
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 March 31, 2017

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)

**One McDonald's Plaza
Oak Brook, Illinois**

(Address of Principal Executive Offices)

36-2361282

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

60523

(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 and posted on its corporate Web site, if any, 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 and post 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 ☐ (do not check if a smaller reporting company)

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 ☒

815,070,168

(Number of shares of common stock
outstanding as of March 31, 2017)

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) March 31, 2017	December 31, 2016
Assets		
Current assets		
Cash and equivalents	\$ 2,412.2	\$ 1,223.4
Accounts and notes receivable	1,336.7	1,474.1
Inventories, at cost, not in excess of market	56.8	58.9
Prepaid expenses and other current assets	552.0	565.2
Assets of businesses held for sale	1,549.5	1,527.0
Total current assets	5,907.2	4,848.6
Other assets		
Investments in and advances to affiliates	766.5	725.9
Goodwill	2,299.2	2,336.5
Miscellaneous	1,933.3	1,855.3
Total other assets	4,999.0	4,917.7
Property and equipment		
Property and equipment, at cost	34,451.5	34,443.4
Accumulated depreciation and amortization	(13,237.4)	(13,185.8)
Net property and equipment	21,214.1	21,257.6
Total assets	\$ 32,120.3	\$ 31,023.9
Liabilities and shareholders' equity		
Current liabilities		
Accounts payable	\$ 678.4	\$ 756.0
Income taxes	497.4	267.2
Other taxes	275.3	266.3
Accrued interest	276.4	247.5
Accrued payroll and other liabilities	878.4	1,159.3
Current maturities of long-term debt	222.9	77.2
Liabilities of businesses held for sale	391.9	694.8
Total current liabilities	3,220.7	3,468.3
Long-term debt	26,984.2	25,878.5
Other long-term liabilities	2,139.0	2,064.3
Deferred income taxes	1,807.2	1,817.1
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	6,809.6	6,757.9
Retained earnings	46,666.9	46,222.7
Accumulated other comprehensive income (loss)	(2,705.0)	(3,092.9)
Common stock in treasury, at cost: 845.6 and 841.3 million shares	(52,818.9)	(52,108.6)
Total shareholders' equity (deficit)	(2,030.8)	(2,204.3)
Total liabilities and shareholders' equity (deficit)	\$ 32,120.3	\$ 31,023.9

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF INCOME (UNAUDITED)

In millions, except per share data	Quarters Ended March 31,	
	2017	2016
Revenues		
Sales by Company-operated restaurants	\$ 3,411.9	\$ 3,753.5
Revenues from franchised restaurants	2,264.0	2,150.4
Total revenues	5,675.9	5,903.9
Operating costs and expenses		
Company-operated restaurant expenses	2,816.4	3,175.3
Franchised restaurants-occupancy expenses	430.1	415.1
Selling, general & administrative expenses	521.3	578.0
Other operating (income) expense, net	(125.9)	(44.8)
Total operating costs and expenses	3,641.9	4,123.6
Operating income	2,034.0	1,780.3
Interest expense	218.6	218.3
Nonoperating (income) expense, net	7.9	(14.4)
Income before provision for income taxes	1,807.5	1,576.4
Provision for income taxes	592.7	451.6
Net income	\$ 1,214.8	\$ 1,124.8
Earnings per common share-basic	\$ 1.48	\$ 1.27
Earnings per common share-diluted	\$ 1.47	\$ 1.25
Dividends declared per common share	\$ 0.94	\$ 0.89
Weighted-average shares outstanding-basic	818.8	888.9
Weighted-average shares outstanding-diluted	825.2	896.3

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (UNAUDITED)

In millions	Quarters Ended March 31,	
	2017	2016
Net income	\$1,214.8	\$1,124.8
Other comprehensive income (loss), net of tax		
Foreign currency translation adjustments:		
Gain (loss) recognized in accumulated other comprehensive income (AOCI), including net investment hedges	287.6	479.8
Reclassification of (gain) loss to net income	109.0	18.3
Foreign currency translation adjustments-net of tax benefit (expense) of \$44.5 and \$70.9	396.6	498.1
Cash flow hedges:		
Gain (loss) recognized in AOCI	(7.1)	(10.0)
Reclassification of (gain) loss to net income	(3.9)	(10.8)
Cash flow hedges-net of tax benefit (expense) of \$6.2 and \$11.8	(11.0)	(20.8)
Defined benefit pension plans:		
Gain (loss) recognized in AOCI	(0.3)	(0.9)
Reclassification of (gain) loss to net income	2.6	0.8
Defined benefit pension plans-net of tax benefit (expense) of \$(0.5) and \$0.0	2.3	(0.1)
Total other comprehensive income (loss), net of tax	387.9	477.2
Comprehensive income (loss)	\$1,602.7	\$1,602.0

See Notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

In millions	Quarters Ended March 31,	
	2017	2016
Operating activities		
Net income	\$ 1,214.8	\$ 1,124.8
Adjustments to reconcile to cash provided by operations		
Charges and credits:		
Depreciation and amortization	325.3	383.7
Deferred income taxes	85.9	31.6
Share-based compensation	22.7	40.5
Other	(112.7)	(52.5)
Changes in working capital items	8.0	217.1
Cash provided by operations	1,544.0	1,745.2
Investing activities		
Capital expenditures	(427.7)	(391.8)
Purchases of restaurant businesses	(3.1)	(25.4)
Sales of restaurant businesses	545.8	160.0
Sales of property	65.3	13.1
Other	(42.2)	(11.8)
Cash provided by (used for) investing activities	138.1	(255.9)
Financing activities		
Net short-term borrowings	(769.2)	(809.6)
Long-term financing issuances	1,993.0	0.7
Long-term financing repayments	(402.1)	(213.5)
Treasury stock purchases	(748.0)	(4,311.7)
Common stock dividends	(770.6)	(780.8)
Proceeds from stock option exercises	116.2	131.3
Other	(6.5)	4.9
Cash used for financing activities	(587.2)	(5,978.7)
Effect of exchange rates on cash and cash equivalents	54.7	114.0
Cash and equivalents increase (decrease)	1,149.6	(4,375.4)
Cash balance of businesses held for sale at beginning of period	174.0	—
Cash balance of businesses held for sale at end of period	(134.8)	—
Cash and equivalents at beginning of period	1,223.4	7,685.5
Cash and equivalents at end of period	\$ 2,412.2	\$ 3,310.1

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, 2016 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 ended March 31, 2017 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 March 31,	2017	2016
Conventional franchised	21,168	21,209
Developmental licensed	6,800	5,618
Foreign affiliated	3,360	3,370
Total Franchised	31,328	30,197
Company-operated	5,577	6,270
Systemwide restaurants	36,905	36,467

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

Per Common Share Information

Diluted earnings per common share is calculated using net income divided by diluted weighted-average shares. Diluted weighted-average shares include weighted-average shares outstanding plus the dilutive effect of share-based compensation, calculated using the treasury stock method, of 6.4 million shares and 7.4 million shares for the first quarter 2017 and 2016, respectively. Stock options that would have been antidilutive, and therefore were not included in the calculation of diluted weighted-average shares, totaled 4.6 million shares and 4.2 million shares for the first quarter 2017 and 2016, respectively.

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, 2016 Annual Report on Form 10-K.

At March 31, 2017, the fair value of the Company's debt obligations was estimated at \$28.8 billion, compared to a carrying amount of \$27.2 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:

In millions	Derivative Assets		Derivative Liabilities	
	March 31, 2017	December 31, 2016	March 31, 2017	December 31, 2016
Total derivatives designated as hedging instruments	\$ 20.5	\$ 36.9	\$ (5.4)	\$ (3.7)
Total derivatives not designated as hedging instruments	134.1	144.4	(5.8)	(1.9)
Total derivatives	\$154.6	\$181.3	\$ (11.2)	\$ (5.6)

The following table presents the pretax amounts affecting income and other comprehensive income ("OCI") for the three months ended March 31, 2017 and 2016, respectively:

In millions	Gain (Loss) Recognized in Accumulated OCI		Gain (Loss) Reclassified into Income from Accumulated OCI		Gain (Loss) Recognized in Income on Derivative ⁽¹⁾	
	2017	2016	2017	2016	2017	2016
Cash Flow Hedges	\$ (11.1)	\$ (16.1)	\$ 6.1	\$ 16.5	\$ —	\$ —
Net Investment Hedges	\$ (158.7)	\$ (318.2)	\$ (109.0)	\$ (18.3)		
Undesignated derivatives					\$ 3.3	\$ (5.1)

(1) Includes amounts excluded from effectiveness testing, ineffectiveness, and undesignated gains (losses).

• Fair Value Hedges

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 March 31, 2017, \$2.0 billion of the Company's outstanding fixed-rate debt was effectively converted. For the three months ended March 31, 2017, the Company recognized a \$2.8 million loss on fair value interest rate swaps, which was exactly offset by a corresponding gain in the fair value of the hedged debt instruments.

• 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 and foreign currency options 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 March 31, 2017, the Company had derivatives outstanding with an equivalent notional amount of \$656.8 million that hedged a portion of forecasted foreign currency denominated royalties.

Based on market conditions at March 31, 2017, the \$11.9 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 March 31, 2017, \$8.8 billion of the Company's third party foreign currency denominated debt, \$3.4 billion of intercompany foreign currency denominated debt and \$883.7 million of derivatives were designated to hedge investments in certain foreign subsidiaries and affiliates.

• 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 March 31, 2017 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 March 31, 2017, 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 hedges of certain of the Company's supplemental benefit plan liabilities where the counterparties were required to post collateral on their liability positions.

Businesses Held for Sale

Assets and liabilities of businesses held for sale on the condensed consolidated balance sheet primarily consist of balances related to businesses in China and Hong Kong. In December 2016, the Company's Board of Directors approved an agreement for the Company to sell its existing businesses in China and Hong Kong, which comprise over 2,600 restaurants, to a developmental licensee. Under the terms of the agreement, the Company will retain a 20% ownership in the business, and as such, will report results for China and Hong Kong as an affiliate post-closing. The Company expects to complete the sale and licensing transaction in the second half of 2017, subject to satisfaction of customary conditions, including receipt of required regulatory approvals.

Based on approval by the Board of Directors, the Company concluded that these markets were "Held for Sale" as of December 31, 2016 in accordance with the requirements of ASC 360 "Property, Plant and Equipment." Accordingly, the Company has ceased recording depreciation expense with respect to the assets of the China and Hong Kong markets effective January 1, 2017. As of March 31, 2017, total assets relating to businesses in China and Hong Kong were \$1.3 billion, of which \$212 million was current, and total liabilities were \$302 million, most of which was current.

As a result of this sale, the Company expects to record a gain of approximately \$700-\$900 million reflecting the difference between the net book value of the businesses and approximately \$1.5 billion of cash proceeds to be received at closing, subject to adjustments.

At the end of the first quarter 2017, the Company completed the transaction to sell its existing businesses in Denmark, Finland, Norway and Sweden (referred to as the "Nordics") to a developmental licensee organization. Cash proceeds upon the completion of the sale were approximately \$450 million. No significant gains or losses were recognized at the close of the transaction.

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, Korea, Poland, Russia, Spain, Switzerland, the Netherlands and related markets.
- Foundational Markets & Corporate - the remaining markets in the McDonald's system, each of which the Company believes has the potential to 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 March 31,	
	2017	2016
Revenues		
U.S.	\$1,929.0	\$2,019.9
International Lead Markets	1,643.5	1,728.5
High Growth Markets	1,537.2	1,442.2
Foundational Markets & Corporate	566.2	713.3
Total revenues	\$5,675.9	\$5,903.9
Operating Income		
U.S.	\$ 947.9	\$ 840.2
International Lead Markets	666.6	654.2
High Growth Markets	300.7	220.9
Foundational Markets & Corporate	118.8	65.0
Total operating income	\$2,034.0	\$1,780.3

Recently Issued Accounting Standards

Intangibles

In January 2017, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, an impairment charge will be recorded based on the excess of a reporting unit's carrying amount over its fair value. ASU 2017-04 is effective for fiscal years beginning after December 15, 2019, with early adoption permitted for annual and interim goodwill impairment testing dates after January 1, 2017. The Company is currently evaluating the impact of ASU 2017-04.

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 is to improve the accounting for the income tax consequences of intra-entity transfers of assets other than inventory. ASU 2016-16 is effective for fiscal years beginning after December 15, 2017, including interim periods within those annual reporting periods. The Company anticipates that ASU 2016-16 will have a material impact on the Company's consolidated balance sheet, primarily resulting in additional deferred tax assets. The Company expects little to no impact on the consolidated statement of income or the Company's cash flows.

Lease Accounting

In February 2016, the 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. 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 anticipates ASU 2016-02 to have a material impact on the consolidated balance sheet. Upon adoption, a portion of our franchise related revenue may be subject to the allocation provisions outlined in ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)." We are currently evaluating the specific implementation requirements, if any, for allocating consideration within our lessor contracts in accordance with ASU 2014-09. The impact of ASU 2016-02 is non-cash in nature, as such, it will not affect the Company's 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 amends the guidance in former ASC 605, "Revenue Recognition." The core principal of the standard is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services. The standard also calls for additional disclosures around the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The standard will be effective for the Company beginning January 1, 2018, with early adoption permitted.

The standard may be applied retrospectively to each prior period presented or retrospectively with the cumulative effect recognized as of the date of adoption ("modified retrospective method"). The Company currently expects to apply the modified retrospective method upon adoption.

The Company does not believe the standard will impact its recognition of revenue from company-operated restaurants or its recognition of royalties from restaurants operated by franchisees or licensed to affiliates and developmental licensees, which are based on a percent of sales. While we continue to assess the potential impacts to other less significant revenue transactions, we currently believe the standard will change the way initial fees from franchisees for new restaurant openings or new franchise terms are recognized.

The Company's current accounting policy is to recognize initial franchise fees when "earned" per the contract terms, which is when a new store opens or at the start of a new franchise term. In accordance with the new guidance, the initial franchise services are not distinct from the continuing rights or services offered during the term of the franchise agreement, and will therefore be treated as a single performance obligation. As such, initial fees received will likely be recognized over the franchise term.

We do not anticipate this impact to be material to the Company's consolidated statement of income, and the cumulative catch-up adjustment to be recorded as deferred revenue upon adoption is expected to be approximately 2% of the Company's consolidated long-term liabilities. No impact to the Company's consolidated statement of cash flows is expected as the initial fees will continue to be collected upon store opening date or the beginning of a new franchise term.

Upon adoption of ASU 2016-02, a portion of our franchise related revenue may be subject to the allocation provisions outlined within the revenue recognition standard. We are currently evaluating the specific implementation requirements, if any, for allocating consideration within our lessor contracts in accordance with the revenue recognition standard.

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 36,905 restaurants in 120 countries at March 31, 2017, 31,328 were licensed to franchisees (comprised of 21,168 franchised to conventional franchisees, 6,800 licensed to developmental licensees and 3,360 licensed to foreign affiliates ("affiliates") – primarily in Japan) and 5,577 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 along 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 quarter ended March 31, 2017, the U.S., the International Lead Markets and the High Growth Markets accounted for 34%, 29% and 27% of total revenues, respectively.

Strategic Direction

In 2017, the Company began to shift focus from revitalizing the business to longer-term growth with the announcement of its customer-centric growth strategy - the Velocity Growth Plan. This plan outlines actions 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 is accelerating efforts to retain existing customers, regain lapsed customers and convert casual customers to committed customers and believes that its greatest opportunities are at the heart of the brand - in its food, value and customer experience.

In an effort to continue to improve food taste and quality, the Company announced plans to serve fresh quarter-pound beef patties, prepared when ordered, in U.S. restaurants by mid-2018. In addition, the Company has expanded its premium beef offerings, including the launch of Signature Crafted sandwiches in the U.S. and Gourmet Creations in Australia.

To provide a more accessible and personalized customer experience, the Company is prioritizing the following accelerators designed to drive further growth:

- **Experience of the Future ("EOTF").** Focuses on restaurant modernization and technology, in order to transform the restaurant service experience and drive incremental customer visits and higher average check.
- **Digital.** Places renewed emphasis on improving the Company's existing service model (i.e., eat in, take out, or drive-thru) and strengthens its relationships with customers by evolving the technology platform to simplify how customers order, pay and are served

through additional functionality on its global mobile app and self-order kiosks, as well as table service and curb-side pick-up. Mobile order and pay will be launched in 20,000 restaurants in some of our largest markets, including the U.S. by the end of 2017.

- **Delivery.** Offers a platform with added convenience, bringing McDonald's food to customers on their terms. The Company is conducting various pilot tests globally and plans to scale quickly based on these results. In the U.S., the Company will expand to additional cities in the second quarter.

Financial Performance

Financial performance in the first quarter reflected meaningful top-line performance across all segments, as evidenced by an increase in global comparable sales of 4.0% for the quarter, marking the Company's seventh consecutive quarter of positive global comparable sales. The Company continues to enhance the strength and stability of its business by evolving to a more heavily franchised organization. This shift in ownership structure has reduced capital and G&A needs going forward, and focuses the Company on driving top-line growth.

In the U.S., first quarter comparable sales increased 1.7%, building upon strong prior year results that benefited from the launch of All Day Breakfast. The U.S. continues to strengthen its foundation as it executes strategic menu, value and convenience initiatives, with first quarter performance benefiting from the expansion of All Day Breakfast offerings, along with the Big Mac and beverage value promotions.

Comparable sales for the International Lead segment increased 2.8% for the quarter, primarily driven by continued momentum in the U.K. and Canada's successful launch of All Day Breakfast.

In the High Growth segment, comparable sales for the quarter increased 3.8%, led by strong performance in China and positive results across the entire segment.

The Company also had strong bottom-line performance, as consolidated operating income benefited from stronger operating performance and G&A savings across all segments, a gain from the strategic sale of a restaurant property in the U.S. and improved performance in Japan. The quarter also benefited from lower depreciation expense, primarily in China and Hong Kong, that in accordance with accounting rules, met Held for Sale criteria and ceased recording depreciation.

First Quarter 2017 Highlights:

- Global comparable sales increased 4.0%, reflecting positive comparable sales in all segments while up against an extra day in 2016 due to leap year
- Consolidated revenues decreased 4% (3% in constant currencies), due to the impact of refranchising
- Consolidated operating income increased 14% (16% in constant currencies)
- Diluted earnings per share of \$1.47 increased 18% (19% in constant currencies)
- Returned \$1.6 billion to shareholders through share repurchases and dividends in connection with our target to return between \$22 and \$24 billion to shareholders for the three-year period ending 2019

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 and net restaurant unit expansion. The Company expects net restaurant additions to add approximately 1 percentage point to 2017 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 4 to 5 cents.
- With about 75% of McDonald's grocery bill comprised of 10 different commodities, a basket of goods approach is the most comprehensive way to look at the Company's commodity costs. For the full-year 2017, costs for the total basket of goods are expected to increase about 0.5- 1.5% in the U.S. and increase about 2.0% in the International Lead segment.
- The Company expects full-year 2017 selling, general and administrative expenses to decrease about 7-8% in constant currencies with fluctuations expected between the quarters. This projected decrease includes incentive-based compensation costs of less than \$300 million.
- Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full-year 2017 to increase about 5% compared with 2016 due to higher average debt balances.
- A significant part of the Company's operating income is generated outside the U.S., and about 35% 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 25 cents.

- The Company expects the effective income tax rate for the full-year 2017 to be in the 31-33% range. Some volatility may result in a quarterly tax rate outside of the annual range.
- The Company expects capital expenditures for 2017 to be approximately \$1.7 billion, about one-third of which will be used to open new restaurants. The Company expects to open about 900 restaurants, including about 500 restaurants in affiliated and developmental licensee markets where the Company generally does not fund any capital expenditures. The Company expects net additions of about 400 restaurants. The remaining two-thirds of capital will be used to reinvest in existing locations, including about 650 reimages in the U.S. When combined with previously modernized restaurants that will be updated with EOTF elements in 2017, we expect to have about 2,500 EOTF restaurants in the U.S. by the end of 2017.

In addition, the Company has certain long-term targets that are detailed in its Form 10-K for the year ended December 31, 2016.

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 and bases incentive compensation plans on these results because they believe this better represents the Company's 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. 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 March 31, 2017	
	Amount	Increase/ (Decrease)
Revenues		
Sales by Company-operated restaurants	\$ 3,411.9	(9)%
Revenues from franchised restaurants	2,264.0	5
Total revenues	5,675.9	(4)
Operating costs and expenses		
Company-operated restaurant expenses	2,816.4	(11)
Franchised restaurants-occupancy expenses	430.1	4
Selling, general & administrative expenses	521.3	(10)
Other operating (income) expense, net	(125.9)	n/m
Total operating costs and expenses	3,641.9	(12)
Operating income	2,034.0	14
Interest expense	218.6	0
Nonoperating (income) expense, net	7.9	n/m
Income before provision for income taxes	1,807.5	15
Provision for income taxes	592.7	31
Net income	\$ 1,214.8	8 %
Earnings per common share-basic	\$ 1.48	17 %
Earnings per common share-diluted	\$ 1.47	18 %

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. Management reviews and analyzes business results excluding the effect of foreign currency translation and bases incentive compensation plans on these results, because the Company believes this better represents underlying business trends. 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 March 31,	2017	2016	2017
Revenues	\$ 5,675.9	\$ 5,903.9	\$ (42.8)
Company-operated margins	595.5	578.2	(8.8)
Franchised margins	1,833.9	1,735.3	(24.7)
Selling, general & administrative expenses	521.3	578.0	3.3
Operating income	2,034.0	1,780.3	(31.7)
Net income	1,214.8	1,124.8	(18.1)
Earnings per share-diluted	\$ 1.47	\$ 1.25	\$ (0.02)

The impact of foreign currency translation on consolidated operating results for the quarter primarily reflected the weaker British Pound.

Net Income and Diluted Earnings per Common Share

For the quarter, net income increased 8% (10% in constant currencies) to \$1,214.8 million, and diluted earnings per share increased 18% (19% in constant currencies) to \$1.47. Foreign currency translation had a negative impact of \$0.02 on diluted earnings per share.

Results for the quarter benefited from stronger operating performance and G&A savings across all segments, a gain from the strategic sale of a restaurant property in the U.S., and improved performance in Japan. The quarter also benefited from lower depreciation expense, primarily in China and Hong Kong, that in accordance with accounting rules, met Held for Sale criteria and ceased recording depreciation.

Diluted earnings per share benefited from a decrease in diluted weighted-average shares outstanding due to share repurchases. During the quarter, the Company repurchased 6.3 million shares of stock for \$795.7 million and paid a quarterly dividend of \$0.94 per share, or \$770.6 million.

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 along 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.

The Company is accelerating the pace of refranchising to optimize its restaurant ownership mix, generate more stable and predictable revenue and cash flow streams, and operate 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 sales, where the Company receives rent and/or royalty revenue based on a percentage of sales.

REVENUES

Dollars in millions

Quarters Ended March 31,	2017	2016	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
<i>Company-operated sales</i>				
U.S.	\$ 835.6	\$ 966.4	(14)%	(14)%
International Lead Markets	941.2	1,051.6	(10)	(6)
High Growth Markets	1,345.3	1,264.8	6	4
Foundational Markets & Corporate	289.8	470.7	(38)	(40)
Total	\$ 3,411.9	\$ 3,753.5	(9)%	(9)%
<i>Franchised revenues</i>				
U.S.	\$ 1,093.4	\$ 1,053.5	4 %	4 %
International Lead Markets	702.3	676.9	4	7
High Growth Markets	191.9	177.4	8	11
Foundational Markets & Corporate	276.4	242.6	14	16
Total	\$ 2,264.0	\$ 2,150.4	5 %	7 %
<i>Total revenues</i>				
U.S.	\$ 1,929.0	\$ 2,019.9	(5)%	(5)%
International Lead Markets	1,643.5	1,728.5	(5)	(1)
High Growth Markets	1,537.2	1,442.2	7	5
Foundational Markets & Corporate	566.2	713.3	(21)	(21)
Total	\$ 5,675.9	\$ 5,903.9	(4)%	(3)%

- **Revenues:** Revenues decreased 4% (3% in constant currencies) for the quarter due to the impact of refranchising, partly offset by strong comparable sales.
 - **U.S.:** Revenues decreased due to the impact of refranchising, partly offset by positive comparable sales.
 - **International Lead Markets:** Revenues decreased due to the impact of refranchising, mostly offset by strong comparable sales growth in the U.K. and Canada.
 - **High Growth Markets:** Revenues increased due to positive comparable sales across all markets and expansion in China, partly offset by the impact of refranchising.

Comparable Sales and Guest Counts

The following table presents the percent change in comparable sales for the quarters ended March 31, 2017 and 2016:

COMPARABLE SALES

Quarters Ended March 31,	Increase/ (Decrease)	
	2017	2016
U.S.	1.7%	5.4%
International Lead Markets	2.8	5.2
High Growth Markets	3.8	3.6
Foundational Markets & Corporate	10.7	11.0
Total	4.0%	6.2%

On a consolidated basis, comparable guest counts (the number of transactions at all restaurants, whether operated by the Company or by franchisees, in operation at least thirteen months, including those temporarily closed) increased 0.6% and 1.8% for the quarters ended 2017 and 2016, respectively.

Systemwide Sales and Franchised Sales

The following table presents the percent change in Systemwide sales for the quarter ended March 31, 2017:

SYSTEMWIDE SALES

Quarter Ended March 31, 2017	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	2%	2%
International Lead Markets	1	4
High Growth Markets	8	8
Foundational Markets & Corporate	11	12
Total	4%	5%

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 March 31,	2017	2016	Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
U.S.	\$ 7,979.2	\$ 7,710.0	3%	3%
International Lead Markets	4,042.9	3,905.2	4	6
High Growth Markets	1,237.1	1,124.8	10	13
Foundational Markets & Corporate	3,999.3	3,376.1	18	20
Total*	\$ 17,258.5	\$ 16,116.1	7%	8%

* Sales from developmental licensed restaurants and foreign affiliated markets where the Company earns a royalty based on a percent of sales totaled \$3,732.0 million and \$3,061.8 million for the quarters 2017 and 2016, respectively. Results reflected very strong performance in Japan and positive performance across many markets. The remaining balance of franchised sales is derived from conventional franchised restaurants where the Company earns rent and royalties based primarily on a percent of sales.

Restaurant Margins

FRANCHISED AND COMPANY-OPERATED RESTAURANT MARGINS

Dollars in millions

Quarters Ended March 31,	Percent		Amount		Inc/ (Dec)	Inc/ (Dec) Excluding Currency Translation
	2017	2016	2017	2016		
<i>Franchised</i>						
U.S.	81.6%	82.1%	\$ 891.9	\$ 865.3	3 %	3 %
International Lead Markets	79.5	79.1	558.1	535.4	4	7
High Growth Markets	69.4	68.2	133.1	120.9	10	13
Foundational Markets & Corporate	90.7	88.1	250.8	213.7	17	20
Total	81.0%	80.7%	\$1,833.9	\$1,735.3	6 %	7 %
<i>Company-operated</i>						
U.S.	15.3%	14.2%	\$ 128.1	\$ 136.8	(6)%	(6)%
International Lead Markets	20.1	19.7	189.0	207.6	(9)	(4)
High Growth Markets	17.1	13.4	230.3	169.4	36	36
Foundational Markets & Corporate	16.6	13.7	48.1	64.4	(25)	(27)
Total	17.5%	15.4%	\$ 595.5	\$ 578.2	3 %	5 %

- Franchised:** Franchised margin dollars increased \$98.6 million or 6% (7% in constant currencies) for the quarter. The quarter benefited from expansion and the impact of refranchising, as well as strong comparable sales performance.
 - U.S.:** The decrease in the franchised margin percent was due to higher occupancy costs, partly offset by positive comparable sales.
 - International Lead Markets:** The increase in the franchised margin percent reflected the benefit from positive comparable sales performance.
 - High Growth Markets:** The increase in the franchised margin percent was due to the impact of refranchising and strong comparable sales performance, partly offset by higher occupancy costs.
- Company-operated:** Company-operated margin dollars increased \$17.3 million or 3% (5% in constant currencies) for the quarter. The quarter benefited by approximately \$42 million due to ceasing depreciation on assets considered Held for Sale, primarily in China and Hong Kong. The Company expects a similar benefit at least through the second quarter.
 - U.S.:** The increase in the Company-operated margin percent was due to a higher average check mostly driven by promotional activity in the quarter, partly offset by higher labor and occupancy costs.
 - International Lead Markets:** The increase in the Company-operated margin percent was primarily due to positive comparable sales, partly offset by higher labor and occupancy costs.
 - High Growth Markets:** The increase in the Company-operated margin percent was due to positive comparable sales and improved restaurant profitability, which benefited from the lower depreciation in China and Hong Kong, and prior year VAT reform in China. This increase was partly offset by higher labor costs.

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 March 31,	2017	2016
Food & paper	31.9%	32.6%
Payroll & employee benefits	27.8	27.7
Occupancy & other operating expenses	22.8	24.3
Total expenses	82.5%	84.6%
Company-operated margins	17.5%	15.4%

Selling, General & Administrative Expenses

- Selling, general and administrative expenses decreased \$56.7 million or 10% (9% in constant currencies) for the quarter. The decrease was primarily due to lower employee-related costs resulting from the Company's ongoing G&A initiatives.
- Selling, general and administrative expenses as a percent of Systemwide sales decreased to 2.5% for 2017 compared with 2.9% for 2016.

Other Operating (Income) Expense, Net

OTHER OPERATING (INCOME) EXPENSE, NET

Dollars in millions

Quarters Ended March 31,	2017	2016
Gains on sales of restaurant businesses	\$ (60.0)	\$ (59.6)
Equity in (earnings) losses of unconsolidated affiliates	(40.9)	3.7
Asset dispositions and other (income) expense, net	(24.5)	9.9
Impairment and other charges (gains), net	(0.5)	1.2
Total	\$(125.9)	\$ (44.8)

- Equity in earnings of unconsolidated affiliates increased mainly due to improved performance in Japan.
- The change in asset dispositions and other income was primarily due to a gain from the strategic sale of a restaurant property in the U.S. in 2017.

Operating Income

OPERATING INCOME

Dollars in millions

Quarters Ended March 31,	2017	2016	Inc/ (Dec)	Increase Excluding Currency Translation
U.S.	\$ 947.9	\$ 840.2	13%	13%
International Lead Markets	666.6	654.2	2	6
High Growth Markets	300.7	220.9	36	38
Foundational Markets & Corporate	118.8	65.0	83	89
Total	\$2,034.0	\$ 1,780.3	14%	16%

- Operating Income:** Operating income increased \$253.7 million or 14% (16% in constant currencies) for the quarter.
 - U.S.:** The increase in operating income reflected G&A savings resulting from the Company's recent restructuring initiatives, a gain from the strategic sale of a restaurant property and higher franchised margin dollars.
 - International Lead Markets:** The constant currency operating income increase for the quarter was primarily due to sales-driven improvements in franchised margin dollars across most markets.
 - High Growth Markets:** The constant currency operating income increase was driven by improved restaurant profitability in China and sales-driven performance across the segment. The quarter included a benefit of approximately \$40 million due to the depreciation benefit in China and Hong Kong.
 - Foundational Markets & Corporate:** The constant currency operating income increase reflected sales-driven improvements in franchised margin dollars across most markets and Japan's improved performance.
- Operating Margin:** Operating margin is defined as operating income as a percent of total revenues. Operating margin was 35.8% and 30.2% for the quarters ended 2017 and 2016, respectively.

Interest Expense

- Interest expense was relatively flat for the quarter primarily reflecting higher average debt balances in connection with the Company's strategy to optimize its capital structure, offset by lower average interest rates.

Nonoperating (Income) Expense, Net

NONOPERATING (INCOME) EXPENSE, NET

Dollars in millions

Quarters Ended March 31,	2017	2016
Interest income	\$ 1.8	\$ (3.8)
Foreign currency and hedging activity	(1.9)	(12.1)
Other (income) expense, net	8.0	1.5
Total	\$ 7.9	\$ (14.4)

Income Taxes

- The effective income tax rate was 32.8% and 28.7% for the quarters ended 2017 and 2016, respectively. The higher effective income tax rate in 2017 was primarily due to changes in tax reserves resulting from audit progression, as well as current year tax costs associated with the Company's refranchising initiatives.

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 \$1.5 billion and exceeded capital expenditures by \$1.1 billion for the first quarter 2017. Cash provided by operations decreased \$201 million compared with the first quarter 2016, primarily due to changes in working capital, including higher incentive-based compensation and income tax payments, partly offset by improved operating results.

Cash provided by investing activities totaled \$138 million for the first quarter 2017, an increase of \$394 million compared with the first quarter 2016, primarily due to proceeds associated with the sale of the Company's existing businesses in the Nordics.

Cash used for financing activities totaled \$0.6 billion for the first quarter 2017, a decrease of \$5.4 billion compared with the first quarter 2016, primarily due to lower treasury stock purchases and an increase in net borrowings.

Debt obligations at March 31, 2017 totaled \$27.2 billion compared with \$26.0 billion at December 31, 2016. The increase was primarily due to net debt issuances.

Recently Issued Accounting Standards

Recently issued accounting standards are discussed in Part I, Item 1, page 9 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” 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, we must pursue business strategies that are 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 through the modernization of our existing restaurants, 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.

Activities relating to our refranchising and cost savings initiatives remain ongoing and entail various risks, including the risk that they may not be successful in achieving improved performance.

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 ability to complete pending transactions with 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. 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.

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 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 and consumer preferences (such as food offerings and methods to order and pay) 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.

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 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. Recognizing these dependencies, we have intensified our focus in recent periods on strategies to achieve these goals, and we will likely continue to modify our strategies and implement new strategies in the future. 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 or 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 evolves. 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, yet we have limited influence over their operations. 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 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 effort will increase that dependence and the effect of those factors.

Our success also increasingly depends on the willingness and ability of our independent franchisees 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 or by the creditworthiness of our franchisees or the Company. 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. If franchisees do not successfully operate restaurants in a manner consistent with our required standards, the 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 shift to a greater percentage of franchised restaurants, in a timely manner or at all, will depend on various factors. Those factors include our ability to timely and effectively select franchisees and/or licensees that meet our rigorous standards, to complete transactions on favorable terms, to achieve any needed regulatory approvals for those transactions and to manage associated risks. It will also depend on the performance of our franchisees, and whether the resulting ownership mix supports our 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 interrupt our operations.

We are increasingly reliant on technological systems, such as point-of-sale and other in-store systems or platforms, as well as technologies that facilitate communication and collaboration internally, with affiliated entities, customers or with independent third parties to conduct our business, including technology-enabled solutions 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. The third party solutions also present the risks faced by the third party's business, including the credit risk of those parties. If those systems or solutions 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 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 and employees as well as financial, proprietary and other confidential information related to our business. An actual or alleged security breach could result in system disruptions, shutdowns, theft or unauthorized disclosure of 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, 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 has 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 United States 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 to the extent that corporate tax reform becomes a key component of budgetary initiatives in the United States or elsewhere. We are also impacted by settlements of pending or any future adjustments proposed by taxing 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 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, supply, fuel, utilities and distribution, and other operating costs, including labor. Any volatility in certain commodity prices 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 we collect and share when we provide optional technology-related services and platforms to 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 United States and certain foreign jurisdictions. The trademarks that we currently use have not been registered in all of the countries outside of the United States 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 United States 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 continuing unpredictable 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 United States, 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, 2016 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 March 31, 2017. 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 transition of some transaction-processing activities related to certain accounting processes with a third-party service provider is ongoing. The Company commenced this transition in the ordinary course to increase efficiency and was not in response to any identified deficiency or weakness in the Company's internal control over financial reporting. Over time, this initiative is expected to continue to enhance the Company's internal control over financial reporting, but in the short-term may increase the Company's risk. There has been no change in the Company's internal control over financial reporting during the most recent fiscal quarter 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, 2016 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.”

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 three months ended March 31, 2017:

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⁾
January 1-31, 2017	868,876	\$ 120.88	868,876	\$ 3,753,539,593
February 1-28, 2017	146,115	125.75	146,115	3,735,165,174
March 1-31, 2017	5,236,643	128.39	5,236,643	3,062,838,262
Total	6,251,634	\$ 127.28	6,251,634	

* 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 December 3, 2015, the Company’s Board of Directors approved a share repurchase program, effective January 1, 2016, that authorizes the purchase of up to \$15 billion of the Company’s outstanding common stock with no specified expiration date.

Item 6. Exhibits

Exhibit Number	Description
(3)	<ul style="list-style-type: none"> (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)	<p>Instruments defining the rights of security holders, including Indentures:*</p> <ul style="list-style-type: none"> (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)	<p>Material Contracts</p> <ul style="list-style-type: none"> (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.** <ul style="list-style-type: none"> (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.** <ul style="list-style-type: none"> (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) McDonald's Corporation Cash Performance Unit Plan, effective February 13, 2013, incorporated herein by reference from Exhibit 10(k) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2013.** (i) 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.** (j) Form of 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.** (k) 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.** <ul style="list-style-type: none"> (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.**
(l)	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.**
(m)	Form of 2015 Executive Performance-Based Restricted Stock Unit Award Agreement in connection with the 2012 Omnibus Stock Ownership Plan, incorporated herein by reference from Exhibit 10(aa) of Form 10-Q (File No. 001-05231), for the quarter ended March 31, 2015.**
(n)	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.**
(o)	Form of Executive Confidentiality, Intellectual Property and Restrictive Covenant Agreement, 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.
(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

May 8, 2017

**CONFIDENTIALITY, INTELLECTUAL PROPERTY & RESTRICTIVE COVENANT
AGREEMENT**

THIS AGREEMENT is made by and between _____ (hereinafter “Executive”) and McDonald's Corporation, a Delaware corporation, on its own behalf and on behalf of its subsidiaries and its affiliates (defined as all entities controlled by, under common control with, or controlling McDonald's Corporation) as may exist from time to time (collectively hereinafter “McDonald's”), and shall be effective as of the date signed by the Executive (the “Effective Date”).

WHEREAS,

A. McDonald's competes in the business of operating and franchising quick-service, ready-to-eat restaurants on an international basis and has invested substantial time, money and other resources in building and maintaining its reputation and its brand and has developed favorable goodwill with customers, franchisees, manufacturers, vendors and suppliers and with the business community that has substantial proprietary value to McDonald's, and McDonald's wishes to safeguard this goodwill and proprietary value. Executive acknowledges that McDonald's has highly valuable, long-term and near permanent relationships with certain customers, franchisees, manufacturers, vendors, suppliers, key employees and service organizations; that the preservation of these relationships is a legitimate, protectable interest and is of critical importance to the continued business success of McDonald's and its brand; that it is the policy of McDonald's to safeguard as confidential the identity and special needs of certain customers, franchisees, manufacturers, vendors, suppliers, key employees and service organizations; and that Executive, by virtue of his/her position with McDonald's, had, have and will continue to have access to these customers, franchisees, manufacturers, vendors, suppliers, key employees and service organizations. Executive acknowledges that during the course of Executive's employment, Executive has formulated, established or otherwise had access to and knowledge of (or will formulate, establish or have access to and knowledge of) Confidential Information, proprietary information and trade secrets relating to McDonald's business as defined in this Agreement. Executive acknowledges that McDonald's has a compelling business need and interest in preventing release or disclosure of its Confidential Information, proprietary information, and trade secret information as defined in this Agreement.

B. In exchange and as consideration for the promises and obligations contained herein, Executive will receive a 2017 annual grant of stock options and performance-based restricted stock units under the McDonald's Corporation 2012 Omnibus Stock Ownership Plan.

NOW, THEREFORE, for valuable consideration, the sufficiency and adequacy of which is hereby acknowledged, McDonald's and Executive agree as follows:

1) Covenant to Preserve Confidential Information. At all times during the term of Executive's employment with McDonald's and continuing at all times after the termination of Executive's employment with McDonald's for any reason, whether with or without cause, at the option of McDonald's or Executive, with or without notice, Executive agrees and covenants that (A) Executive will hold in strict confidence and will not use, disclose, communicate, or distribute, to any person(s), firm or corporation, any Confidential Information (as defined herein), except as may be authorized and required in connection with Executive's work for McDonald's, unless Executive is compelled to do so by judicial process, or unless the General Counsel of McDonald's expressly authorizes such in writing. Executive understands and agrees that any unauthorized use of Confidential Information by Executive or by any party receiving such information through Executive shall be deemed a material breach of this agreement; (B) Executive will not take, but will leave with McDonald's, all records (including electronic data) and papers and all other items of whatever nature that contain Confidential Information; and (C) Executive will not write, confirm or otherwise communicate or publish to any person or entity any of McDonald's trade secrets, proprietary information or Confidential Information, including, without limitation while using social media (e.g., blogging, tweeting, and postings on social networking sites).

For purposes of this Agreement, "Confidential Information" means all non-public information that is not generally known in the trade or industry and that is valuable to McDonald's and that is disclosed by McDonald's or by its affiliates to Executive or obtained by or imparted to Executive through Executive's employment with McDonald's (whether prepared by McDonald's or its agents or advisors) in oral, electronic, tangible or intangible form, concerning the processes, products, services, technology, or business of McDonald's, that is either identified by McDonald's as being confidential, or that would be understood by a person in Executive's position, exercising reasonable business judgment, to be confidential. Confidential Information includes, but is not limited to, (i) trade secrets and proprietary information as defined in this Agreement; (ii) special information about relationships and distributors, vendors, suppliers, manufacturers, franchisees, employees and customers, (iii) special and confidential knowledge about McDonald's relating to pricing, business and financial affairs, advertising, marketing, sales, expansion plans, new store sites and strategies for McDonald's business, including various technical items and equipment used or contemplated for use in McDonald's business; and (iv) any information McDonald's has received, and in the future may receive, from third parties for which McDonald's may owe a duty to maintain confidentiality or to use solely for limited purposes. For purposes of this Agreement, the terms "trade secrets" and "proprietary information" include processes, methods, recipes, techniques, systems, formulae, patents, models, devices, compilations, customer lists, financial information, development plans, supplier lists and any information of whatever nature that gives McDonald's an opportunity

to obtain an advantage over competitors who do not know or use such information or data or any information that would be harmful to McDonald's if disclosed. Confidential Information does not include general knowledge in the industry in which McDonald's is engaged, information or materials disseminated to the general public by McDonald's, and/or information that becomes public through no wrongful act or omission by Executive or by any other person.

Nothing herein prohibits Executive 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. Executive does not need the prior authorization or approval from McDonald's and is not required to notify McDonald's before making any such reports or disclosures. In addition, the Executive shall not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that is made (i) in confidence either directly or indirectly to a federal, state, or local government official, or to an attorney, solely for the purpose of reporting or investigating a violation of law or (ii) in a complaint, or other document filed in a lawsuit or other proceeding, if such filing is made under seal. This Section will govern to the extent it may conflict with any other provision of this Agreement.

2) Covenant Not To Compete. At all times during Executive's employment with McDonald's and for a period of eighteen (18) months following Executive's termination for any reason, whether with or without cause, at the option of McDonald's or Executive, and/or with or without notice, Executive agrees and covenants that: (A) Executive shall not either directly or indirectly, alone or in conjunction with any other party or entity, perform any services, work or consulting for one or more Competitive Companies anywhere in the world. "Competitive Companies" shall mean any company in the ready-to-eat restaurant industry that competes with the business of McDonald's, including any business in which McDonald's engaged during the term of Executive's employment and any business that McDonald's was actively considering conducting at the time of the Executive's termination of employment. Examples of Competitive Companies include, but are not limited to: YUM Brands, Inc. (including but not limited to Taco Bell, Pizza Hut and Kentucky Fried Chicken and all of YUM Brands, Inc.'s subsidiaries), Quick Service Restaurant Holdings (and all of its brands and subsidiaries), Burger King/Hungry Jacks, Wendy's, Culver's, In-N-Out Burger, Sonic, Hardee's, Checker's, Arby's, Long John Silver's, Jack-in-the-Box, Popeye's Chicken, Chick-fil-A, Domino's Pizza, Chipotle, Q-doba, Panera Bread, Papa John's, Potbelly, Subway, Quiznos, Dunkin' Brands, Seven-Eleven, Tim Horton's, Starbucks, Jamba Juice, BoJangle's, WaWa, Five Guys, Denny's and their respective organizations, partnerships, ventures, sister companies, franchisees, affiliates or any organization in which they have an interest and which are involved in the ready-to-eat restaurant industry anywhere in the world, or which otherwise compete with McDonald's. Executive agrees to consult with the Executive Vice President of Human

Resources, or his/her successor, for clarification as to whether or not McDonald's views a prospective employer, consulting client or other business relationship of the Executive in the ready-to-eat industry not listed above as a Competitive Company; and (B) Executive shall not perform or provide, or assist any third party in performing or providing, Competitive Services anywhere in the world, whether directly or indirectly, as an employer, officer, director, owner, employee, partner or otherwise, of any person, entity, business, or enterprise. For the purposes of this restriction, "Competitive Services" means the design, development, manufacture, marketing or sale of a product, product line or service that competes with any product, product line or service of McDonald's as they presently exist or as may be in existence or development on Executive's termination date.

Executive acknowledges and agrees that, in performing services for McDonald's, Executive is being placed in a position of trust with McDonald's and that, because of the nature of the services to be provided by such Executive to McDonald's, Confidential Information will become engrained in such Executive, so much so that the Executive would inevitably or inadvertently disclose such information in the event the Executive were to provide similar services to a competitor of McDonald's. Executive agrees that he/she will notify McDonald's prior to engaging in any way with a competitor of McDonald's, and Executive further acknowledges and agrees that McDonald's may contact the subsequent employer and reveal the terms of this Agreement. This Section is not meant to prevent Executive from earning a living or fostering Executive's career, but rather to prevent any competitive business from gaining any unfair advantage from Executive's knowledge of Confidential Information, trade secrets and/or proprietary information.

3) Covenant Not To Solicit Employees & Interfere With Business Relationships. At all times during Executive's employment with McDonald's and for a period of two (2) years following Executive's termination for any reason, whether with or without cause, at the option of McDonald's or Executive, and/or with or without notice, Executive agrees and covenants that Executive will not, on Executive's own behalf or on behalf of any other person or entity (A) directly or indirectly, solicit for employment or assist in the solicitation of any "salaried" employee of McDonald's, whether employed at the corporate office or in the field (including at McDonald's restaurants); (B) provide to any prospective employer the identities of any of McDonald's "salaried" employees; (C) assist any of McDonald's "salaried" employees in obtaining employment with the Executive's new employer through the dissemination of resumes or otherwise; (D) release names of any McDonald's "salaried" employees to recruiters, headhunters or employment agencies and (E) directly or indirectly entice or induce any vendor, supplier, manufacturer, franchisee, consultant, independent contractor, service provider, or partner of McDonald's to reduce, divert or curtail its relationship with McDonald's. If, at any time during this two (2) year period, Executive contemplates extending an offer of employment, either directly or indirectly, to a McDonald's "salaried" employee, Executive agrees to contact the Executive Vice President of Human Resources, or his/her successor, for approval before extending such an offer.

4) Assignment of Intellectual Property. At all times during the term of Executive's employment with McDonald's and continuing at all times after the termination of Executive's employment with McDonald's for any reason, whether with or without cause, at the option of McDonald's or Executive, with or without notice, Executive agrees and covenants that Executive shall make prompt full written disclosure to McDonald's and hold in trust for the sole right, benefit, and use of McDonald's: any ideas, inventions, innovations, discoveries, improvements, developments, methods, designs, analyses, drawings, recipes, reports and all similar or related information, whether or not patentable, and any works of authorship, whether or not copyrightable, (collectively "Inventions"), that originate with Executive in whole or in part during the period of Executive's employment. Executive agrees and acknowledges that any and all Inventions shall remain the exclusive property of McDonald's. Executive hereby expressly and fully assigns to McDonald's exclusive right, title and interest to all Inventions that originate with Executive in whole or in part during the period of Executive's employment, whether written or not, and whether or not patentable or eligible for protection under copyright law, and fully waive any claims or rights Executive may have therein. Executive agrees to assist McDonald's, at McDonald's expense, in perfecting such transfer or assignment by taking all necessary actions and executing all documents as may be required. Executive understands that the foregoing shall not apply to Inventions (a) developed on Executive's own time, (b) without the use of Confidential Information, proprietary information and/or trade secrets or without McDonald's supplies, equipment, facilities, or property, and (c) that are not based on any work performed for McDonald's or related in any way to McDonald's business or actual or demonstrably anticipated research or development. Any assignment to McDonald's of Inventions includes all rights of attribution, paternity, integrity, modification, disclosure and withdrawal, and any other rights throughout the world that may be known as or referred to as "moral rights," "artist's rights," "droit moral," or the like (collectively, "Moral Rights"). To the extent that Moral Rights cannot be assigned under applicable law, Executive hereby waives and agrees not to enforce any and all Moral Rights, including, without limitation, any right to identification of authorship or limitation on subsequent modification that Executive may have in the assigned Inventions. Executive further acknowledges that all original works of authorship that are made by him/her (solely or jointly with others) within the scope of and during the period of employment with McDonald's and which are protectable by copyright are "works made for hire", as that term is defined in the United States Copyright Act (17 USC §101) or under any similar concept other applicable copyright law (to the extent U.S. copyright law does not apply). The Executive's obligations under this Section shall continue after Executive's employment with McDonald's is terminated, regardless of the nature or reason for such termination. The provisions of this Section shall be binding upon the Executive and the Executive's heirs, executors and administrators.

5) Remedy for Breach. Executive acknowledges and agrees that Executive's breach of this Agreement would cause McDonald's irreparable harm for which there is no adequate remedy at law. Accordingly, in the event of any threatened or actual breach of this Agreement, McDonald's

shall be entitled, in addition to any and all other remedies available at law (including without limitation recovery of damages), to enforce this Agreement by injunctive relief and by any other appropriate equitable relief in a court of competent jurisdiction. The Executive hereby consents to the issuance of injunctive relief and agrees that McDonald's will neither be required to provide a bond or other security as a condition for such relief nor will have any liability if the relief is denied, modified, or vacated. Neither the right to obtain such relief nor the obtaining of that relief shall preclude McDonald's from any other remedy or relief, whether at law, in equity, or otherwise, including an award of damages. The Executive agrees that the duration of the restrictions in this Agreement will be extended by the amount of time in which the Executive is in violation of any of the restrictive covenants in this Agreement. Should Executive breach this Agreement, Executive agrees to indemnify McDonald's for all damages incurred to enforce it, including attorney fees. The right of either party to require strict performance by the other shall not be affected by any previous waiver, forbearance, or course of dealing.

6) Reformation. Executive acknowledges and agrees that should a court of competent jurisdiction find the period of time of any restrictive covenant and/or the scope for any restrictive covenant contained herein as it applies to Executive to be unreasonably broad and/or unduly restrictive, Executive agrees that the court shall have the authority to determine what is reasonable, and Executive shall abide by the court's determination and the restrictions set by the court as though the same were originally incorporated herein.

7) Return of Property. Upon termination of Executive's employment, for any reason, whether with or without cause, at the option of McDonald's or Executive, with or without notice, Executive agrees to deliver to McDonald's all documents, records, notebooks, computers, computer media and devices, phones, customer lists, price lists, advertising and promotional materials, contracts, and other data, containing Confidential Information, trade secrets, proprietary information or in any way relating to McDonald's business and affairs, and all copies of the same, whether made by Executive or otherwise having come into Executive's possession.

8) Validity of Covenants. Executive agrees that the covenants contained in this Agreement are reasonably necessary to protect the legitimate interests of McDonald's, are reasonable with respect to time, scope, and geography, and do not interfere with the interests of the public. Executive acknowledges that McDonald's is a global company and that Executive has been provided access to Confidential Information, proprietary information and/or trade secrets about McDonald's operations. Executive further acknowledges that the responsibilities of certain McDonald's employees, including, without limitation, those of the Executive and of other senior leaders of McDonald's are inherently global in scope and that Executive, along with other senior leaders, present a serious post-termination global competitive threat to McDonald's regardless of their current location and job responsibilities. Executive further agrees that the descriptions of the covenants contained

in this Agreement are sufficiently accurate and definite to inform Executive of the scope of the covenants.

9) Controlling Law. This Agreement shall be governed by, construed, and enforced according to the laws of Illinois, without regard to principles of conflicts of law. The parties further agree that any action brought to enforce any right or obligation under this Agreement or any action arising out of or relating to Executive's threatened or actual breach of this Agreement shall be subject to the exclusive jurisdiction of the courts located within the geographic boundary of the Eastern Division of the United States District Court for the Northern District of Illinois. Each Party consents to the jurisdiction and venue of such courts and waives any right to object to such jurisdiction and venue.

10) Assignment. This Agreement may be assigned by McDonald's to a successor entity in the event of a merger or consolidation of McDonald's or in connection with a sale of all or substantially all of McDonald's business or assets. Executive may not assign his obligations under this Agreement.

11) Severability. Each provision of this Agreement shall be considered separable. If for any reason any provision is determined to be invalid, such invalidity shall not impair or otherwise affect the validity of the other provisions of this Agreement.

12) Entire Agreement. This Agreement constitutes the entire agreement between the parties regarding the subject matter herein and supersedes any previous non-competition and non-solicitation covenants between Executive and McDonald's. This Agreement does not impair, diminish, or waive any other nondisclosure obligation or confidentiality obligation of the Executive to the Company under any other agreement, policy, plan or program of McDonald's. This Agreement may not be amended or terminated except in writing executed by both parties hereto.

13) Waiver. The failure of McDonald's to insist upon strict adherence to any term of this Agreement (or similar agreements with other McDonald's employees) on any occasion shall not be considered a waiver thereof or deprive McDonald's of the right thereafter to insist upon strict adherence to that term or any other term of this Agreement.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the parties have signed and delivered this Agreement on the respective dates shown below.

Executive Signature

Date

Print Name

McDonald's Corporation

By: _____

Date

Print Name

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

	Three Months Ended March 31,		Years Ended December 31,				
	2017	2016	2016	2015	2014	2013	2012
Earnings available for fixed charges							
- Income before provision for income taxes	\$1,807.5	\$1,576.4	\$6,866.0	\$6,555.7	\$7,372.0	\$8,204.5	\$8,079.0
- Noncontrolling interest expense in operating results of majority-owned subsidiaries less equity in undistributed operating results of less than 50%-owned affiliates	4.1	3.9	12.5	7.3	6.3	9.0	11.1
- Income tax provision (benefit) of 50%-owned affiliates included in income from continuing operations before provision for income taxes	6.6	(0.1)	3.3	3.7	(0.1)	23.8	64.0
- Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	76.4	87.3	342.6	365.1	374.6	374.6	358.1
- Interest expense, amortization of debt discount and issuance costs, and depreciation of capitalized interest*	222.9	226.1	904.8	660.4	596.1	548.9	550.1
	<u>\$2,117.5</u>	<u>\$1,893.6</u>	<u>\$8,129.2</u>	<u>\$7,592.2</u>	<u>\$8,348.9</u>	<u>\$9,160.8</u>	<u>\$9,062.3</u>
Fixed charges							
- Portion of rent charges (after reduction for rental income from subleased properties) considered to be representative of interest factors*	\$ 76.4	\$ 87.3	\$ 342.6	\$ 365.1	\$ 374.6	\$ 374.6	\$ 358.1
- Interest expense, amortization of debt discount and issuance costs*	219.3	221.9	888.2	643.7	579.8	532.1	532.8
- Capitalized interest*	1.0	1.6	7.1	9.4	14.8	15.6	16.1
	<u>\$ 296.7</u>	<u>\$ 310.8</u>	<u>\$1,237.9</u>	<u>\$1,018.2</u>	<u>\$ 969.2</u>	<u>\$ 922.3</u>	<u>\$ 907.0</u>
Ratio of earnings to fixed charges	<u>7.14</u>	<u>6.09</u>	<u>6.57</u>	<u>7.46</u>	<u>8.61</u>	<u>9.93</u>	<u>9.99</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: May 8, 2017

/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: May 8, 2017

/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 March 31, 2017 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: May 8, 2017

/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 March 31, 2017 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: May 8, 2017

/s/ Kevin M. Ozan

Kevin M. Ozan

*Corporate Executive Vice President and
Chief Financial Officer*