
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended **June 30, 2018**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

Commission File Number **1-5231**

McDONALD'S CORPORATION

(Exact Name of Registrant as Specified in Its Charter)

Delaware

(State or Other Jurisdiction of
Incorporation or Organization)

110 North Carpenter Street
Chicago, Illinois
(Address of Principal Executive Offices)

36-2361282

(I.R.S. Employer
Identification No.)

60607
(Zip Code)

(630) 623-3000

(Registrant's Telephone Number, Including Area Code)

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

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Emerging growth company

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

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

775,800,409

(Number of shares of common stock
outstanding as of June 30, 2018)

McDONALD'S CORPORATION

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED BALANCE SHEET

In millions, except per share data	(unaudited) June 30, 2018	December 31, 2017
Assets		
Current assets		
Cash and equivalents	\$ 1,623.5	\$ 2,463.8
Accounts and notes receivable	2,217.2	1,976.2
Inventories, at cost, not in excess of market	49.6	58.8
Prepaid expenses and other current assets	465.3	828.4
Total current assets	4,355.6	5,327.2
Other assets		
Investments in and advances to affiliates	1,127.6	1,085.7
Goodwill	2,347.2	2,379.7
Miscellaneous	2,516.8	2,562.8
Total other assets	5,991.6	6,028.2
Property and equipment		
Property and equipment, at cost	36,577.3	36,626.4
Accumulated depreciation and amortization	(14,216.1)	(14,178.1)
Net property and equipment	22,361.2	22,448.3
Total assets	\$ 32,708.4	\$ 33,803.7
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 917.9	\$ 924.8
Income taxes	211.5	265.8
Other taxes	278.8	275.4
Accrued interest	236.4	278.4
Accrued payroll and other liabilities	1,033.5	1,146.2
Current maturities of long-term debt	292.2	—
Total current liabilities	2,970.3	2,890.6
Long-term debt	30,687.7	29,536.4
Long-term income taxes	1,987.0	2,370.9
Deferred revenues - initial franchise fees	606.7	—
Other long-term liabilities	1,134.6	1,154.4
Deferred income taxes	1,173.1	1,119.4
Shareholders' equity (deficit)		
Preferred stock, no par value; authorized – 165.0 million shares; issued – none	—	—
Common stock, \$.01 par value; authorized – 3.5 billion shares; issued – 1,660.6 million shares	16.6	16.6
Additional paid-in capital	7,195.2	7,072.4
Retained earnings	49,106.7	48,325.8
Accumulated other comprehensive income (loss)	(2,435.0)	(2,178.4)
Common stock in treasury, at cost; 884.8 and 866.5 million shares	(59,734.5)	(56,504.4)
Total shareholders' equity (deficit)	(5,851.0)	(3,268.0)
Total liabilities and shareholders' equity (deficit)	\$ 32,708.4	\$ 33,803.7

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

In millions, except per share data	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
Sales by Company-operated restaurants	\$ 2,594.9	\$ 3,569.6	\$ 5,130.5	\$ 6,981.5
Revenues from franchised restaurants	2,759.0	2,480.1	5,362.3	4,744.1
Total revenues	5,353.9	6,049.7	10,492.8	11,725.6
Operating costs and expenses				
Company-operated restaurant expenses	2,130.5	2,903.3	4,261.4	5,719.7
Franchised restaurants-occupancy expenses	483.9	438.0	964.2	868.1
Selling, general & administrative expenses	542.1	525.4	1,075.2	1,046.7
Other operating (income) expense, net	(64.9)	(112.1)	(213.4)	(238.0)
Total operating costs and expenses	3,091.6	3,754.6	6,087.4	7,396.5
Operating income	2,262.3	2,295.1	4,405.4	4,329.1
Interest expense	240.2	230.9	477.0	449.5
Nonoperating (income) expense, net	4.0	2.8	22.4	10.7
Income before provision for income taxes	2,018.1	2,061.4	3,906.0	3,868.9
Provision for income taxes	521.8	666.3	1,034.3	1,259.0
Net income	\$ 1,496.3	\$ 1,395.1	\$ 2,871.7	\$ 2,609.9
Earnings per common share-basic	\$ 1.92	\$ 1.72	\$ 3.66	\$ 3.20
Earnings per common share-diluted	\$ 1.90	\$ 1.70	\$ 3.62	\$ 3.17
Dividends declared per common share	\$ 1.01	\$ 0.94	\$ 2.02	\$ 1.88
Weighted-average shares outstanding-basic	780.0	811.6	785.4	815.2
Weighted-average shares outstanding-diluted	787.1	819.2	793.0	822.3

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In millions	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Net income	\$1,496.3	\$1,395.1	\$2,871.7	\$2,609.9
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments:				
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	(326.4)	245.7	(300.7)	533.3
Reclassification of (gain) loss to net income	—	(4.6)	—	104.4
Foreign currency translation adjustments-net of tax benefit (expense) of \$(143.9), \$227.6, \$(71.6) and \$272.1	(326.4)	241.1	(300.7)	637.7
Cash flow hedges:				
Gain (loss) recognized in AOCI	32.2	(23.2)	24.7	(30.3)
Reclassification of (gain) loss to net income	3.6	(2.0)	15.6	(5.9)
Cash flow hedges-net of tax benefit (expense) of \$(10.5), \$14.3, \$(11.7) and \$20.5	35.8	(25.2)	40.3	(36.2)
Defined benefit pension plans:				
Gain (loss) recognized in AOCI	—	—	(1.1)	(0.3)
Reclassification of (gain) loss to net income	2.1	2.7	4.9	5.3
Defined benefit pension plans-net of tax benefit (expense) of \$0.1, \$0.0, \$(0.8) and \$(0.5)	2.1	2.7	3.8	5.0
Total other comprehensive income (loss), net of tax	(288.5)	218.6	(256.6)	606.5
Comprehensive income (loss)	\$1,207.8	\$1,613.7	\$2,615.1	\$3,216.4

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended		Six Months Ended	
	June 30,	2017	June 30,	2017
	2018		2018	
Operating activities				
Net income	\$ 1,496.3	\$ 1,395.1	\$ 2,871.7	\$ 2,609.9
Adjustments to reconcile to cash provided by operations				
Charges and credits:				
Depreciation and amortization	365.0	339.5	727.9	664.8
Deferred income taxes	54.4	64.6	83.6	150.5
Share-based compensation	23.9	21.3	63.7	44.0
Other	(90.7)	(76.0)	(145.6)	(188.7)
Changes in working capital items	(510.1)	(531.1)	(617.3)	(523.1)
Cash provided by operations	1,338.8	1,213.4	2,984.0	2,757.4
Investing activities				
Capital expenditures	(611.3)	(368.7)	(1,164.1)	(796.4)
Purchases of restaurant businesses	(11.6)	(15.0)	(35.3)	(18.1)
Sales of restaurant businesses	143.2	304.1	329.9	849.9
Sales of property	52.8	28.8	124.5	94.1
Other	(63.9)	(96.0)	(104.9)	(138.2)
Cash provided by (used for) investing activities	(490.8)	(146.8)	(849.9)	(8.7)
Financing activities				
Net short-term borrowings	239.7	(9.3)	795.7	(778.5)
Long-term financing issuances	500.5	537.1	2,000.2	2,530.1
Long-term financing repayments	(1.2)	(1.4)	(1,002.8)	(403.5)
Treasury stock purchases	(1,607.2)	(1,107.7)	(3,240.1)	(1,855.7)
Common stock dividends	(786.1)	(761.5)	(1,583.6)	(1,532.1)
Proceeds from stock option exercises	91.7	174.4	167.0	290.6
Other	(1.6)	1.9	(6.8)	(4.6)
Cash used for financing activities	(1,564.2)	(1,166.5)	(2,870.4)	(1,753.7)
Effect of exchange rates on cash and cash equivalents	(128.3)	98.7	(104.0)	153.4
Cash and equivalents increase (decrease)	(844.5)	(1.2)	(840.3)	1,148.4
Change in cash balances of businesses held for sale	—	(18.6)	—	20.6
Cash and equivalents at beginning of period	2,468.0	2,412.2	2,463.8	1,223.4
Cash and equivalents at end of period	\$ 1,623.5	\$ 2,392.4	\$ 1,623.5	\$ 2,392.4

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

<i>In millions, except per share data</i>	<i>Common stock issued</i>		<i>Additional paid-in capital</i>	<i>Retained earnings</i>	<i>Accumulated other comprehensive income (loss)</i>			<i>Common stock in treasury</i>		<i>Total shareholders' equity</i>
	<i>Shares</i>	<i>Amount</i>			<i>Pensions</i>	<i>Cash flow hedges</i>	<i>Foreign currency translation</i>	<i>Shares</i>	<i>Amount</i>	
Balance at December 31, 2017	1,660.6	\$ 16.6	\$ 7,072.4	\$ 48,325.8	\$ (190.2)	\$ (16.5)	\$ (1,971.7)	(866.5)	\$ (56,504.4)	\$ (3,268.0)
Net income				2,871.7						2,871.7
Other comprehensive income (loss), net of tax					3.8	40.3	(300.7)			(256.6)
Comprehensive income										2,615.1
Adoption of ASC 606 ⁽¹⁾				(450.2)						(450.2)
Adoption of ASU 2016-16 ⁽²⁾				(57.0)						(57.0)
Common stock cash dividends (\$2.02 per share)				(1,583.6)						(1,583.6)
Treasury stock purchases								(20.8)	(3,336.3)	(3,336.3)
Share-based compensation			63.7							63.7
Stock option exercises and other			59.1					2.5	106.2	165.3
Balance at June 30, 2018	1,660.6	16.6	7,195.2	49,106.7	(186.4)	23.8	(2,272.4)	(884.8)	(59,734.5)	(5,851.0)

(1) Accounting Standards Codification ("ASC") 606, "Revenue Recognition - Revenue from Contracts with Customers." Refer to the **Recent Accounting Pronouncements** footnote on page 8 for further details.

(2) Accounting Standards Update ("ASU") 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory." Refer to the **Recent Accounting Pronouncements** footnote on page 8 for further details.

See Notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Basis of Presentation

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

Restaurant Information

The following table presents restaurant information by ownership type:

Restaurants at June 30,	2018	2017
Conventional franchised	21,535	21,317
Developmental licensed	7,013	7,263
Foreign affiliated	5,973	3,356
Total Franchised	34,521	31,936
Company-operated	2,885	5,075
Systemwide restaurants	37,406	37,011

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

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 7.1 million shares and 7.6 million shares for the quarters 2018 and 2017, respectively, and 7.6 million shares and 7.1 million shares for the six months 2018 and 2017, respectively. Stock options that would have been antidilutive, and therefore were not included in the calculation of diluted weighted-average shares, totaled 2.6 million shares and 0.1 million shares for the quarters 2018 and 2017, respectively, and 2.6 million shares and 4.0 million shares for the six months 2018 and 2017, respectively.

Recent Accounting Pronouncements**Recently Issued Accounting Standards***Measurement Period - Tax Cuts and Jobs Act of 2017*

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

The Company has not completed the accounting for the tax effects of the enactment of the Tax Act, although it has made reasonable estimates of the effects on existing deferred tax balances and on the one-time transition tax on earnings of certain foreign subsidiaries. Certain aspects of the Tax Act are expected to be clarified, and as such, could impact these estimates. A net provisional tax cost of approximately \$700 million was originally recognized in the Company's 2017 consolidated financial statements, and subsequently increased by \$52 million in the first quarter of 2018.

Lease Accounting

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

At transition, the Company will recognize and measure leases using the required modified retrospective approach. The Company anticipates ASU 2016-02 will have a material impact on the consolidated balance sheet due to the significance of the Company's operating lease portfolio. The Company will elect an optional practical expedient to retain the current classification of leases, and, therefore,

anticipates a minimal initial impact on the consolidated statement of income. The impact of ASU 2016-02 is non-cash in nature; therefore, it will not affect the Company's cash flows.

Recently Adopted Accounting Standards

Derivatives and Hedging

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

Income Taxes

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

Revenue Recognition

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

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

Revenues

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

ASC 606 provides that revenues are to be recognized when control of promised goods or services is transferred to a customer in an amount that reflects the consideration expected to be received for those goods or services. This standard does not impact the Company's recognition of revenue from Company-operated restaurants as those sales are recognized on a cash basis at the time of the underlying sale and are presented net of sales tax and other sales-related taxes. The standard also does not change the recognition of royalties from restaurants operated by franchisees or licensed to affiliates and developmental licensees, which are based on a percent of sales and recognized at the time the underlying sales occur. Rental income from restaurants operated by conventional franchisees is also not impacted by this standard as those revenues are subject to the guidance in ASC 840, "Leases." The standard does change the timing in which the Company recognizes initial fees from franchisees for new restaurant openings and new franchise terms. The Company's accounting policy through December 31, 2017, was to recognize initial franchise fees when received, upon a new restaurant opening and at the start of a new franchise term. Beginning in January 2018, initial franchise fees are being recognized as the Company satisfies the performance obligation over the franchise term, which is generally 20 years.

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

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
<i>Company-operated sales</i>				
U.S.	\$ 696.8	\$ 849.5	\$ 1,405.5	\$ 1,685.1
International Lead Markets	1,022.7	1,021.4	2,029.8	1,962.6
High Growth Markets	732.6	1,459.3	1,432.9	2,804.6
Foundational Markets & Corporate	142.8	239.4	262.3	529.2
Total	\$ 2,594.9	\$ 3,569.6	\$ 5,130.5	\$ 6,981.5
<i>Franchised revenues</i>				
U.S.	\$ 1,264.4	\$ 1,198.9	\$ 2,422.9	\$ 2,292.3
International Lead Markets	908.2	791.8	1,778.6	1,494.1
High Growth Markets	281.4	219.9	553.3	411.8
Foundational Markets & Corporate	305.0	269.5	607.5	545.9
Total*	\$ 2,759.0	\$ 2,480.1	\$ 5,362.3	\$ 4,744.1
<i>Total revenues</i>				
U.S.	\$ 1,961.2	\$ 2,048.4	\$ 3,828.4	\$ 3,977.4
International Lead Markets	1,930.9	1,813.2	3,808.4	3,456.7
High Growth Markets	1,014.0	1,679.2	1,986.2	3,216.4
Foundational Markets & Corporate	447.8	508.9	869.8	1,075.1
Total	\$ 5,353.9	\$ 6,049.7	\$ 10,492.8	\$ 11,725.6

* Although the Company expects the application of ASC 606 to negatively impact 2018 annual franchised revenues by approximately \$50 million, results for the quarter and six months ended June 30, 2018, only reflected an impact of approximately \$10 million and \$15 million, respectively, due to the timing of new restaurant openings and new franchise terms.

Fair Value Measurements

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

At June 30, 2018, the fair value of the Company's debt obligations was estimated at \$32.1 billion, compared to a carrying amount of \$31.0 billion. The fair value was based upon quoted market prices, Level 2 within the valuation hierarchy. The carrying amounts of cash and equivalents, short-term investments and notes receivable approximate fair value.

Financial Instruments and Hedging Activities

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

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

<i>In millions</i>	Derivative Assets			Derivative Liabilities		
	Balance Sheet Classification	June 30, 2018	December 31, 2017	Balance Sheet Classification	June 30, 2018	December 31, 2017
Derivatives designated as hedging instruments						
Foreign currency	Prepaid expenses and other current assets	\$ 20.7	\$ 0.5	Accrued payroll and other liabilities	\$ (5.4)	\$ (31.0)
Interest Rate				Accrued payroll and other liabilities	(0.8)	(0.3)
Foreign currency	Miscellaneous other assets	5.6	0.1	Other long-term liabilities	(0.1)	(1.4)
Interest rate	Miscellaneous other assets			Other long-term liabilities	(21.6)	(5.9)
Total derivatives designated as hedging instruments		\$ 26.3	\$ 0.6		\$ (27.9)	\$ (38.6)
Derivatives not designated as hedging instruments						
Equity				Accrued payroll and other liabilities	\$ (3.1)	\$ (1.3)
Foreign currency	Prepaid expenses and other current assets	\$ 6.5	\$ —	Accrued payroll and other liabilities	—	(5.5)
Equity	Miscellaneous other assets	153.3	167.3			
Total derivatives not designated as hedging instruments		\$ 159.8	\$ 167.3		\$ (3.1)	\$ (6.8)
Total derivatives		\$ 186.1	\$ 167.9		\$ (31.0)	\$ (45.4)

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

<i>In millions</i>	Location of Gain or Loss Recognized in Income on Derivative	Gain (Loss) Recognized in Accumulated OCI		Gain (Loss) Reclassified into Income from Accumulated OCI		Gain (Loss) Recognized in Income on Derivative	
		2018	2017	2018	2017	2018	2017
Foreign currency	Nonoperating income/expense	\$ 31.8	\$ (47.5)	\$ (19.7)	\$ 9.4		
Interest rate	Interest expense	—	—	(0.5)	(0.2)		
Cash flow hedges		\$ 31.8	\$ (47.5)	\$ (20.2)	\$ 9.2		
Foreign currency denominated debt	Nonoperating income/expense	\$ 399.7	\$ (978.1)	\$ —	\$ —		
Foreign currency derivatives	Nonoperating income/expense	1.0	(23.0)	—	8.0		
Foreign currency derivatives ⁽¹⁾	Interest expense					\$ 0.2	\$ —
Net investment hedges		\$ 400.7	\$ (1,001.1)	\$ —	\$ 8.0	\$ 0.2	\$ —
Foreign currency	Nonoperating income/expense					\$ 11.8	\$ (18.5)
Equity	Selling, general & administrative expenses					(8.6)	50.9
Undesignated derivatives						\$ 3.2	\$ 32.4

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

Fair Value Hedges

The Company enters into fair value hedges to reduce the exposure to changes in fair values of certain liabilities. The Company enters into fair value hedges that convert a portion of its fixed rate debt into floating rate debt by use of interest rate swaps. At June 30, 2018, the carrying amount of fixed-rate debt that was effectively converted was \$727.7 million, which included a decrease of \$22.3 million of cumulative hedging adjustments. For the six months ended June 30, 2018, the Company recognized a \$16.2 million loss on the fair value of interest rate swaps, and a corresponding gain on the fair value of the related hedged debt instrument to Interest expense.

Cash Flow Hedges

The Company enters into cash flow hedges to reduce the exposure to variability in certain expected future cash flows. To protect against the reduction in value of forecasted foreign currency cash flows (such as royalties denominated in foreign currencies), the Company uses foreign currency forwards to hedge a portion of anticipated exposures. The hedges cover the next 18 months for certain exposures and are denominated in various currencies. As of June 30, 2018, the Company had derivatives outstanding with an equivalent notional amount of \$809.5 million that hedged a portion of forecasted foreign currency denominated cash flows.

Based on market conditions at June 30, 2018, the \$23.8 million in cumulative cash flow hedging gains, after tax, is not expected to have a significant effect on earnings over the next 12 months.

Net Investment Hedges

The Company primarily uses foreign currency denominated debt (third party and intercompany) to hedge its investments in certain foreign subsidiaries and affiliates. Realized and unrealized translation adjustments from these hedges are included in shareholders' equity in the foreign currency translation component of OCI and offset translation adjustments on the underlying net assets of foreign subsidiaries and affiliates, which also are recorded in OCI. As of June 30, 2018, \$11.7 billion of the Company's third party foreign currency denominated debt and \$4.0 billion of intercompany foreign currency denominated debt were designated to hedge investments in certain foreign subsidiaries and affiliates.

Undesignated Derivatives

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

Credit Risk

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

Segment Information

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

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

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

In millions	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Revenues				
U.S.	\$ 1,961.2	\$ 2,048.4	\$ 3,828.4	\$ 3,977.4
International Lead Markets	1,930.9	1,813.2	3,808.4	3,456.7
High Growth Markets	1,014.0	1,679.2	1,986.2	3,216.4
Foundational Markets & Corporate	447.8	508.9	869.8	1,075.1
Total revenues	\$ 5,353.9	\$ 6,049.7	\$ 10,492.8	\$ 11,725.6
Operating Income				
U.S.	\$ 999.2	\$ 1,072.9	\$ 1,997.2	\$ 2,020.8
International Lead Markets	889.9	776.0	1,699.6	1,442.6
High Growth Markets	282.7	349.5	517.0	650.2
Foundational Markets & Corporate	90.5	96.7	191.6	215.5
Total operating income	\$ 2,262.3	\$ 2,295.1	\$ 4,405.4	\$ 4,329.1

Subsequent Events

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

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

Overview

The Company franchises and operates McDonald's restaurants. Of the 37,406 restaurants in 120 countries at June 30, 2018, 34,521 were licensed to franchisees (comprised of 21,535 franchised to conventional franchisees, 7,013 licensed to developmental licensees and 5,973 licensed to foreign affiliates ("affiliates") – primarily in Japan and China) and 2,885 were operated by the Company.

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

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

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

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

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

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

Strategic Direction

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

The Company continues to focus on restaurant execution and elevating the overall customer experience, including convenience, value and food offerings. These actions will enable the Company to deliver on the plan's key pillars of retaining existing customers, regaining lost customers and converting casual customers to committed customers. In each of these pillars, McDonald's has established platforms that enable each market to engage with franchisees to execute the plan. Markets are focused on acting with speed, efficiency and impact, as evidenced by a recent business reorganization in the U.S. designed to better support franchisees and create a more nimble organization.

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

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

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

- **Delivery.** Offers a platform of added convenience, bringing McDonald's food to customers on their terms. Delivery is now available from over 13,000 McDonald's restaurants. In addition to added convenience, delivery transactions tend to realize a higher average check and a high customer satisfaction rating. While the Company will continue to expand the number of restaurants offering delivery, the current priority is to optimize the delivery business through growing awareness and demand in the areas where delivery is already offered.

The Company remains confident in the Velocity Growth Plan as a result of good performance across our business and is aggressively focused on unlocking more of the plan's potential to drive long-term sustainable growth.

Financial Performance

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

Global comparable sales increased 4.0% for the quarter and 4.7% for the six months. The refranchising strategy has been a key part of transforming McDonald's into a more stable and more efficient organization focused on continuing to grow top-line sales.

U.S. comparable sales increased 2.6% for the quarter and 2.7% for the six months, driven by growth in average check resulting from both product mix shifts and menu price increases.

Comparable sales for the International Lead segment increased 4.9% for the quarter and 6.3% for the six months, reflecting positive results across all markets, primarily driven by the U.K.

In the High Growth segment, comparable sales increased 2.4% for the quarter and 3.5% for the six months, led by strong performance in Italy and positive results across most of the segment, partly offset by continued challenges in South Korea.

Results for the quarter and six months benefited from an increase in sales-driven franchised margin dollars and a lower effective tax rate, partly offset by lower Company-operated margin dollars driven by refranchising. Net income was \$1,496.3 million, an increase of 7% (4% in constant currencies) for the quarter and \$2,871.7 million, an increase of 10% (6% in constant currencies) for the six months. Diluted earnings per share was \$1.90, an increase of 12% (9% in constant currencies) for the quarter and \$3.62, an increase of 14% (10% in constant currencies) for the six months.

Results for the quarter included \$92 million, or \$0.09 per share, of pre-tax strategic restructuring charges, primarily related to the previously disclosed restructuring of the U.S. business. Excluding these charges, net income was \$1,565.0 million, an increase of 10% (8% in constant currencies) and diluted earnings per share was \$1.99, an increase of 15% (12% in constant currencies), over prior year earnings per share (excluding \$0.03 per share of strategic charges).

Results for the six months also included additional income tax expense of approximately \$52 million, or \$0.07 per share, associated with adjustments to the provisional amounts recorded in December 2017 under the Tax Act. Excluding these adjustments as well as the strategic restructuring charges, net income was \$2,993.9 million, an increase of 14% (10% in constant currencies) and diluted earnings per share was \$3.78, an increase of 18% (14% in constant currencies), over prior year earnings per share (excluding \$0.03 per share of strategic charges).

Second Quarter and Six Months 2018 Highlights:

- Global comparable sales increased 4.0% for the quarter and 4.7% for the six months, reflecting positive comparable sales in all segments
- Due to the impact of the Company's strategic refranchising initiative, consolidated revenues decreased 12% (14% in constant currencies) for the quarter and 11% (14% in constant currencies) for the six months
- Systemwide sales increased 5% in constant currencies for the quarter and 6% in constant currencies for the six months
- Consolidated operating income decreased 1% (4% in constant currencies) for the quarter and increased 2% (decreased 2% in constant currencies) for the six months. Both periods were negatively impacted by \$92 million of strategic restructuring charges incurred in the current quarter. Excluding the impact of these charges, as well as strategic charges in the prior year, operating income increased 2% (decreased 1% in constant currencies) for the quarter and increased 3% (decreased 1% in constant currencies) for the six months
- Diluted earnings per share of \$1.90 increased 12% (9% in constant currencies) for the quarter and \$3.62 for the six months increased 14% (10% in constant currencies), reflecting \$0.09 per share of strategic restructuring charges incurred in the quarter. The six months also included \$0.07 per share of additional income tax expense related to an adjustment to the

provisional amount recorded in December 2017 under the Tax Act. Excluding these items, as well as \$0.03 per share of prior year strategic charges, diluted earnings per share was \$1.99, an increase of 15% (12% in constant currencies) for the quarter and \$3.78, an increase of 18% (14% in constant currencies) for the six months

- Returned \$2.5 billion to shareholders through share repurchases and dividends for the quarter. This brings the six months return to shareholders to \$4.9 billion

Outlook

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

- Changes in Systemwide sales are driven by comparable sales, net restaurant unit expansion, and the potential impacts of hyperinflation. The Company expects net restaurant additions to add approximately 1 percentage point to 2018 Systemwide sales growth (in constant currencies).
- The Company does not generally provide specific guidance on changes in comparable sales. However, as a perspective, assuming no change in cost structure, a 1 percentage point change in comparable sales for either the U.S. or the International Lead segment would change annual diluted earnings per share by about 5 to 6 cents.
- Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers." This standard changed the way initial fees from franchisees for new restaurant openings and new franchise terms are recognized. Under the new guidance, initial franchise fees will be recognized evenly over the franchise term. The Company expects the adoption of this guidance to negatively impact 2018 Consolidated franchised revenues and franchised margins by approximately \$50 million.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2018, costs for the total basket of goods are expected to increase about 1% to 2% in the U.S. and increase about 2% in the International Lead segment.
- The Company expects full-year 2018 selling, general and administrative expenses to decrease about 1% in constant currencies.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2018 to increase about 5% to 7% compared with 2017 due primarily to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 70% of the Company's operating income outside the U.S. If all four of these currencies moved by 10% in the same direction, the Company's annual diluted earnings per share would change by about 30 cents.
- The Company expects the effective income tax rate for the full-year 2018 to be in the 25-27% range, with volatility between the quarters. Certain aspects of the Tax Act are expected to be clarified, and as such, could impact the Company's tax rate.
- The Company expects capital expenditures for 2018 to be approximately \$2.4 billion. About \$1.5 billion will be dedicated to our U.S. business, primarily focused on accelerating the pace of EOTF. We expect to complete EOTF at nearly 4,000 additional U.S. restaurants in 2018, and, as a result, about half of the total U.S. restaurants will have EOTF by the end of 2018. Of the remaining capital, about half will be dedicated to new restaurant openings and the remainder will be allocated to reinvestment in continued expansion of EOTF around the world. The Company will contribute capital towards about 250 restaurant openings, while developmental licensees and affiliates will contribute capital towards the opening of approximately 750 restaurants, for a total of about 1,000 expected restaurant openings in 2018. The Company expects net additions of about 600 restaurants in 2018.

In addition, the Company has other long-term targets that are detailed in its Form 10-K for the year ended December 31, 2017.

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

- Information in constant currency is calculated by translating current year results at prior year average exchange rates. Management reviews and analyzes business results excluding the effect of foreign currency translation, impairment and other strategic charges and gains, as well as adjustments to the provisional amounts recorded in December 2017 under the Tax Act, and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends.
- Systemwide sales include sales at all restaurants, whether operated by the Company or by franchisees. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company's financial performance, because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

- Comparable sales represent sales at all restaurants and comparable guest counts represent the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimagining or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation and sales from hyper-inflationary markets (currently only Venezuela). Management generally identifies hyper-inflationary markets as those markets whose cumulative inflation rate over a three-year period exceeds 100%. Management believes that these exclusions more accurately reflect the underlying business trends. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Typically, pricing has a greater impact on average check than product mix. Management reviews the increase or decrease in comparable sales and comparable guest counts compared with the same period in the prior year to assess business trends.

CONSOLIDATED OPERATING RESULTS

Dollars in millions, except per share data	Quarter Ended June 30, 2018		Six Months Ended June 30, 2018	
	Amount	Increase/ (Decrease)	Amount	Increase/ (Decrease)
Revenues				
Sales by Company-operated restaurants	\$ 2,594.9	(27)%	\$ 5,130.5	(27)%
Revenues from franchised restaurants	2,759.0	11	5,362.3	13
Total revenues	5,353.9	(12)	10,492.8	(11)
Operating costs and expenses				
Company-operated restaurant expenses	2,130.5	(27)	4,261.4	(25)
Franchised restaurants-occupancy expenses	483.9	10	964.2	11
Selling, general & administrative expenses	542.1	3	1,075.2	3
Other operating (income) expense, net	(64.9)	42	(213.4)	10
Total operating costs and expenses	3,091.6	(18)	6,087.4	(18)
Operating income	2,262.3	(1)	4,405.4	2
Interest expense	240.2	4	477.0	6
Nonoperating (income) expense, net	4.0	39	22.4	n/m
Income before provision for income taxes	2,018.1	(2)	3,906.0	1
Provision for income taxes	521.8	(22)	1,034.3	(18)
Net income	\$ 1,496.3	7 %	\$ 2,871.7	10 %
Earnings per common share-basic	\$ 1.92	12 %	\$ 3.66	14 %
Earnings per common share-diluted	\$ 1.90	12 %	\$ 3.62	14 %

n/m Not meaningful

Impact of Foreign Currency Translation

While changes in foreign currency exchange rates affect reported results, McDonald's mitigates exposures, where practical, by purchasing goods and services in local currencies, financing in local currencies and hedging certain foreign-denominated cash flows. Results excluding the effect of foreign currency translation (also referred to as constant currency) are calculated by translating current year results at prior year average exchange rates.

IMPACT OF FOREIGN CURRENCY TRANSLATION

Dollars in millions, except per share data

			Currency Translation Benefit/ (Cost)
Quarters Ended June 30,	2018	2017	2018
Revenues	\$ 5,353.9	\$ 6,049.7	\$ 122.4
Company-operated margins	464.4	666.3	10.9
Franchised margins	2,275.1	2,042.1	53.8
Selling, general & administrative expenses	542.1	525.4	(8.0)
Operating income	2,262.3	2,295.1	58.2
Net income	1,496.3	1,395.1	38.6
Earnings per share-diluted	\$ 1.90	\$ 1.70	\$ 0.05
			Currency Translation Benefit/ (Cost)
Six Months Ended June 30,	2018	2017	2018
Revenues	\$10,492.8	\$11,725.6	\$ 409.7
Company-operated margins	869.1	1,261.8	37.8
Franchised margins	4,398.1	3,876.0	156.2
Selling, general & administrative expenses	1,075.2	1,046.7	(24.0)
Operating income	4,405.4	4,329.1	174.8
Net income	2,871.7	2,609.9	106.8
Earnings per share-diluted	\$ 3.62	\$ 3.17	\$ 0.13

The positive impact of foreign currency translation on consolidated operating results for the quarter and six months primarily reflected the stronger Euro and British Pound.

Net Income and Diluted Earnings per Common Share

For the quarter, net income increased 7% (4% in constant currencies) to \$1,496.3 million, and diluted earnings per share increased 12% (9% in constant currencies) to \$1.90. Foreign currency translation had a positive impact of \$0.05 on diluted earnings per share.

For the six months, net income increased 10% (6% in constant currencies) to \$2,871.7 million, and diluted earnings per share increased 14% (10% in constant currencies) to \$3.62. Foreign currency translation had a positive impact of \$0.13 on diluted earnings per share.

Earnings per share for the quarter and six months benefited from an increase in sales-driven franchised margin dollars and a lower effective tax rate. Results in both periods were impacted by lower Company-operated margin dollars driven by refranchising as well as \$92 million (\$0.09 per share) of pre-tax strategic restructuring charges incurred in the current quarter primarily related to the previously disclosed restructuring of the U.S. business. The six months also included additional income tax expense of approximately \$52 million (\$0.07 per share) related to an adjustment to the provisional amounts recorded in December 2017 under the Tax Act. Excluding the above items, as well as \$0.03 per share of prior year strategic charges, diluted earnings per share was \$1.99, an increase of 15% (12% in constant currencies) for the quarter and \$3.78, an increase of 18% (14% in constant currencies) for the six months.

Diluted earnings per share for both periods benefited from a decrease in diluted weighted-average shares outstanding due to share repurchases. During the quarter, the Company repurchased 10.4 million shares of stock for \$1.7 billion, bringing total purchases for the six months to 20.8 million shares or \$3.3 billion. In addition, the Company paid a quarterly dividend of \$1.01 per share, or \$786.1 million, bringing total dividends paid for the six months to \$1.6 billion.

Revenues

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

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

Effective January 1, 2018, the Company adopted the guidance issued in Accounting Standards Codification 606, "Revenue Recognition - Revenue from Contracts with Customers." This standard changed the way initial fees from franchisees for new restaurant openings and new franchise terms are recognized. Under the new guidance, initial franchise fees are being recognized evenly over the franchise term rather than immediately upon receipt. Although the Company expects this change to negatively impact 2018 annual franchised revenues by approximately \$50 million, results for the quarter and six months only reflected an impact of approximately \$10 million and \$15 million, respectively, due to the timing of new restaurant openings and new franchise terms.

REVENUES

Dollars in millions

Quarters Ended June 30,	2018	2017	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
<i>Company-operated sales</i>				
U.S.	\$ 696.8	\$ 849.5	(18)%	(18)%
International Lead Markets	1,022.7	1,021.4	0	(5)
High Growth Markets	732.6	1,459.3	(50)	(49)
Foundational Markets & Corporate	142.8	239.4	(40)	(43)
Total	\$ 2,594.9	\$ 3,569.6	(27)%	(29)%
<i>Franchised revenues</i>				
U.S.	\$ 1,264.4	\$ 1,198.9	5 %	5 %
International Lead Markets	908.2	791.8	15	8
High Growth Markets	281.4	219.9	28	21
Foundational Markets & Corporate	305.0	269.5	13	12
Total	\$ 2,759.0	\$ 2,480.1	11 %	8 %
<i>Total revenues</i>				
U.S.	\$ 1,961.2	\$ 2,048.4	(4)%	(4)%
International Lead Markets	1,930.9	1,813.2	6	1
High Growth Markets	1,014.0	1,679.2	(40)	(40)
Foundational Markets & Corporate	447.8	508.9	(12)	(14)
Total	\$ 5,353.9	\$ 6,049.7	(12)%	(14)%
Six Months Ended June 30,	2018	2017	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
<i>Company-operated sales</i>				
U.S.	\$ 1,405.5	\$ 1,685.1	(17)%	(17)%
International Lead Markets	2,029.8	1,962.6	3	(4)
High Growth Markets	1,432.9	2,804.6	(49)	(50)
Foundational Markets & Corporate	262.3	529.2	(50)	(53)
Total	\$ 5,130.5	\$ 6,981.5	(27)%	(30)%
<i>Franchised revenues</i>				
U.S.	\$ 2,422.9	\$ 2,292.3	6 %	6 %
International Lead Markets	1,778.6	1,494.1	19	10
High Growth Markets	553.3	411.8	34	23
Foundational Markets & Corporate	607.5	545.9	11	8
Total	\$ 5,362.3	\$ 4,744.1	13 %	9 %
<i>Total revenues</i>				
U.S.	\$ 3,828.4	\$ 3,977.4	(4)%	(4)%
International Lead Markets	3,808.4	3,456.7	10	2
High Growth Markets	1,986.2	3,216.4	(38)	(41)
Foundational Markets & Corporate	869.8	1,075.1	(19)	(22)
Total	\$ 10,492.8	\$ 11,725.6	(11)%	(14)%

- **Revenues:** Revenues decreased 12% (14% in constant currencies) for the quarter and decreased 11% (14% in constant currencies) for the six months due to the Company's strategic refranchising initiative.
 - **U.S.:** Revenues decreased for both periods as the benefit from positive comparable sales was more than offset by the impact of refranchising.
 - **International Lead Markets:** Revenues increased for both periods due to strong performance in the U.K. and France as well as positive comparable sales across all markets, partly offset by the impact of refranchising.
 - **High Growth Markets:** Revenues decreased for both periods as positive comparable sales across most markets were more than offset by the impact of refranchising the Company's businesses in China and Hong Kong in third quarter 2017.

Comparable Sales and Guest Counts

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

COMPARABLE SALES

	Increase/ (Decrease)			
	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
U.S.	2.6%	3.9%	2.7%	2.8%
International Lead Markets	4.9	6.3	6.3	4.6
High Growth Markets	2.4	7.0	3.5	5.5
Foundational Markets & Corporate	6.8	11.5	7.7	10.1
Total	4.0%	6.3%	4.7%	5.0%

On a consolidated basis, comparable guest counts (the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months, including those temporarily closed) increased 0.2% and 1.8% for the six months ended 2018 and 2017, respectively. The current quarter reflected positive comparable guest counts in all segments with the exception of the U.S., resulting in a consolidated comparable guest counts decrease of 0.3%.

Systemwide Sales and Franchised Sales

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

SYSTEMWIDE SALES*

	Quarter Ended		Six Months Ended	
	June 30, 2018		June 30, 2018	
	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	2%	2%	3%	3%
International Lead Markets	12	6	16	7
High Growth Markets	11	6	15	7
Foundational Markets & Corporate	9	9	12	11
Total	7%	5%	9%	6%

* 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.

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

FRANCHISED SALES

Dollars in millions

Quarters Ended June 30,	2018	2017	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	\$ 9,109.9	\$ 8,726.4	4%	4%
International Lead Markets	5,246.7	4,568.5	15	9
High Growth Markets*	2,419.1	1,388.6	74	64
Foundational Markets & Corporate	4,844.5	4,352.4	11	12
Total	\$ 21,620.2	\$ 19,035.9	14%	12%
<i>Ownership type</i>				
Conventional franchised	\$ 15,972.9	\$ 14,719.0	9%	6%
Developmental licensed	3,334.2	3,120.0	7	10
Foreign affiliated*	2,313.1	1,196.9	93	86
Total	\$ 21,620.2	\$ 19,035.9	14%	12%
Six Months Ended June 30,	2018	2017	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	\$ 17,459.3	\$ 16,705.6	5%	5%
International Lead Markets	10,247.4	8,611.4	19	10
High Growth Markets*	4,794.7	2,625.7	83	69
Foundational Markets & Corporate	9,717.6	8,351.7	16	15
Total	\$ 42,219.0	\$ 36,294.4	16%	13%
<i>Ownership type</i>				
Conventional franchised	\$ 30,856.8	\$ 28,245.4	9%	5%
Developmental licensed	6,685.5	5,674.7	18	18
Foreign affiliated*	4,676.7	2,374.3	97	88
Total	\$ 42,219.0	\$ 36,294.4	16%	13%

* The franchised sales increases reflect the impact of refranchising the Company's businesses in China and Hong Kong in the third quarter of 2017.

Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended June 30,	Percent		Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
	2018	2017	2018	2017		
<i>Franchised</i>						
U.S.	82.1%	82.7%	\$1,038.7	\$ 992.1	5 %	5 %
International Lead Markets	81.2	80.8	737.7	639.9	15	9
High Growth Markets	76.0	71.9	213.8	158.2	35	27
Foundational Markets & Corporate	93.3	93.5	284.9	251.9	13	13
Total	82.5%	82.3%	\$2,275.1	\$2,042.1	11 %	9 %
<i>Company-operated</i>						
U.S.	15.9%	16.5%	\$ 111.1	\$ 140.0	(21)%	(21)%
International Lead Markets	21.3	21.4	217.9	218.7	0	(6)
High Growth Markets	14.3	18.1	105.1	263.8	(60)	(59)
Foundational Markets & Corporate	21.3	18.3	30.3	43.8	(31)	(34)
Total	17.9%	18.7%	\$ 464.4	\$ 666.3	(30)%	(32)%

Six Months Ended June 30,	Percent		Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
	2018	2017	2018	2017		
<i>Franchised</i>						
U.S.	81.7%	82.2%	\$1,980.1	\$1,884.0	5 %	5 %
International Lead Markets	80.6	80.2	1,433.6	1,198.0	20	11
High Growth Markets	75.5	70.7	417.5	291.3	43	32
Foundational Markets & Corporate	93.3	92.1	566.9	502.7	13	10
Total	82.0%	81.7%	\$4,398.1	\$3,876.0	13 %	9 %
<i>Company-operated</i>						
U.S.	15.9%	15.9%	\$ 223.3	\$ 268.1	(17)%	(17)%
International Lead Markets	20.7	20.8	420.4	407.7	3	(5)
High Growth Markets	12.3	17.6	176.3	494.1	(64)	(65)
Foundational Markets & Corporate	18.8	17.4	49.1	91.9	(46)	(50)
Total	16.9%	18.1%	\$ 869.1	\$1,261.8	(31)%	(34)%

- Franchised:** Franchised margin dollars increased \$233.0 million or 11% (9% in constant currencies) for the quarter and increased \$522.1 million or 13% (9% in constant currencies) for the six months. Both periods benefited from expansion and the impact of refranchising, as well as positive comparable sales performance across all segments.
 - U.S.:** The decrease in the franchised margin percent for the quarter and six months was primarily due to higher depreciation costs related to EOTF, partly offset by the benefit from positive comparable sales.
 - International Lead Markets:** The increase in the franchised margin percent for the quarter and six months primarily reflected the benefit from strong comparable sales performance.
 - High Growth Markets:** The increase in the franchised margin percent for the quarter and six months was primarily due to the impact of refranchising, largely related to the July 2017 China and Hong Kong transaction, and positive comparable sales performance.
- Company-operated:** Company-operated margin dollars decreased \$201.9 million or 30% (32% in constant currencies) for the quarter and decreased \$392.7 million or 31% (34% in constant currencies) for the six months, reflecting the impact of refranchising.
 - U.S.:** The Company-operated margin percent decreased for the quarter and was flat for the six months, reflecting higher labor and commodity costs and the benefits from positive comparable sales and refranchising.
 - International Lead Markets:** The Company-operated margin percent decreased slightly for the quarter and six months as higher labor, commodity and occupancy costs more than offset the benefit from strong comparable sales.
 - High Growth Markets:** The decrease in the Company-operated margin percent for the quarter and six months was primarily due to the impact of refranchising in China and Hong Kong as well as negative comparable sales in South Korea.

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

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

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Food & paper	31.4%	31.9%	31.5%	31.9%
Payroll & employee benefits	29.4	27.0	29.8	27.4
Occupancy & other operating expenses	21.3	22.4	21.8	22.6
Total expenses	82.1%	81.3%	83.1%	81.9%
Company-operated margins	17.9%	18.7%	16.9%	18.1%

Selling, General & Administrative Expenses

- Selling, general and administrative expenses increased \$16.7 million or 3% (2% in constant currencies) for the quarter and increased \$28.5 million or 3% (flat in constant currencies) for the six months. Both periods included higher restaurant technology spending as well as costs related to the 2018 Worldwide Owner/Operator Convention, which were partly offset by reduced employee-related costs resulting from the Company's ongoing G&A discipline. The six months also reflected costs related to the sponsorship of the 2018 Winter Olympics.
- For the six months, selling, general and administrative expenses as a percent of Systemwide sales decreased to 2.3% for 2018 compared with 2.4% for 2017.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Gains on sales of restaurant businesses	\$ (92.2)	\$ (107.8)	\$ (188.7)	\$ (167.8)
Equity in (earnings) losses of unconsolidated affiliates	(35.0)	(29.3)	(77.6)	(70.2)
Asset dispositions and other (income) expense, net	(29.4)	6.4	(40.4)	(18.1)
Impairment and other charges (gains), net	91.7	18.6	93.3	18.1
Total	\$ (64.9)	\$ (112.1)	\$ (213.4)	\$ (238.0)

- Gains on sales of restaurant businesses decreased for the quarter and increased for the six months primarily due to activity within the U.S.
- Equity in (earnings) losses of unconsolidated affiliates for the quarter and six months reflected improved performance in Japan, offset by a higher effective tax rate in Japan in 2018 compared with 2017. Results in 2018 also reflect the retained 20% ownership in the entity that operates the Company's businesses in China and Hong Kong subsequent to the refranchising transaction that occurred in third quarter 2017.
- Asset dispositions and other (income) expense, net for the quarter and six months benefited from gains on the strategic sale of restaurant properties in both the U.S. and Australia.
- Impairment and other charges (gains), net included the strategic restructuring charge in the U.S for the quarter and six months 2018. The prior year periods included unrelated restructuring charges as well as a loss from the sale of the Company's business in Taiwan to a developmental licensee.

Operating Income

OPERATING INCOME

Dollars in millions

Quarters Ended June 30,	2018	2017	Inc/ (Dec)	Increase Excluding Currency Translation
U.S.	\$ 999.2	\$ 1,072.9	(7)%	(7)%
International Lead Markets	889.9	776.0	15	9
High Growth Markets	282.7	349.5	(19)	(22)
Foundational Markets & Corporate	90.5	96.7	(6)	(8)
Total	\$ 2,262.3	\$ 2,295.1	(1)%	(4)%

Six Months Ended June 30,	2018	2017	Inc/ (Dec)	Increase Excluding Currency Translation
U.S.	\$ 1,997.2	\$ 2,020.8	(1)%	(1)%
International Lead Markets	1,699.6	1,442.6	18	9
High Growth Markets	517.0	650.2	(20)	(25)
Foundational Markets & Corporate	191.6	215.5	(11)	(19)
Total	\$ 4,405.4	\$ 4,329.1	2 %	(2)%

- Operating Income:** Operating income decreased \$32.8 million or 1% (4% in constant currencies) for the quarter and increased \$76.3 million or 2% (decreased 2% in constant currencies) for the six months. Both periods were negatively impacted by \$92 million of strategic restructuring charges incurred in the current quarter. Excluding the impact of these charges, as well as strategic charges in the prior year, operating income increased \$40.3 million or 2% (decreased 1% in constant currencies) for the quarter and increased \$151.5 million or 3% (decreased 1% in constant currencies) for the six months.
 - U.S.:** Excluding the strategic restructuring charge of \$85 million, operating income increased 1% for the quarter and 3% for the six months. Results for both periods reflected higher franchised margin dollars, partly offset by lower Company-operated margin dollars. The six months reflected higher gains on the sales of restaurant businesses, partly offset by lower gains from the strategic sale of restaurant properties.
 - International Lead Markets:** The constant currency operating income increase for the quarter and six months was primarily due to sales-driven improvements in franchised margin dollars across all markets.
 - High Growth Markets:** The constant currency operating income decrease for the quarter and six months reflected the impact of refranchising, and to a lesser extent, the continued challenges in South Korea.
 - Foundational Markets & Corporate:** The constant currency operating income decrease for the quarter and six months reflected the Company's refranchising initiatives, higher restaurant technology spending as well as costs related to the 2018 Worldwide Owner/Operator Convention. The six months also reflected additional costs related to the sponsorship of the 2018 Winter Olympics.
- Operating Margin:** Operating margin is defined as operating income as a percent of total revenues. Operating margin was 42.0% and 36.9% for the six months ended 2018 and 2017, respectively. Excluding the impact of the current year strategic restructuring charges and the prior year strategic charges, operating margin was 42.9% and 37.1% for the six months ended 2018 and 2017, respectively.

Interest Expense

- Interest expense increased 4% (2% in constant currencies) for the quarter and increased 6% (4% in constant currencies) for the six months, primarily reflecting higher average debt balances, partly offset by lower average interest rates.

Nonoperating (Income) Expense, Net

NONOPERATING (INCOME) EXPENSE, NET

Dollars in millions

	Quarters Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Interest income	\$ (0.1)	\$ (1.7)	\$ (5.6)	\$ 0.1
Foreign currency and hedging activity	2.7	(2.4)	19.2	(4.3)
Other (income) expense, net	1.4	6.9	8.8	14.9
Total	\$ 4.0	\$ 2.8	\$ 22.4	\$ 10.7

Income Taxes

- The effective income tax rate was 25.9% and 32.3% for the quarters ended 2018 and 2017, respectively, and 26.5% and 32.5% for the six months ended 2018 and 2017, respectively.
- The decrease in the tax rate for the quarter and six months primarily reflects the lower enacted U.S. corporate tax rate. The tax rate for the six months also includes adjustments to the provisional amounts recorded in December 2017 under the Tax Act. Excluding the impact of these provisional adjustments, the effective income tax rate for the six months was 25.1%.

Cash Flows and Financial Position

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

Cash provided by operations totaled \$3.0 billion and exceeded capital expenditures by \$1.8 billion for the six months 2018. Cash provided by operations increased \$226.6 million compared with the six months 2017.

Cash used for investing activities totaled \$849.9 million for the six months 2018, an increase of \$841.2 million compared with the six months 2017. The increase was primarily due to less cash provided by the sale of restaurant businesses in 2018, as well as higher capital expenditures. The fewer proceeds from the sale of restaurant businesses was primarily due to the comparison to the Company's 2017 sale of its businesses in Denmark, Finland, Norway and Sweden (referred to as the "Nordics") and Taiwan to developmental licensees.

Cash used for financing activities totaled \$2.9 billion for the six months 2018, an increase of \$1.1 billion compared with the six months 2017, primarily due to higher treasury stock purchases, partly offset by higher net debt issuances.

Debt obligations at June 30, 2018 totaled \$31.0 billion compared with \$29.5 billion at December 31, 2017. The increase was primarily due to net debt issuances, partly offset by the impact of foreign currency translation.

Recent Accounting Pronouncements

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

Risk Factors and Cautionary Statement Regarding Forward-Looking Statements

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

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

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

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

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

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

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

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

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

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

Our previously announced refranchising and cost saving initiatives remain ongoing. As we continue on those initiatives, the existing risks we face in our business may be intensified. Our efforts to reduce costs and capital expenditures depend, in part, upon our refranchising efforts, which, in turn, depend upon our selection and integration of capable third parties. Our cost savings initiatives also depend upon a variety of factors, including our ability to achieve efficiencies through the consolidation of global, back-office functions and to direct resources to most effectively support McDonald’s restaurants, particularly in the U.S. If these various initiatives are not successful, take longer to complete than initially projected, or are not well executed, or if our cost reduction efforts adversely impact our effectiveness, our business operations, financial results and results of operations could be adversely affected.

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

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

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

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

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

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

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

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

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

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

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

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

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

Supply chain interruptions may increase costs or reduce revenues.

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

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

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

Our franchise business model presents a number of risks.

Our success increasingly relies on the financial success and cooperation of our franchisees, including our developmental licensees and affiliates. Our restaurant margins arise from two sources: fees from franchised restaurants (e.g., rent and royalties based on a percentage of sales) and, to a lesser degree, sales from Company-operated restaurants. Our franchisees and developmental licensees manage their businesses independently, and therefore are responsible for the day-to-day operation of their restaurants. The revenues we realize from franchised restaurants are largely dependent on the ability of our franchisees to grow their sales. If our franchisees do not experience sales growth, our revenues and margins could be negatively affected as a result. Also, if sales trends worsen for franchisees, their financial results may deteriorate, which could result in, among other things, restaurant closures, or delayed or reduced payments to us. Our refranchising efforts will continue to increase that dependence and the potential effect of those factors.

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

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

Challenges with respect to talent management could harm our business.

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

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

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

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

We are increasingly reliant on technological systems, such as point-of-sale and other systems or platforms, technologies supporting McDonald's order, delivery and digital solutions, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, customers, employees or independent third parties to conduct our business, including technology-enabled systems provided to us by third parties. Any failure of these systems could significantly impact our operations and customer experience and perceptions.

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

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

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

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

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

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

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

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

We are subject to income and other taxes in the U.S. and foreign jurisdictions, and our operations, plans and results are affected by tax and other initiatives around the world. In particular, we are affected by the impact of changes to tax laws or policy or related authoritative interpretations, including changes and uncertainties resulting from proposals for comprehensive or corporate tax reforms in the U.S. or elsewhere. On December 22, 2017, the Tax Cuts and Jobs Act ("Tax Act") was signed into law. While we have estimated the effects of the Tax Act, we continue to refine those estimates with the possibility they could change, and those changes could be material. We are also impacted by settlements of pending or any future adjustments proposed by taxing and governmental authorities inside and outside of the U.S. in connection with our tax audits, all of which will depend on their timing, nature and scope. Any significant increases in income tax rates, changes in income tax laws or unfavorable resolution of tax matters could have a material adverse impact on our financial results.

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

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

price risk through hedging and other activities, and therefore increases in commodity costs could have an adverse impact on our profitability.

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

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

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

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

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

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

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

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

Our operating results could also be affected by the following:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Disclosure Controls

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

Internal Control Over Financial Reporting

The Company's management, including the CEO and CFO, confirm that there was no change in the Company's internal control over financial reporting during the quarter ended June 30, 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

Issuer Purchases of Equity Securities*

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾
April 1-30, 2018	4,442,452	\$ 160.40	4,442,452	\$ 9,882,645,133
May 1-31, 2018	3,310,767	162.10	3,310,767	9,345,965,011
June 1-30, 2018	2,618,580	160.46	2,618,580	8,925,794,554
Total	10,371,799	\$ 160.96	10,371,799	

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

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

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
(3)	(a) Restated Certificate of Incorporation, effective as of June 14, 2012, incorporated herein by reference from Exhibit 3(a) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2012.
	(b) By-Laws, as amended and restated with effect as of October 26, 2015, incorporated herein by reference from Exhibit 3(b) of Form 8-K (File No. 001-05231), filed October 28, 2015.
(4)	Instruments defining the rights of security holders, including Indentures:*
	(a) Senior Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(a) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
	(b) Subordinated Debt Securities Indenture, incorporated herein by reference from Exhibit (4)(b) of Form S-3 Registration Statement (File No. 333-14141), filed October 15, 1996.
(10)	Material Contracts
	(a) Directors' Deferred Compensation Plan, amended and restated effective as of May 26, 2016, incorporated herein by reference from Exhibit 10(a)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
	(b) McDonald's Deferred Compensation Plan, effective January 1, 2017, incorporated herein by reference from Exhibit 10(b) of Form 10-K (file No. 001-05231), for the year ended December 31, 2016.**
	(c) McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of September 1, 2001, incorporated herein by reference from Exhibit 10(c) of Form 10-K (File No. 001-05231), for the year ended December 31, 2001.**
	(i) First Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective as of January 1, 2002, incorporated herein by reference from Exhibit 10(c)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2002.**
	(ii) Second Amendment to the McDonald's Corporation Supplemental Profit Sharing and Savings Plan, effective January 1, 2005, incorporated herein by reference from Exhibit 10(c)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2004.**
	(d) McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, effective July 1, 2008, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**
	(i) First Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(h)(i) of Form 10-K (File No. 001-05231), for the year ended December 31, 2008.**
	(ii) Second Amendment to the McDonald's Corporation Amended and Restated 2001 Omnibus Stock Ownership Plan as amended, effective February 9, 2011, incorporated herein by reference from Exhibit 10(h)(ii) of Form 10-K (File No. 001-05231), for the year ended December 31, 2010.**
	(e) McDonald's Corporation 2012 Omnibus Stock Ownership Plan, effective June 1, 2012, incorporated herein by reference from Exhibit 10(h) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2012.**
	(f) McDonald's Corporation 2009 Cash Incentive Plan, effective as of May 27, 2009, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2009.**
	(g) McDonald's Corporation Target Incentive Plan, effective January 1, 2013, incorporated herein by reference from Exhibit 10(j) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**
	(h) Form of Executive Stock Option Grant Agreement in connection with the Amended and Restated 2001 Omnibus Stock Ownership Plan, as amended, incorporated herein by reference from Exhibit 10(j) of Form 10-K (File No. 001-05231), for the year ended December 31, 2011.**
	(i) Form of 2013 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(n) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.**
	(j) McDonald's Corporation Severance Plan, as Amended and Restated, effective September 30, 2015, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2015.**
	(i) First Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(i) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**

Exhibit Number	Description
(ii)	Second Amendment to the McDonald's Corporation Severance Plan, effective June 1, 2016, incorporated herein by reference from Exhibit 10(l)(ii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(iii)	Third Amendment to the McDonald's Corporation Severance Plan, effective as of July 15, 2016, incorporated herein by reference from Exhibit 10(l)(iii) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(iv)	Fourth Amendment to the McDonald's Corporation Severance Plan, effective as of July 1, 2017, incorporated herein by reference from Exhibit 10(k)(iv) of Form 10-Q (File No. 001-05231), for the quarter ended September 30, 2017.**
(v)	Fifth Amendment to the McDonald's Corporation Severance Plan, effective as of June 5, 2018, filed herewith. **
(k)	Form of 2014 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(z) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2014.**
(l)	Offer Letter between Christopher Kempczinski and the Company, dated September 23, 2015, incorporated herein by reference from Exhibit 10(u) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2016.**
(m)	Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, incorporated herein by reference from Exhibit 10(o) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2017.**
(n)	Offer Letter between Silvia Lagnado and the Company, dated June 8, 2015, incorporated herein by reference from Exhibit 10(p) of Form 10-Q (File No. 001-05231), for the quarter ended June 30, 2017.**
(o)	Form of 2018 Executive Stock Option Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(q) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **
(p)	Form of 2018 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(r) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2018. **
(q)	Termination Agreement and General Release between Gloria Santona and the Company, dated March 3, 2017, filed herewith. **
(12)	Computation of Ratios.
(31.1)	Rule 13a-14(a) Certification of Chief Executive Officer.
(31.2)	Rule 13a-14(a) Certification of Chief Financial Officer.
(32.1)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Executive Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification pursuant to 18 U.S.C. Section 1350 by the Chief Financial Officer, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(101.INS)	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
(101.SCH)	XBRL Taxonomy Extension Schema Document.
(101.CAL)	XBRL Taxonomy Extension Calculation Linkbase Document.
(101.DEF)	XBRL Taxonomy Extension Definition Linkbase Document.
(101.LAB)	XBRL Taxonomy Extension Label Linkbase Document.
(101.PRE)	XBRL Taxonomy Extension Presentation Linkbase Document.

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

** Denotes compensatory plan.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

McDONALD'S CORPORATION
(Registrant)

/s/ Kevin M. Ozan

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

August 2, 2018

**FIFTH AMENDMENT TO THE McDONALD'S CORPORATION
SEVERANCE PLAN**

The McDonald's Corporation Severance Plan, as most recently amended and restated effective September 30, 2015 and as subsequently amended by the First, Second, Third, and Fourth Amendments, is hereby further amended as set forth below, effective as of June 5, 2018.

I.

The following is added as the second sentence of Section 5.1:

Notwithstanding the foregoing, with respect to any Qualifying Employee whose termination occurs in connection with the 2018 reorganization of the U.S. business, Severance Pay and sabbatical pay, if any, shall be paid to the Qualifying Employee in a single lump sum as soon as reasonably practicable following the later of the Termination Date or the Release Date, but in no event later than December 31, 2018.

II.

Except as herein amended, the Plan shall remain in full force and effect.

Executed this June 5, 2018.

McDONALD'S CORPORATION

/s/ David Carroll

David Carroll

Corporate Vice President, Global Total Rewards

TERMINATION AGREEMENT AND GENERAL RELEASE

THIS TERMINATION AGREEMENT AND GENERAL RELEASE (this “Agreement”) is entered into as of this 3 day of March, 2017, by and between McDonald’s Corporation, a Delaware corporation (the “Company”) and Gloria Santona (the “Executive”), pursuant to the Company’s Executive Retention Replacement Plan (the “Plan”), a copy of which is attached hereto as Exhibit A.

WITNESSETH:

WHEREAS, the Executive participates in the Plan; and

WHEREAS, if the Executive complies with her obligations under the Plan, she will hereafter be entitled to substantial compensation and benefits under the Plan to which she would not otherwise be entitled; and

WHEREAS, the Executive is required under the Plan to execute this Agreement in order to receive benefits under the Plan;

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein and other good and valuable consideration, the receipt of which is hereby acknowledged, the parties agree as follows:

1. **Definitions.** Capitalized terms used but not defined in this Agreement shall have the meanings given to them in the Plan. The following terms shall have the meanings set forth below:

Agreement: defined in the first paragraph above.

Company: defined in the first paragraph above.

Company Property: all records, documents, materials, papers, computer records or print-outs belonging to McDonald’s, including without limitation those containing Confidential Information and Trade Secrets.

Competing Business: any Person (and any branches, offices or operations thereof) that is a material and direct competitor of McDonald’s in any country in the world or in any state of the United States by virtue of selling, manufacturing, processing or promoting any product that is substantially similar to, competes with, or is intended to compete with, replace, or duplicate in the market any product that was sold or under development by McDonald’s during the five years (or shorter period of the Executive’s employment with the Company) preceding the date of execution of this Agreement or with respect to which the Executive has had specific knowledge and involvement.

Confidential Information and Trade Secrets: all valuable and unique tangible and intangible information and techniques acquired, developed or used by McDonald’s relating to its business, operations, employees and customers, which gives McDonald’s a competitive advantage in the businesses in which McDonald’s is engaged, including without limitation

processes, methods, techniques, systems, computer data, formulae, patents, models, devices, compilations, customer lists, supplier lists or any information of whatever nature that gives McDonald's an opportunity to obtain an advantage over competitors who do not know or use such data or information.

Executive: defined in the first paragraph above.

HR Official: the Company's Corporate Executive Vice President - Chief People Officer (or any successor position).

Justified Disclosure: defined in Section 8(a) below.

McDonald's: the Company and its subsidiaries, divisions, affiliates and related companies.

McDonald's-Related Person: any director, officer, employee or franchisee of the Company or any of its subsidiaries, divisions, affiliates and related companies.

Other Separation Benefits: defined in Section 9(c) below.

Person: a person, firm, corporation, partnership, venture or other entity of any kind.

Plan: defined in the first paragraph above.

Recovery Period: the period beginning on the Date of Termination and ending on the date on which a Violation is discovered.

Release Date: the Executive's Date of Termination.

Released Persons: defined in Section 9(a) below.

Specified Competitors: the entities listed on Exhibit B hereto and their respective subsidiaries and affiliates, as required by Section 1.02(b) of the Plan.

Stock Option Gains: defined in Section 10(c)(iv) below.

Violation: defined in the Plan.

2. ***Relationship of Agreement to Plan.*** The provisions of the Plan, including without limitation the provision regarding administration in Article II of the Plan, are applicable to this Agreement and to the obligations of the Company and the Executive hereunder, and are hereby incorporated by reference into this Agreement. However, any amendments made to the Plan after the date of this Agreement will not apply to the Executive absent the consent of the Executive, to the extent such consent is required pursuant to Article IX of the Plan.

3. ***Circumstances Requiring Agreement.*** The Executive's employment will terminate as a result of the Executive's election to terminate employment pursuant to Article III of the Plan.

The Executive's Date of Termination is March 3, 2017. This Agreement constitutes the Executive's Termination Agreement and General Release.

4. **Termination Benefits.** The Executive shall be entitled to receive the benefits specified in Articles IV and VIII of the Plan, provided that the Executive properly executes this Agreement, does not revoke this Agreement, and complies with all Agreements that she is required under the Plan to execute. These Termination Benefits are outlined on Exhibit C hereto.

5. **Company Property and Confidentiality.**

(a) **Acknowledgements.** The Executive acknowledges that (i) it is the policy of McDonald's to maintain as secret and confidential all Confidential Information and Trade Secrets; (ii) all Confidential Information and Trade Secrets are the sole and exclusive property of McDonald's; and (iii) disclosure of Confidential Information and Trade Secrets would cause significant damage to McDonald's.

(b) **Company Property.** The Executive agrees to turn all Company Property over to the CEO or the CEO's designee, at or as promptly as practicable following the execution of this Agreement. However, Executive may retain her mobile telephone and mobile telephone number. Executive acknowledges she will be responsible for any and all related mobile telephone charges incurred after the Date of Termination. McDonald's will take all necessary steps to release the telephone number to your personal account by the Date of Termination. Notwithstanding, Executive agrees that McDonald's may remove all confidential and proprietary information in Executive's mobile telephone prior to the Date of Termination.

(c) **Confidentiality.** The Executive shall not, without obtaining the Company's consent pursuant to Section 7 below, use, disclose, furnish or make accessible to any Person any Confidential Information and Trade Secrets obtained during the Executive's employment with the Company at any time for so long as such information remains confidential or secret.

6. **Other Covenants.**

(a) **Acknowledgements.** The Executive acknowledges that McDonald's is engaged in a highly competitive, global business that requires the preservation of Confidential Information and Trade Secrets. The Executive further acknowledges that McDonald's has near-permanent relationships with vendors, affiliates, customers, suppliers, manufacturers, alliance partners, employees and service organizations, which McDonald's has a legitimate interest in protecting. Finally, the Executive acknowledges that the covenants set forth in this Section 6 are reasonable under the circumstances, that he or she has the skill and ability to find alternative commensurate work not in violation of such covenants and that he or she has the wherewithal to support herself and her family without violating such covenants, including without limitation the covenant not to compete provided for in Section 6(b) below.

(b) **Noncompetition.** The Executive agrees to not work for or provide services to a Competing Business or to the Specified Competitors at any time on or before March 3, 2019.

(c) **Exceptions.** It shall not be considered a violation of this Section 6 for the Executive to engage in any of the following:

- (i) The performance of services for and on behalf of an investment banking or commercial banking, auditing, law or consulting firm at any time after the termination of the Executive's employment, so long as the Executive is not personally engaged in rendering services to or soliciting business of a Competing Business or any of the Specified Competitors; or
- (ii) Being the record or beneficial owner of up to one (1) percent of the outstanding voting securities of any publicly traded entity; or

(d) Nothing in Section 6 shall be construed to restrict the right of a lawyer to provide legal services for a law firm or on behalf of another company or client, provided that a lawyer who has formerly represented McDonald's (a) may not thereafter represent another company in a matter that is the same or substantially related to the matter in which the lawyer represented McDonald's and in which the other company's interests are materially adverse to McDonald's interests; and (b) may not use or disclose confidential information obtained while employed by McDonald's.

(e) *No Solicitation or Hiring of Employees.* The Executive shall not, at any time on or before March 3, 2019, solicit or attempt to solicit any employee (other than the Executive's administrative assistant), consultant, franchisee, supplier or independent contractor of McDonald's to terminate, alter, or lessen that party's affiliation with McDonald's or to interfere with or violate the terms of any agreement or understanding between such entity, employee or person and McDonald's.

(f) *No Disparagement.* The Executive shall not, at any time on or before March 3, 2020, (i) make any public disclosures or publish any articles or books about McDonald's, its business or any McDonald's-Related Person, or grant an interview regarding McDonald's to any representative of the public media, without the prior written consent of the CEO, or (ii) intentionally publish any statement or make any disclosure about McDonald's, its business or any McDonald's-Related Person that is disparaging, derogatory or otherwise casts a bad light on McDonald's, its business or any McDonald's-Related Person. However, nothing in this Section 6(f) shall preclude Executive from participating in general leadership, legal, or corporate governance speeches, panels, or interviews including references to her experiences at McDonald's.

7. Consent Procedure.

(a) *Seeking Consent.* The Executive may seek the Company's consent to engage in any of the activities prohibited by Section 5(c) or Section 6 above, by providing written notice thereof to the Company addressed to the HR Official or to the CEO, including, in the case of an activity prohibited by Section 6, a full and complete disclosure in writing to the Company of all the relevant facts, including without limitation the services to be rendered or activities to be engaged in, places of employment, performance of services or activities, compensation to be paid, expertise to be provided, amount to be invested, stock or debt to be received, and business plan or plans to be executed by such entity or person. The Company thereafter shall have fourteen (14) calendar days to consider the Executive's contemplated activities as disclosed and

shall in writing, either consent or object to such activities. It is agreed that consent shall not be unreasonably withheld.

(b) *Binding Decisions.* All decisions of the Company under this Section 7 shall be final and binding upon the Executive, and the Executive shall not engage in any such activities if the Company shall object.

8. **Legal Compulsion.**

(a) *Notice.* If the Executive reasonably and in good faith believes that she is or may be compelled by law or by a court or governmental agency by a proper proceeding to disclose Confidential Information and Trade Secrets, or to make a statement or take other action that would, absent this Section 8, violate Section 5(c) above (each such disclosure, statement or action, a “Justified Disclosure”), then the Executive shall give the Company written notice thereof as far in advance of such Justified Disclosure as is lawful and practicable, shall cooperate (at the Company’s sole expense) with the Company in its efforts to prevent such Justified Disclosure from being compelled, and shall limit her Justified Disclosure to the minimum compelled by law or court order, except to the extent the Company agrees otherwise in writing.

(b) *No Violation.* If the Executive complies with the foregoing procedure to the greatest extent possible without violating applicable law, then the Executive shall not be deemed to have breached Section 5(c) above as a result of the Justified Disclosure.

9. **Release Provisions.**

(a) *Release.* The Executive understands, intends and agrees that this Section 9 constitutes full, complete and final satisfaction of all claims, demands, lawsuits or actions of any kind, whether known or unknown, against McDonald’s and/or their respective directors, officers or employees (with McDonald’s, collectively, the “Released Persons”), arising at any time up to and including the Release Date, and the Executive hereby forever releases each Released Person from all such matters. This includes, but is not limited to, a release of claims, demands, lawsuits and actions of any kind relating to any employment or application for employment or franchise, claims relating to resignation and/or cessation of employment, claims alleging breach of contract of any tort, claims for wrongful termination, defamation, intentional infliction of emotional distress, personal injury, violation of public policy and/or negligence related to employment or resignation, claims under Title VII of the Civil Rights Act of 1964, as amended, Section 1981 of the Civil Rights Act of 1866, as amended, the Age Discrimination in Employment Act of 1967, as amended, the Rehabilitation Act of 1973, the Americans with Disabilities Act of 1990, the Employee Retirement Income Security Act of 1974, as amended, the Worker Adjustment and Retraining Notification Act, the Family and Medical Leave Act of 1993, the Illinois Human Rights Act, or any other state, Federal or local law prohibiting discrimination, and claims based on any other law, regulation, or common law, whether before any Federal, state or local agency, in any court of law or before any other forum. Notwithstanding the foregoing, the Executive’s release shall not extend to any claims (i) for benefits under Employee Plans that are qualified under Section 401(a) of the Internal Revenue Code, (ii) for payments and benefits to which the Executive is entitled under the Plan as provided in Section 4 above, (iii) for payments or benefits under any Deferred Compensation Plan, Benefit Plan or other employee benefit plan of the

Company to which the Executive is entitled by the terms thereof, except as provided otherwise in Section 9(c) below and except to the extent such entitlements are specifically amended or eliminated by the Plan, or (iv) for indemnification under the Company's policy on indemnification of officers and directors and coverage under any related insurance policies.

(b) ***Advice, Time to Consider and Revocation.*** The Executive is hereby advised to consult with an attorney prior to executing this Agreement. The Executive is further advised that she has a period of 21 days within which to consider the terms of this Agreement and whether or not to execute it. In addition, for a period of 7 days following the Executive's execution of this Agreement, she has the right to revoke this Agreement, and no portion of this Agreement shall become effective or enforceable until such revocation period has expired.

(c) *Other Benefits.* The Executive acknowledges and agrees that the payments and benefits provided to the Executive under the Plan are in lieu of any payments, benefits or arrangements to which the Executive might otherwise be entitled to under any Employee Plan or other plan or arrangement which provides for severance or separation ("Other Separation Benefits"), and the Executive hereby waives any and all rights and claims that she may now or hereafter have to any Other Separation Benefits; provided, that the foregoing waiver shall not apply to any right the Executive may have to any gross-up payments related to the excise tax on excess parachute payments imposed by Section 4999 of the Internal Revenue Code under any change of control employment agreement with the Company. The foregoing shall not be construed as affecting in any manner the Executive's benefits and entitlements (if any) under any Employee Plan that provides pension or retiree medical or life insurance benefits.

(d) *Acknowledgements.* The Executive acknowledges having read and understood the provisions of this Section 9 as well as the other provisions of this Agreement, and represents that her execution of this Agreement constitutes her knowing and voluntary act, made without coercion or intimidation. The Executive acknowledges and agrees that the release set forth in this Section 9 is being given only in exchange for consideration in addition to anything of value to which the Executive already is entitled. The Executive finally agrees not to file any lawsuits against the Company or any of the released entities or persons with respect to claims covered by the release given in this Section 9.

(e) Nothing in this Agreement shall prohibit or interfere with your right to file a charge, cooperate or participate in an investigation or proceeding conducted by the Equal Employment Opportunity Commission, or other federal, state or local agency, and this section does not require you to assist and cooperate with McDonald's in any claim, lawsuit or proceeding by you against McDonald's for breach of this Agreement or for a claim that is excepted from the General Release, above.

(f) Further, nothing in this Agreement prohibits you from reporting possible violations of federal, state or local law or regulation to any governmental agency or entity, including but not limited to the Department of Justice, the Securities and Exchange Commission, the Congress, and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal, state or local law or regulation. You do not need the prior authorization or approval of the Law Department or anyone else at McDonald's to make any such

reports or disclosures and you are not required to notify the company that you have made such reports or disclosures.

10. **Remedies.**

(a) *Acknowledgements.* In recognition of the confidential nature of the Confidential Information and Trade Secrets, and in recognition of the necessity of the limited restrictions imposed by the Agreement, the Executive acknowledges it would be impossible to measure solely in money the damages which McDonald's would suffer if the Executive were to breach any of her obligations under Sections 5 and 6 above. The Executive also acknowledges that her breach of any such obligations would irreparably injure the Company.

(b) *Entitlement to Injunctive Relief.* If the Executive breaches any of her obligations under Sections 5 and 6 above, McDonald's shall be entitled, in addition to any other remedies to which McDonald's may be entitled under the Agreement or otherwise, to an injunction issued by a court of competent jurisdiction, to restrain any breach or threatened breach, of such provisions, and the Executive waives any right to assert any claim or defense that McDonald's has an adequate remedy at law for any such breach and any right to require, or request a court to require, that McDonald's post a bond in connection therewith.

(c) *Effect on Other Benefits.* In the event of a breach by the Executive of any of her obligations under this Agreement, excluding for this purpose an isolated, insubstantial and inadvertent action, the Company shall be entitled to:

- (i) discontinue any and all payments and other benefits to which the Executive or her beneficiaries would otherwise be entitled pursuant to this Agreement and/or the Plan;
- (ii) terminate any and all unexercised stock options, outstanding restricted stock units and outstanding awards under the CPUP then held by the Executive or by any transferee of the Executive;
- (iii) require the Executive to repay to the Company the aggregate amount of cash payments received by the Executive from the Company pursuant to this Agreement and/or the Plan; and
- (iv) in the case of any such breach occurring after the Executive's Date of Termination, require the Executive to pay to the Company any Stock Option Gains (as defined in the next two sentences). "Stock Option Gains" with respect to the Executive's stock options that were not vested as of her Date of Termination means the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period. "Stock Option Gains" with respect to the Executive's stock options that were vested as of her Date of Termination means the excess, if any, of (A) the aggregate amount of any gain recognized upon exercise of such stock options during the Recovery Period over (B) the amount of gain that would have been recognized, had such exercises instead occurred on the Executive's Date of Termination.

11. **Successors.** This Agreement shall be binding upon and inure to the benefit of the Company and the Executive and their respective heirs, representatives and successors.

12. **Jurisdiction and Venue.** Any action arising under this Agreement or between the Company and the Executive shall be instituted and brought exclusively under the jurisdiction and venue of the appropriate state or federal courts for the City of Oak Brook, Illinois, County of DuPage. The Executive hereby consents to the exclusive jurisdiction of said courts regardless of where the Executive may be domiciled at the time such suit is brought. It is further agreed that in the event the Company shall be required to institute any proceedings to enforce the terms of this Agreement, then the Company shall be entitled to recover its attorney fees and attendant expenses as part of any recovery.

13. **Captions.** The captions of the Sections of and Exhibits to this Agreement are not a part of the provisions hereof and shall have no force or effect.

14. **Entire Agreement.** This Agreement, together with the Plan, contain the entire agreement between the parties, and supersede any and all previous agreements, written or oral, between the Executive and the Company relating to the subject matter hereof. No amendment or modification of the terms of this Agreement shall be binding upon the parties hereto unless reduced to writing and signed by each of the parties hereto.

15. **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original.

16. **Severability.** If any one or more Sections or other portions of this Agreement are declared by any court or governmental authority to be unlawful or invalid, such unlawfulness or invalidity shall not serve to invalidate any Section or other portion not so declared to be unlawful or invalid. Any Section or other portion so declared to be unlawful or invalid shall be construed so as to effectuate the terms of such Section or other portion to the fullest extent possible while remaining lawful and valid.

17. **Governing Law.** To the extent not preempted by federal law, this Agreement shall be interpreted and construed in accordance with the laws of the State of Illinois, without regard to any otherwise applicable conflicts of law or choice of law principles.

[Remainder of the page intentionally left blank]

IN WITNESS WHEREOF, the Executive has hereunto set his hand, and the Company has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

McDONALD'S CORPORATION

/s/ David O. Fairhurst

By:

Corporate Executive Vice President &
Chief People Officer

Title:

David O. Fairhurst

Name:

EXECUTIVE

/s/ Gloria Santona

By:

Gloria Santona

Name:

Computation of Ratios**Exhibit 12****Ratio of Earnings to Fixed Charges***Dollars in millions*

	Six Months Ended June 30,		Years Ended December 31,				
	2018	2017	2017	2016	2015	2014	2013
Earnings available for fixed charges							
- Income before provision for income taxes	\$3,906.0	\$3,868.9	\$8,573.5	\$6,866.0	\$6,555.7	\$7,372.0	\$8,204.5
- Noncontrolling interest expense in operating results of majority-owned subsidiaries less equity in undistributed operating results of less than 50%-owned affiliates	(16.9)	7.3	5.3	12.5	7.3	6.3	9.0
- Income tax provision (benefit) of 50%-owned affiliates included in income from continuing operations before provision for income taxes	21.7	10.7	(36.5)	3.3	3.7	(0.1)	23.8
- Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	82.1	151.1	244.8	342.6	365.1	374.6	374.6
- Interest expense, amortization of debt discount and issuance costs, and depreciation of capitalized interest*	484.4	457.9	938.3	904.8	660.4	596.1	548.9
	<u>\$4,477.3</u>	<u>\$4,495.9</u>	<u>\$9,725.4</u>	<u>\$8,129.2</u>	<u>\$7,592.2</u>	<u>\$8,348.9</u>	<u>\$9,160.8</u>
Fixed charges							
- Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	\$ 82.1	\$ 151.1	\$ 244.8	\$ 342.6	\$ 365.1	\$ 374.6	\$ 374.6
- Interest expense, amortization of debt discount and issuance costs*	477.2	450.8	924.0	888.2	643.7	579.8	532.1
- Capitalized interest*	2.3	2.5	5.3	7.1	9.4	14.8	15.6
	<u>\$ 561.6</u>	<u>\$ 604.4</u>	<u>\$1,174.1</u>	<u>\$1,237.9</u>	<u>\$1,018.2</u>	<u>\$ 969.2</u>	<u>\$ 922.3</u>
Ratio of earnings to fixed charges	<u>7.97</u>	<u>7.44</u>	<u>8.28</u>	<u>6.57</u>	<u>7.46</u>	<u>8.61</u>	<u>9.93</u>

* Includes amounts of the Company and its majority-owned subsidiaries, and one-half of the amounts of 50%-owned affiliates. The Company records interest expense on unrecognized tax benefits in the provision for income taxes. This interest is not included in the computation of fixed charges.

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

I, Stephen J. Easterbrook, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of McDonald's Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Stephen J. Easterbrook

Stephen J. Easterbrook

President and Chief Executive Officer

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

I, Kevin M. Ozan, certify that:

- (1) I have reviewed this quarterly report on Form 10-Q of McDonald's Corporation;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- (4) The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- (5) The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2018

/s/ Kevin M. Ozan

Kevin M. Ozan

*Corporate Executive Vice President and
Chief Financial Officer*

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2018

/s/ Stephen J. Easterbrook

Stephen J. Easterbrook

President and Chief Executive Officer

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

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), the undersigned officer of McDonald's Corporation (the "Company"), does hereby certify, to such officer's knowledge, that the Quarterly Report on Form 10-Q for the quarter ended June 30, 2018 of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: August 2, 2018

/s/ Kevin M. Ozan

Kevin M. Ozan

*Corporate Executive Vice President and
Chief Financial Officer*