comparable guest counts are key performance indicators used within the retail industry and are indicative of the impact of the Company’s initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales and comparable guest counts represent the percent change in sales and transactions, respectively, from the same period in the prior year for all restaurants, whether operated by the Company or franchisees, in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation, and, beginning in 2017, also exclude sales from Venezuela due to its hyper-inflation. Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. The goal is to achieve a relatively balanced contribution from both guest counts and average check.

- Systemwide sales include sales at all restaurants. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company’s financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.
- ROIIC is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the markets, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.
- Free cash flow, defined as cash provided by operations less capital expenditures, and free cash flow conversion rate, defined as free cash flow divided by net income, are measures reviewed by management in order to evaluate the Company’s ability to convert net profits into cash resources, after reinvesting in the core business, that can be used to pursue opportunities to enhance shareholder value.

STRATEGIC DIRECTION AND FINANCIAL PERFORMANCE

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

In 2018, the Company continued to evolve to a more heavily franchised business model, and is currently about 93% franchised, with a long-term goal of approximately 95%. The Company will continue to make progress toward this long-term goal in 2019 primarily by refranchising restaurants to conventional licensees. As a result of the continued evolution of the Company’s business model, in September 2018, the Company announced several organizational changes to its global business structure. These changes are designed to continue the Company's efforts toward efficiently driving growth as a better McDonald’s through the Velocity Growth Plan. Effective January 1, 2019, McDonald’s is operating with the following global business segments:

- U.S., the Company's largest market.
- International Operated Markets (IOM), comprised of wholly-owned markets, or countries in which the Company operates restaurants, including Australia, Canada, France, Germany, Italy, the Netherlands, Russia, Spain and the U.K.
- International Developmental Licensed Markets (IDL), comprised primarily of developmental licensee and affiliate markets in the McDonald’s system. Corporate activities will also be reported within this segment.

Australia, Canada, France, Germany, and the U.K. may be collectively referred to as “the Big Five international markets” in the Company’s disclosures.

CUSTOMER-CENTRIC GROWTH STRATEGY

The Velocity Growth Plan (the "Plan"), the Company’s customer-centric strategy, is rooted in extensive customer research and insights, along with a deep understanding of the key drivers of the business. The Plan is designed to drive sustainable guest count growth, which is a reliable long-term measure of the Company's strength and is vital to growing sales and shareholder value. 2018 was a year of broad-based strength around the world along with significant execution against the Plan in the U.S. While the Company made meaningful progress, our focus in 2019 will be to optimize execution of the Plan to unlock further potential and drive long-term sustainable growth.

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

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

In each pillar, McDonald’s has established sustainable platforms that enable execution of the Plan with greater speed, efficiency and impact while remaining relentlessly focused on the fundamentals of running great restaurants. Additionally, through three identified growth accelerators - Experience of the Future (“EOTF”), digital and delivery - McDonald’s is enhancing the overall customer experience with hospitable, friendly service and ever-improving convenience for customers on their terms. The Company worked to aggressively deploy each of these accelerators in 2018 and will continue further implementation in 2019 and beyond.

- Experience of the Future. The Company continues to build upon its investments in EOTF, focusing on restaurant modernization and technology in order to transform the restaurant service experience and enhance the brand in the eyes of our customers. EOTF introduces a new hospitality experience via the restaurant Guest Experience Leaders and table service, both of which have proven to be critical drivers of customer satisfaction. The modernization efforts are designed to provide a better customer experience, leading to increased frequency of customer visits along with higher average check. As of the end of 2018, EOTF is now deployed in about half of the restaurants in our global system, and in 2019, the Company will continue to deploy EOTF in many markets. In 2018, the U.S. converted about 4,500 restaurants to EOTF, exceeding its ambitious target of 4,000 restaurants, resulting in over half of the U.S. restaurants now having EOTF. We expect to convert substantially all of the restaurants in the U.S. to EOTF by the end of 2020.

- Digital. As the Company continues its ambitious pace of converting restaurants to EOTF, it is placing renewed emphasis on improving its existing service model (i.e., eat in, take out, or drive-thru) and strengthening its relationships with customers through technology. By evolving the technology platform, the Company is redefining how we provide convenience to customers by expanding choices for how customers order, pay and are served through additional functionality on its global mobile app, self-order kiosks, and technologies that enable conveniences such as table service and curb-side pick-up. In 2018, the Company made further progress in rolling out digital platforms to improve convenience for our customers and provide a simpler and more personalized experience. This included having kiosks deployed in nearly 17,000 restaurants, digital menu boards in more than 21,000 restaurants, and availability of Mobile Order & Pay in over 22,000 restaurants. The popularity and utilization of self-order kiosks continues to grow over time, and in France, Italy and Spain, well over half of all in-restaurant visits orders are placed through the kiosk. Germany made a strong push to grow digital engagement in 2018 through digital calendar promotions, and saw success, driving sales and guest count growth, as well as increased app downloads. In 2019, the Company will continue to utilize digital initiatives to engage customers, grow awareness and adoption of digital offerings, and support our menu offerings.

- Delivery. The Company continues to build momentum with its delivery platform as a way of expanding the convenience for its customers. In 2018, McDonald's expanded the number of restaurants offering delivery and it is now available in over half of the global system. Customers are responding positively, as demonstrated by high satisfaction ratings, high reorder rates, and average checks that are 1.5-2 times higher than average non-delivery transactions. In addition, many of our larger markets, such as the U.S., France and the U.K., have achieved delivery sales growth in the high double digits in restaurants offering the service for more than 12 months. Further, in several of our top markets, delivery now represents as much as 10% of sales in those restaurants offering delivery. While growing customer awareness remains a priority and focus in 2019, we have been effective in markets like Australia, where awareness has more than doubled through a major campaign that promoted delivery with in-restaurant signs, engaging social media outreach, public relations activity and advertising.

The Velocity Growth Plan is a global strategy that is tailored at a market level to allow for the best customer experience and most convenience for our valued customers. While the Plan provides a consistent framework on how to retain, regain, and convert customers, the execution varies across the globe. Markets continue to make progress on the three pillars of the Plan and its growth accelerators. The U.S., for example, remains diligently focused on driving guest count growth in 2019 through actions that collectively transform the customer experience. In addition to continuing its aggressive execution of the growth accelerators of EOTF, digital and delivery, the U.S. will also enhance the customer experience through strong restaurant execution, with a focus on the drive thru experience, and reducing complexity in the restaurants. In 2018, several markets, including key markets outside of the U.S., experienced strong business results, driven by the Velocity Growth Plan, and the markets will continue to hone their execution of the Plan in 2019, focusing on value, quality and convenience.

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

While we're committed to working to address many challenges facing society today, we are elevating a few global priorities where we believe we can make the greatest difference in driving industry-wide change. Our four global priorities reflect the social and environmental impacts of our food and our business and are: beef sustainability, packaging and recycling, commitment to families and our investment in people. In 2018, the Company demonstrated its dedication to these priorities, pledging commitments related to reducing greenhouse gas emissions and the use of antibiotics, sourcing sustainable packaging, and making a difference for families through our food offerings, reading programs and Ronald McDonald House Charities.

The Company is confident that, with the Velocity Growth Plan in place, the System will work together in 2019 to focus on improving the taste of our delicious food, enhancing convenience, offering compelling value and upholding the trust consumers place in our brand, which we believe will enhance our ability to deliver long-term sustainable growth.

2018 FINANCIAL PERFORMANCE

The Company's 2018 financial performance continued to demonstrate that the Velocity Growth Plan is working. By focusing on the aforementioned three pillars, and the identified growth accelerators, the Company has achieved 14 consecutive quarters of positive global comparable sales. In 2018, global comparable sales increased 4.5% and global comparable guest counts increased 0.2%.

- Comparable sales in the U.S. increased 2.5% and comparable guest counts decreased 2.2%. The increase in comparable sales was driven by growth in average check resulting from both product mix shifts and menu price increases.
- Comparable sales in the International Lead segment increased 5.8% and comparable guest counts increased 2.4%, reflecting positive results across all markets.
- Comparable sales in the High Growth segment increased 4.1% and comparable guest counts increased 1.8%. This performance reflects positive results across most of the segment, led by strong performance in Italy and the Netherlands.
- Comparable sales in the Foundational Markets increased 7.1% and comparable guest counts increased 1.5%, reflecting positive sales performance in Japan and across all geographic regions.

In addition to improved comparable sales and consolidated guest count performance, the Company achieved the following financial results in 2018:

- Due to the impact of the Company's strategic refranchising initiative, consolidated revenues decreased 8% (8% in constant currencies).
- Systemwide sales increased 6% (6% in constant currencies).
- Consolidated operating income decreased 8% (8% in constant currencies). 2018 results included non-cash impairment and strategic restructuring charges. 2017 results reflected a gain on the sale of the Company's businesses in China and Hong Kong, partly offset by restructuring and impairment charges. Excluding these items in both years, consolidated operating income increased 2% (2% in constant currencies).
- Operating margin, defined as operating income as a percent of total revenues, increased from 41.9% in 2017 to 42.0% in 2018. Excluding the items described in the previous bullet point, operating margin increased from 38.8% in 2017 to 43.1% in 2018.
- Diluted earnings per share of $7.54 increased 18% (18% in constant currencies). Refer to the Net Income and Diluted Earnings Per Share section on page 21 for additional details.
- Cash provided by operations was $6.97 billion.
- Capital expenditures of $2.74 billion were allocated mainly to reinvestment in existing restaurants and, to a lesser extent, to new restaurant openings.
- Free cash flow was $4.23 billion.
- Across the System, about 1,100 restaurants (including those in our developmental licensee and affiliated markets) were opened.
- One-year ROIIC was (80.4%) and three-year ROIIC was 78.0% for the period ended December 31, 2018. Excluding the gain from the sale of businesses in China and Hong Kong, as well as significant investing cash inflows from strategic refranchising initiatives, one year and three year ROIIC were 10.2% and 34.7%, respectively (see reconciliation in Exhibit 12).
- The Company increased its quarterly cash dividend per share by 15% to $1.16 for the fourth quarter, equivalent to an annual dividend of $4.64 per share.
- The Company returned $8.5 billion to shareholders through share repurchases and dividends for the year and increased the cash return to shareholder target for the 3-year period ending 2019 to about $25 billion.

OUTLOOK

<u>2019 Outlook</u>

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

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion and the potential impacts of hyper-inflation. The Company expects net restaurant additions to add approximately 1 percentage point to 2019 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 new International Operated Markets segment would change annual diluted earnings per share by about 6 to 7 cents.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full year 2019, costs for the total basket of goods are expected to increase about 1% to 2% in the U.S. and about 2% in the Big Five international markets.
- The Company expects full year 2019 selling, general and administrative expenses to decrease about 4% in constant currencies.

- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2019 to increase about 10% to 12% due primarily to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 80% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 35 cents.
- The Company expects the effective income tax rate for the full year 2019 to be in the 24% to 26% range. Some volatility may result in a quarterly tax rate outside of the annual range. Primarily due to tax costs associated with new regulations issued in January 2019, the effective income tax rate for the first quarter of 2019 is expected to be in the 28% to 29% range.
- The Company expects capital expenditures for 2019 to be approximately $2.3 billion. About $1.5 billion will be dedicated to our U.S. business, nearly two-thirds of which is allocated to approximately 2,000 EOTF projects. Globally, we expect to open roughly 1,200 restaurants. We will spend approximately $600 million in our wholly owned markets to open 300 restaurants and our developmental licensee and affiliated markets will contribute capital toward the remaining 900 restaurant openings in their respective markets. The Company expects about 750 net restaurant additions in 2019.
- During 2019, the Company expects to return about $9 billion to shareholders, which will complete its cash return to shareholder target of about $25 billion for the 3-year period ending 2019.

Long-Term Outlook

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

Consolidated Operating Results

Operating results

Dollars and shares in millions, except per share data	2018 Amount	2018 Increase/ (decrease)	2017 Amount	2017 Increase/ (decrease)	2016 Amount
Revenues					
Sales by Company-operated restaurants	**$10,013**	**(21 %)**	$12,719	(17 %)	$15,295
Revenues from franchised restaurants	**11,012**	**9**	10,101	8	9,327
Total revenues	**21,025**	**(8)**	22,820	(7)	24,622
Operating costs and expenses					
Company-operated restaurant expenses	**8,266**	**(21)**	10,410	(18)	12,699
Franchised restaurants-occupancy expenses	**1,973**	**10**	1,789	4	1,718
Selling, general & administrative expenses	**2,200**	**(1)**	2,231	(6)	2,384
Other operating (income) expense, net	**(237)**	**80**	(1,163)	n/m	76
Total operating costs and expenses	**12,202**	**(8)**	13,267	(21)	16,877
Operating income	**8,823**	**(8)**	9,553	23	7,745
Interest expense	**981**	**7**	922	4	885
Nonoperating (income) expense, net	**26**	**(56)**	58	n/m	(6)
Income before provision for income taxes	**7,816**	**(9)**	8,573	25	6,866
Provision for income taxes	**1,892**	**(44)**	3,381	55	2,180
Net income	**$5,924**	**14 %**	$5,192	11 %	$4,686
Earnings per common share—diluted	**$7.54**	**18 %**	$6.37	17 %	$5.44
Weighted-average common shares outstanding—diluted	**785.6**	**(4 %)**	815.5	(5 %)	861.2

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

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

In 2018, results reflected a positive foreign currency impact of $0.04, primarily due to the stronger Euro and British Pound. In 2017, results reflected the stronger Euro, offset by the weaker British Pound. In 2016, results were negatively impacted by the weaker British Pound as well as many other currencies.

Impact of foreign currency translation on reported results

In millions, except per share data	Reported amount 2018	2017	2016	Currency translation benefit/(cost) 2018	2017	2016
Revenues	**$21,025**	$22,820	$24,622	**$123**	$186	$(692)
Company-operated margins	**1,747**	2,309	2,596	**4**	17	(89)
Franchised margins	**9,039**	8,312	7,609	**57**	25	(118)
Selling, general & administrative expenses	**2,200**	2,231	2,384	**(13)**	(10)	28
Operating income	**8,823**	9,553	7,745	**56**	28	(173)
Net income	**5,924**	5,192	4,686	**33**	2	(97)
Earnings per common share—diluted	**7.54**	6.37	5.44	**0.04**	—	(0.11)

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

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

In 2017, net income increased 11% (11% in constant currencies) to $5.2 billion and diluted earnings per common share increased 17% (17% in constant currencies) to $6.37. Foreign currency translation had no impact on diluted earnings per share.

Results in 2018 reflected a lower effective tax rate, and stronger operating performance due to an increase in sales-driven franchised margin dollars, partly offset by lower Company-operated margin dollars due to the impact of refranchising. Results in 2017 reflected stronger operating performance, G&A savings, improved performance in Japan, and the benefit of a reversal of a valuation allowance on a deferred tax asset in Japan.

Included in the full year 2018 results were:

approximately $140 million, or $0.17 per share, of non-cash impairment charges;

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); and

approximately $75 million, or $0.10 per share, of net tax cost associated with 2018 adjustments to the provisional amounts recorded in the prior year under the Tax Cuts and Jobs Act ("Tax Act").

Included in the full year 2017 results were:

approximately $700 million, or $0.82 per share, of net tax cost associated with the Tax Act; and

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

Excluding these 2018 and 2017 items, 2018 net income was $6.2 billion, an increase of 14% (14% in constant currencies), and diluted earnings per share was $7.90, an increase of 19% (18% in constant currencies). Excluding items impacting 2017 and the 2016 strategic charges of $342 million, 2017 net income was $5.4 billion, an increase of 10% (10% in constant currencies), and diluted earnings per share was $6.66, an increase of 16% (16% in constant currencies).

The Company repurchased 32.2 million shares of its stock for $5.2 billion in 2018 and 31.4 million shares of its stock for $4.6 billion in 2017, driving reductions in weighted-average shares outstanding on a diluted basis in both periods, which positively benefited earnings per share.

REVENUES

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

The Company has continually reviewed its mix of Company-owned and franchised restaurants to help optimize overall performance, with a goal to be approximately 95% franchised over the long term. Franchised restaurants represent approximately 93% of McDonald's restaurants worldwide at December 31, 2018. 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. Revenues for 2018 reflected a negative impact of approximately $42 million as a result of this new guidance.

In 2018, revenues decreased 8% (8% in constant currencies) and in 2017, revenues decreased 7% (8% in constant currencies). For both periods, the decreases in revenues were due to the Company's strategic refranchising initiatives, partly offset by positive comparable sales.

Revenues

Dollars in millions	Amount 2018	Amount 2017	Amount 2016	Increase/(decrease) 2018	Increase/(decrease) 2017	Increase/(decrease) excluding currency translation 2018	Increase/(decrease) excluding currency translation 2017
Company-operated sales:							
U.S.	**$2,665**	$3,260	$3,743	**(18 %)**	(13 %)	**(18 %)**	(13 %)
International Lead Markets	**3,962**	4,080	4,278	**(3)**	(5)	**(5)**	(4)
High Growth Markets	**2,848**	4,592	5,378	**(38)**	(15)	**(37)**	(17)
Foundational Markets & Corporate	**538**	787	1,896	**(32)**	(58)	**(32)**	(59)
Total	**$10,013**	$12,719	$15,295	**(21 %)**	(17 %)	**(22 %)**	(18 %)
Franchised revenues:							
U.S.	**$5,001**	$4,746	$4,510	**5 %**	5 %	**5 %**	5 %
International Lead Markets	**3,638**	3,260	2,945	**12**	11	**9**	10
High Growth Markets	**1,141**	942	783	**21**	20	**18**	18
Foundational Markets & Corporate	**1,232**	1,154	1,089	**7**	6	**9**	7
Total	**$11,012**	$10,102	$9,327	**9 %**	8 %	**8 %**	8 %
Total revenues:							
U.S.	**$7,666**	$8,006	$8,253	**(4 %)**	(3 %)	**(4 %)**	(3 %)
International Lead Markets	**7,600**	7,340	7,223	**4**	2	**1**	1
High Growth Markets	**3,989**	5,533	6,161	**(28)**	(10)	**(28)**	(13)
Foundational Markets & Corporate	**1,770**	1,941	2,985	**(9)**	(35)	**(8)**	(35)
Total	**$21,025**	$22,820	$24,622	**(8 %)**	(7 %)	**(8 %)**	(8 %)

- ***U.S.:*** In 2018 and 2017, the decrease in revenues reflected the benefit from positive comparable sales that was more than offset by the impact of refranchising.
- ***International Lead Markets:*** In 2018 and 2017, the increase in revenues was due to positive comparable sales across all markets, partly offset by the impact of refranchising.
- ***High Growth Markets:*** In 2018 and 2017, the decrease in revenues reflected positive comparable sales across most markets that were more than offset by the impact of refranchising the Company's businesses in China and Hong Kong in 2017.

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

Comparable sales and guest count increases/(decreases)

	2018 Sales	2018 Guest Counts	2017 Sales	2017 Guest Counts	2016 Sales	2016 Guest Counts
U.S.	**2.5 %**	**(2.2 %)**	3.6 %	1.0 %	1.7 %	(2.1 %)
International Lead Markets	**5.8**	**2.4**	5.3	2.3	3.4	1.5
High Growth Markets	**4.1**	**1.8**	5.3	1.8	2.8	(0.8)
Foundational Markets & Corporate	**7.1**	*** 1.5**	9.0	* 3.3	10.0	1.9
Total	**4.5 %**	*** 0.2 %**	5.3 %	* 1.9 %	3.8 %	(0.3 %)

* In 2018 and 2017, the Company excluded sales from markets identified as hyper-inflationary (currently only Venezuela) from the comparable sales calculation as the Company believes this more accurately reflects the underlying business trends. There was no significant impact related to 2016.

*Systemwide sales increases/(decreases)**

	2018	2017	Increase/(decrease) excluding currency translation 2018	Increase/(decrease) excluding currency translation 2017
U.S.	**2 %**	3 %	**2 %**	3 %
International Lead Markets	**9**	7	**7**	7
High Growth Markets	**10**	12	**8**	10
Foundational Markets & Corporate	**6**	11	**9**	14
Total	**6 %**	7 %	**6 %**	7 %

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

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

Franchised sales

	Amount			*Increase/(decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2018***	*2017*	*2016*	***2018***	*2017*	***2018***	*2017*
U.S.	**$35,860**	$34,379	$32,646	**4 %**	5 %	**4 %**	5 %
International Lead Markets	**20,972**	18,820	17,049	**11**	10	**9**	9
High Growth Markets *	**9,725**	6,888	4,858	**41**	42	**38**	39
Foundational Markets & Corporate	**19,577**	18,104	15,154	**8**	19	**11**	24
Total	**$86,134**	$78,191	$69,707	**10 %**	12 %	**10 %**	13 %
Ownership type							
Conventional franchised	**$63,251**	$59,151	$56,035	**7 %**	6 %	**6 %**	5 %
Developmental licensed	**13,519**	12,546	9,082	**8**	38	**13**	44
Foreign affiliated *	**9,364**	6,494	4,590	**44**	41	**42**	44
Total	**$86,134**	$78,191	$69,707	**10 %**	12 %	**10 %**	13 %

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

FRANCHISED MARGINS

Franchised margin dollars represent revenues from franchised restaurants less the Company's costs associated with those restaurants, primarily occupancy costs (rent and depreciation). Franchised margin dollars represented about 85% of the combined restaurant margins in 2018, about 80% in 2017, and about 75% in 2016.

In 2018, franchised margin dollars increased $727 million or 9% (8% in constant currencies). In 2017, franchised margin dollars increased $703 million or 9% (9% in constant currencies). For both 2018 and 2017, the constant currency increases were due to positive comparable sales performance across all segments, refranchising and expansion.

Franchised margins

	Amount	*% of Revenue*	*Amount*	*% of Revenue*	*Amount*	*% of Revenue*	*Increase/(decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2018***		*2017*		*2016*		***2018***	*2017*	***2018***	*2017*
U.S.	**$4,070**	**81.4 %**	$3,913	82.4 %	$3,726	82.6 %	**4 %**	5 %	**4 %**	5 %
International Lead Markets	**2,952**	**81.1**	2,634	80.8	2,363	80.2	**12**	11	**10**	10
High Growth Markets	**867**	**76.0**	693	73.6	550	70.2	**25**	26	**22**	24
Foundational Markets & Corporate	**1,150**	**93.3**	1,072	92.9	970	89.1	**7**	10	**9**	12
Total	**$9,039**	**82.1 %**	$8,312	82.3 %	$7,609	81.6 %	**9 %**	9 %	**8 %**	9 %

- ***U.S.:*** In 2018 and 2017, the decreases in the franchised margin percents were primarily due to higher depreciation costs related to investments in EOTF, partly offset by positive comparable sales.
- ***International Lead Markets:*** In 2018 and 2017, the increases in the franchised margin percent primarily reflected the benefit from positive comparable sales performance, partly offset by the impact of refranchising and higher occupancy costs.
- ***High Growth Markets:*** In 2018 and 2017, the increases in the franchised margin percents were primarily due to the impact of refranchising, mainly related to the sale of the Company's businesses in China and Hong Kong in 2017, as well as strong comparable sales performance.

The franchised margin percent in Foundational Markets & Corporate is higher relative to the other segments due to a larger proportion of developmental licensed and affiliated restaurants where the Company receives royalty income with no corresponding occupancy costs.

COMPANY-OPERATED MARGINS

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. In 2018 Company-operated margin dollars decreased $562 million or 24% (25% in constant currencies). In 2017, Company-operated margin dollars decreased $287 million or 11% (12% in constant currencies).

Company-operated margins

	Amount	*% of Revenue*	*Amount*	*% of Revenue*	*Amount*	*% of Revenue*	*Increase/(decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2018***		*2017*		*2016*		***2018***	*2017*	***2018***	*2017*
U.S.	**$397**	**14.9 %**	$523	16.0 %	$618	16.5 %	**(24 %)**	(15 %)	**(24 %)**	(15 %)
International Lead Markets	**848**	**21.4**	861	21.1	886	20.7	**(2)**	(3)	**(3)**	(3)
High Growth Markets	**394**	**13.8**	781	17.0	796	14.8	**(50)**	(2)	**(48)**	(4)
Foundational Markets & Corporate	**108**	**20.1**	144	18.3	296	15.6	**(25)**	(51)	**(25)**	(53)
Total	**$1,747**	**17.4 %**	$2,309	18.2 %	$2,596	17.0 %	**(24 %)**	(11 %)	**(25 %)**	(12 %)

- ***U.S.:*** In 2018 and 2017, the Company-operated margin percent decreased as the benefits of positive comparable sales and refranchising were more than offset by the impact of EOTF (primarily additional depreciation expense in 2017 and both labor productivity and depreciation expense in 2018), as well as higher labor and commodity costs.
- ***International Lead Markets:*** In 2018 and 2017, the increases in the Company-operated margin percents were primarily due to positive comparable sales partly offset by higher labor, commodity and occupancy costs.
- ***High Growth Markets:*** In 2018, the decrease in the Company-operated margin percent was primarily due to the impact of refranchising, mainly related to the sale of the Company's businesses in China and Hong Kong, and higher labor costs, partly offset by positive comparable sales performance. In 2017, the increase was primarily due to strong comparable sales and the benefit of lower depreciation in China and Hong Kong (due to held for sale accounting treatment). This increase was partly offset by negative comparable sales in South Korea and the impact of refranchising.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses decreased 1% (2% in constant currencies) in 2018 and decreased 6% (7% in constant currencies) in 2017. The decreases in 2018 and 2017 were primarily due to lower employee-related costs, partly offset by investment in restaurant technology. Expenses in 2018 also reflected costs related to the 2018 Worldwide Owner/Operator Convention and sponsorship of the 2018 Winter Olympics.

Selling, general & administrative expenses

	Amount			*Increase/(decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2018***	*2017*	*2016*	***2018***	*2017*	***2018***	*2017*
U.S.	**$591**	$624	$741	**(5 %)**	(16 %)	**(5 %)**	(16 %)
International Lead Markets	**445**	451	464	**(1)**	(3)	**(3)**	(4)
High Growth Markets	**174**	248	294	**(30)**	(16)	**(31)**	(17)
Foundational Markets & Corporate[(1)]	**990**	908	885	**9**	3	**9**	2
Total Selling, General & Administrative Expenses	**$2,200**	$2,231	$2,384	**(1 %)**	(6 %)	**(2 %)**	(7 %)
Less: Incentive-Based Compensation[(2)]	**284**	336	418	**(16 %)**	(20 %)	**(16 %)**	(20 %)
Total Excluding Incentive-Based Compensation	**$1,916**	$1,895	$1,966	**1 %**	(4 %)	**1 %** [(3)]	(4 %) [(4)]

(1) Included in Foundational Markets & Corporate are home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training.
(2) Includes all cash incentives and share-based compensation expense.
(3) Excludes $12.2 million of foreign currency cost.
(4) Excludes $9.4 million of foreign currency cost.

Selling, general and administrative expenses as a percent of Systemwide sales was 2.3% in 2018, 2.5% in 2017 and 2.8% in 2016. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	***2018***	*2017*	*2016*
Gains on sales of restaurant businesses	**$(304)**	$(295)	$(283)
Equity in earnings of unconsolidated affiliates	**(152)**	(184)	(55)
Asset dispositions and other (income) expense, net	**(13)**	19	72
Impairment and other charges (gains), net	**232**	(703)	342
Total	**$(237)**	$(1,163)	$76

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

In 2018 and 2017, gains on sales of restaurant businesses remained relatively flat with the prior year.

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

In 2018 and 2017, results benefited from improved performance in Japan. 2017 results also included the benefit of the reversal of a valuation allowance on a deferred tax asset in Japan in the fourth quarter 2017.

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

In 2018, impairment and other charges (gains), net reflected approximately $140 million of impairment charges due to the Company’s assessment of the recoverability of long-lived assets as well as the strategic restructuring charge in the U.S. of $85 million. The results for 2017 reflected a gain on the Company's sale of its businesses in China and Hong Kong of approximately $850 million, partly offset by $150 million of restructuring and impairment charges. Restructuring and impairment charges for all three years related to the Company's global refranchising and G&A initiatives.

OPERATING INCOME

Operating income

	Amount			*Increase/(decrease)*		*Increase/(decrease) excluding currency translation*	
Dollars in millions	***2018***	*2017*	*2016*	***2018***	*2017*	***2018***	*2017*
U.S.	**$4,016**	$4,023	$3,769	**0 %**	7 %	**0 %**	7 %
International Lead Markets	**3,486**	3,167	2,838	**10**	12	**8**	11
High Growth Markets	**1,001**	2,001	1,049	**(50)**	91	**(51)**	89
Foundational Markets & Corporate	**320**	362	89	**(12)**	n/m	**(6)**	n/m
Total	**$8,823**	$9,553	$7,745	**(8 %)**	23 %	**(8 %)**	23 %

n/m Not meaningful

- ***U.S.:*** 2018 and 2017 operating income reflected higher franchised margin dollars and lower G&A costs, partly offset by lower Company-operated margin dollars. 2018 results also reflected the $85 million strategic restructuring charge. Excluding this charge, operating income for 2018 increased 2%.
- ***International Lead Markets:*** In 2018 and 2017, the constant currency operating income increase was primarily due to sales-driven improvements in franchised margin dollars across all markets. 2018 results also reflected higher gains on sales of restaurant businesses in the U.K. and Australia, while 2017 benefited from a property disposition gain in Australia.
- ***High Growth Markets:*** Results for 2018 and 2017 reflected impairment charges while 2017 also reflected a gain on the sale of the Company's businesses in China and Hong Kong. Excluding these items, 2018 operating income decreased 10% (11% in constant currencies) due to the impact of refranchising in China and Hong Kong, and 2017 operating income increased 17% (15% in constant currencies) due to higher sales-driven franchised margin dollar performance, the impact of refranchising and G&A savings, as well as benefiting from lower depreciation expense in China and Hong Kong.
- ***Foundational Markets and Corporate:*** In 2018 and 2017, results reflected higher G&A costs in Corporate, mainly due to investments in restaurant technology. 2017 results also included the benefit of the reversal of a valuation allowance on a deferred tax asset in Japan.
- ***Operating margin:*** Operating margin was 42.0% in 2018, 41.9% in 2017 and 31.5% in 2016. Excluding the previously described impairment and restructuring charges, as well as the 2017 refranchising gain, operating margin was 43.1%, 38.8% and 32.8% for the years ended 2018, 2017 and 2016, respectively.

INTEREST EXPENSE

Interest expense increased 7% and 4% in 2018 and 2017, respectively, primarily reflecting higher average debt balances, partly offset by lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	***2018***	*2017*	*2016*
Interest income	**$(4)**	$(7)	$(4)
Foreign currency and hedging activity	**5**	26	(24)
Other expense	**25**	39	22
Total	**$26**	$58	$(6)

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

PROVISION FOR INCOME TAXES

In 2018, 2017 and 2016, the reported effective income tax rates were 24.2%, 39.4% and 31.7%, respectively.

The effective income tax rate for 2018 reflected approximately $75 million of net tax cost associated with the 2018 adjustments to the provisional amounts recorded in the prior year under the Tax Act. Excluding the impact of the Tax Act and the current year impairment charges, the effective income tax rate was 22.9% for 2018. Excluding the prior year provisional net tax cost of approximately $700 million under the Tax Act, the effective income tax rate was 31.6% for 2017.

Excluding the impact of the Tax Act and the current year impairment charges, the lower effective income tax rate for 2018 reflected the reduction in the U.S. corporate tax rate from 35% to 21% in 2018. In addition, both 2018 and 2017 reflected a benefit from a change in tax reserves as a result of global audit progression.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $2.0 billion in 2018 and $1.5 billion in 2017. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

RECENTLY ISSUED ACCOUNTING STANDARDS

Recently issued accounting standards are included in Part II, Item 8, page 37 of this Form 10-K.

Cash Flows

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

Cash provided by operations totaled $7.0 billion and free cash flow was $4.2 billion in 2018, an increase in free cash flow of $528 million or 14% compared with 2017. Cash provided by operations totaled $5.6 billion and free cash flow was $3.7 billion in 2017. The Company's free cash flow conversion rate was 71% in 2018 and 2017 (see reconciliation in Exhibit 12). In 2018, cash provided by operations increased by $1.4 billion or 25% compared with 2017, primarily due to lower tax payments. In 2017, cash provided by operations decreased by $508 million or 8% compared with 2016, as improved operating results were more than offset by higher income tax payments in the U.S. and other working capital changes.

Cash used for investing activities totaled $2.5 billion in 2018, an increase of $3 billion compared with 2017. The increase was primarily due to lower proceeds from the sale of restaurant businesses in 2018, as well as higher capital expenditures. Cash provided by investing activities totaled $562 million in 2017, an increase of $1.5 billion compared with 2016. The increase was primarily due to proceeds associated with the sale of the Company's businesses in China and Hong Kong.

Cash used for financing activities totaled $5.9 billion in 2018, an increase of $639 million compared with 2017, primarily due to higher treasury stock purchases. Cash used for financing activities totaled $5.3 billion in 2017, a decrease of $6 billion compared with 2016, primarily due to lower treasury stock purchases, partly offset by a decrease in net borrowings.

The Company’s cash and equivalents balance was $866 million and $2.5 billion at year end 2018 and 2017, respectively. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2018, the Company opened 1,081 restaurants and closed 467 restaurants. In 2017, the Company opened 929 restaurants and closed 587 restaurants. The Company closes restaurants for a variety of reasons, such as existing sales and profit performance or loss of real estate tenure.

Systemwide restaurants at year end

	2018	*2017*	*2016*
U.S.	**13,914**	14,036	14,155
International Lead Markets	**6,987**	6,921	6,851
High Growth Markets	**6,305**	5,884	5,552
Foundational Markets & Corporate	**10,649**	10,400	10,341
Total	**37,855**	37,241	36,899

Approximately 93% of the restaurants at year-end 2018 were franchised, including 95% in the U.S., 88% in International Lead Markets, 83% in High Growth Markets and 98% in Foundational Markets.

Capital expenditures increased $888 million or 48% in 2018, primarily due to reinvestment in existing restaurants (including investment in EOTF). Capital expenditures were relatively flat in 2017 as higher expenditures on restaurant reinvestment were offset by fewer restaurant openings that required the Company's capital. Under McDonald's developmental licensee and affiliate arrangements, licensees provide capital for the entire business and the Company generally has no capital invested.

Capital expenditures invested in the U.S., International Lead Markets and High Growth Markets represented over 90% of the total in 2018, 2017 and 2016.

Capital expenditures

In millions	***2018***	*2017*	*2016*
New restaurants	**$488**	$537	$674
Existing restaurants	**2,111**	1,236	1,108
Other*(1)*	**143**	81	39
Total capital expenditures	**$2,742**	$1,854	$1,821
Total assets	**$32,811**	$33,804	$31,024

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

New restaurant investments in all years were concentrated in markets with strong returns and/or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, as well as leveraging the Company's global sourcing network and best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs for new traditional McDonald’s restaurants in the U.S. averaged approximately $3.8 million in 2018.

The Company owned approximately 50% of the land and approximately 80% of the buildings for restaurants in its consolidated markets at year-end 2018 and 2017.

SHARE REPURCHASES AND DIVIDENDS

In 2018, the Company returned approximately $8.5 billion to shareholders through a combination of shares repurchased and dividends paid. This brings the cumulative two-year return to shareholders to $16.2 billion toward our targeted return of about $25 billion for the three-year period ending 2019.

Shares repurchased and dividends

In millions, except per share data	***2018***	*2017*	*2016*
Number of shares repurchased	**32.2**	31.4	92.3
Shares outstanding at year end	**767**	794	819
Dividends declared per share	**$4.19**	$3.83	$3.61
Treasury stock purchases *(in Shareholders' equity)*	**$5,247**	$4,651	$11,142
Dividends paid	**3,256**	3,089	3,058
Total returned to shareholders	**$8,503**	$7,740	$14,200

In July 2017, the Company's Board of Directors authorized the purchase of up to $15 billion of the Company's outstanding stock, with no specified expiration date. In 2018, approximately 32.2 million shares were repurchased for $5.2 billion, bringing total purchases under the program to approximately 49.5 million shares or $7.9 billion.

The Company has paid dividends on its common stock for 43 consecutive years and has increased the dividend amount every year. The 2018 full year dividend of $4.19 per share reflects the quarterly dividend paid for each of the first three quarters of $1.01 per share, with an increase to $1.16 per share paid in the fourth quarter. This 15% increase in the quarterly dividend equates to a $4.64 per share annual dividend and reflects the Company’s confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

Financial Position and Capital Resources

TOTAL ASSETS

Total assets decreased $1.0 billion or 3% in 2018 primarily due to a decrease in cash and equivalents and the impact of foreign exchange rates, partly offset by an increase in accounts and notes receivable due to the significant number of EOTF projects and corresponding billings to franchisees for their portion of the reinvestment. Net property and equipment increased $394.4 million in 2018, primarily due to capital expenditures, partly offset by depreciation and the impact of foreign exchange rates. Net property and equipment represented about 70% of total assets at year-end. Approximately 96% of total assets were in the U.S., International Lead Markets, and High Growth Markets at year-end 2018.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2018 totaled $31.1 billion, compared with $29.5 billion at December 31, 2017. The net increase in 2018 was primarily due to net long-term issuances of $2.0 billion.

Debt highlights(1)

	2018	*2017*	*2016*
Fixed-rate debt as a percent of total debt(2,3)	**91 %**	89 %	82 %
Weighted-average annual interest rate of total debt(3)	**3.2**	3.3	3.5
Foreign currency-denominated debt as a percent of total debt(2)	**38**	42	34
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)(2)	**125**	112	109
Cash provided by operations as a percent of total debt(2)	**22**	19	23

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

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

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

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

Certain of the Company’s debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company’s debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company’s business.

Under existing authorization from the Company’s Board of Directors, the Company has $15.0 billion of authority to borrow funds, of which $6.5 billion remains outstanding as of December 31, 2018. These borrowings may include (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the SEC and a Global Medium-Term Notes program, the Company has $3.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). In 2019, the Company plans to issue long-term debt to refinance $2.1 billion of maturing corporate debt. As of December 31, 2018, the Company's subsidiaries also had $254 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

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

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders’ equity. Total foreign currency-denominated debt was $11.8 billion and $12.4 billion for the years ended December 31, 2018 and 2017, respectively. In addition, where practical, the Company’s restaurants purchase goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.

The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2018, the Company was required to post an immaterial amount of collateral due to negative fair value of certain derivative positions. The Company's counterparties were not required to post collateral on any derivative position, other than on hedges of certain of the Company’s supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

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

Foreign currency net asset exposures

In millions of U.S. Dollars	***2018***	*2017*
British Pounds Sterling	**$1,840**	$1,877
Australian Dollars	**1,499**	1,519
Canadian Dollars	**684**	733
Russian Ruble	**631**	563
Japanese Yen	**407**	589

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company's results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company's anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company's financial instruments, neither a one percentage point adverse change in interest rates from 2018 levels nor a 10% adverse change in foreign currency rates from 2018 levels would materially affect the Company's results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

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

The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $708 million as of December 31, 2018. Consistent with prior years, we expect existing domestic cash and equivalents, domestic cash flows from operations, repatriation of a portion of foreign earnings, and the issuance of domestic debt to continue to be sufficient to fund our domestic operating, investing, and financing activities. We also continue to expect existing foreign cash and equivalents and foreign cash flows from operations to be sufficient to fund our foreign operating, investing and financing activities.

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

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company's borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company's contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2018. See discussions of cash flows, financial position and capital resources as well as the Notes to the consolidated financial statements for further details.

	Contractual cash outflows		*Contractual cash inflows*
In millions	*Operating leases (1)*	*Debt obligations (2)*	*Minimum rent under franchise arrangements*
2019	$ 1,145	$ —	$ 2,962
2020	1,083	2,418	2,856
2021	1,001	2,159	2,734
2022	909	2,269	2,598
2023	831	4,959	2,481
Thereafter	7,297	19,412	20,796
Total	$ 12,266	$ 31,217	$ 34,427

(1) For sites that have lease escalations tied to an index, future minimum payments reflect the current index adjustments through December 31, 2018. In addition, future minimum payments exclude option periods that have not yet been exercised.

(2) The maturities include reclassifications of short-term obligations to long-term obligations of $2.4 billion, as they are supported by a long-term line of credit agreement expiring in December 2023. Debt obligations do not include the impact of non-cash fair value hedging adjustments, deferred debt costs and accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2018, total liabilities for the supplemental plans were $437 million.

At December 31, 2018, total liabilities for gross unrecognized tax benefits were $1.3 billion. In addition, a liability of approximately $757 million remains resulting from the Tax Act, which imposed a deemed repatriation tax on the Company's undistributed foreign earnings. This additional tax liability will be paid over the next eight years. Refer to the Income Taxes footnote on page 45 for additional information.

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

Other Matters

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the

U.S. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the Company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

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

- ***Property and equipment***

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

- ***Share-based compensation***

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

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company's stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant, and prior to 2018 included a reduction for the present value of expected dividends over the vesting period. For performance-based RSUs granted beginning in 2016, the Company includes a relative Total Shareholder Return ("TSR") modifier to determine the number of shares earned at the end of the performance period. The fair value of performance-based RSUs that include the TSR modifier is determined using a Monte Carlo valuation model.

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

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

- ***Litigation accruals***

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

- ***Income taxes***

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

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. The most significant new developments in 2018 and 2017 are described below.

In 2018 and 2017, the Company increased the balance of unrecognized tax benefits by $162 million and $256 million, respectively. In both 2018 and 2017, there was audit progression in the U.S. federal and state audits as well as multiple foreign tax jurisdictions. The Company has considered this new information in evaluating the unrecognized tax benefits and in certain situations, the Company changed its judgment on the measurement of the related unrecognized tax benefits. These changes have been reflected in the Unrecognized Tax Benefits table that is included in the Income Taxes footnote in the Consolidated Financial Statements.

In 2015, the Internal Revenue Service ("IRS") issued a Revenue Agent Report ("RAR") that included certain disagreed transfer pricing adjustments related to the Company's U.S. Federal income tax returns for 2009 and 2010. Also in 2015, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. During 2017, the Company received a response to its protest. In December 2018, the Company met with the IRS Appeals team and additional meetings are anticipated in 2019. The Company expects resolution on these issues in 2019 or 2020.

In 2017, the IRS completed its examination of the Company’s U.S. Federal income tax returns for 2011 and 2012. In 2018, the IRS issued a RAR for these years. As expected, the RAR included the same disagreed transfer pricing matters as the 2009 and 2010 RAR. Also in 2018, the Company filed a protest with the IRS related to these disagreed transfer pricing matters. The transfer pricing matters for 2011 and 2012 are being addressed along with the 2009 and 2010 transfer pricing matters as part of the 2009-2010 appeals process, such that resolution is expected in either 2019 or 2020.

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

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 complied 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 and for the year ended December 31, 2018.

The Tax Act was enacted in the U.S. on December 22, 2017. The Tax Act reduced the U.S. federal corporate income tax rate to 21% from 35% and required companies to pay a one-time transition tax on earnings of certain foreign subsidiaries that were previously tax deferred. In 2017, the Company recorded provisional amounts for certain enactment-date effects of the Tax Act by applying the guidance in Staff Accounting Bulletin ("SAB") 118 because the Company had not yet completed its enactment-date accounting for these effects. In 2018, the Company recorded adjustments to the provisional amounts and completed its accounting for all of the enactment-date income tax effects of the Tax Act.

SAB 118 measurement period

At December 31, 2017, the Company had not completed its accounting for all of the enactment-date income tax effects of the Tax Act under ASC 740, *Income Taxes*, primarily for the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and its accounting position related to indefinite reinvestment of unremitted foreign earnings. As further discussed below, during 2018, the Company recognized adjustments of approximately $75 million to the provisional amounts recorded at December 31, 2017, primarily related to the transition tax. These adjustments are included as a component of income tax expense from continuing operations.

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

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

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

EFFECTS OF CHANGING PRICES—INFLATION

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

RISK FACTORS AND CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2019. Refer to the cautionary statement regarding forward-looking statements in Part 1, Item 1A, page 3, of this Form 10-K.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 28 of the Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	*Years ended December 31,* ***2018***	*2017*	*2016*
REVENUES			
Sales by Company-operated restaurants	**$ 10,012.7**	$ 12,718.9	$ 15,295.0
Revenues from franchised restaurants	**11,012.5**	10,101.5	9,326.9
Total revenues	**21,025.2**	22,820.4	24,621.9
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	**3,153.8**	4,033.5	4,896.9
Payroll & employee benefits	**2,937.9**	3,528.5	4,134.2
Occupancy & other operating expenses	**2,174.2**	2,847.6	3,667.7
Franchised restaurants-occupancy expenses	**1,973.3**	1,790.0	1,718.4
Selling, general & administrative expenses	**2,200.2**	2,231.3	2,384.5
Other operating (income) expense, net	**(236.8)**	(1,163.2)	75.7
Total operating costs and expenses	**12,202.6**	13,267.7	16,877.4
Operating income	**8,822.6**	9,552.7	7,744.5
Interest expense-net of capitalized interest of $5.6, $5.3 and $7.1	**981.2**	921.3	884.8
Nonoperating (income) expense, net	**25.3**	57.9	(6.3)
Income before provision for income taxes	**7,816.1**	8,573.5	6,866.0
Provision for income taxes	**1,891.8**	3,381.2	2,179.5
Net income	**$ 5,924.3**	$ 5,192.3	$ 4,686.5
Earnings per common share–basic	**$ 7.61**	$ 6.43	$ 5.49
Earnings per common share–diluted	**$ 7.54**	$ 6.37	$ 5.44
Dividends declared per common share	**$ 4.19**	$ 3.83	$ 3.61

Weighted-average shares outstanding–basic	**778.2**	807.4	854.4
Weighted-average shares outstanding–diluted	**785.6**	815.5	861.2

See Notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

In millions	*Years ended December 31,* ***2018***	*2017*	*2016*
Net income	**$5,924.3**	$5,192.3	$4,686.5
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments:			
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	**(453.6)**	827.7	(272.8)
Reclassification of (gain) loss to net income	**—**	109.3	94.0
Foreign currency translation adjustments-net of tax benefit (expense) of $(90.7), $453.1, and $(264.4)	**(453.6)**	937.0	(178.8)
Cash flow hedges:			
Gain (loss) recognized in AOCI	**46.5**	(48.4)	18.5
Reclassification of (gain) loss to net income	**2.4**	9.0	(15.6)
Cash flow hedges-net of tax benefit (expense) of $(14.5), $22.4, and $(1.6)	**48.9**	(39.4)	2.9
Defined benefit pension plans:			
Gain (loss) recognized in AOCI	**(27.0)**	16.3	(47.1)
Reclassification of (gain) loss to net income	**0.6**	0.6	