MCDONALDS CORP
Form 10-K
February 24, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
or
£ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File Number 1-5231

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

Delaware (State or other jurisdiction of incorporation or organization)	36-2361282 (I.R.S. Employer Identification No.)
One McDonald's Plaza Oak Brook, Illinois (Address of principal executive offices)	60523 (Zip code)

Registrant's telephone number, including area code: (630) 623-3000

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

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

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

None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes T No £
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes £ No T
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 T 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such

files). Yes T No ¨

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

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

(Check one):

Large accelerated filer T   Accelerated filer ¨

Non-accelerated filer ¨ (do not check if a smaller reporting company)   Smaller reporting company ¨

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

The aggregate market value of common stock held by non-affiliates of the registrant as of June 30, 2013 was $98,932,168,368.

The number of shares outstanding of the registrant's common stock as of January 31, 2014 was 989,881,374.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of this Form 10-K incorporates information by reference from the registrant's 2014 definitive proxy statement which will be filed no later than 120 days after December 31, 2013

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PART I

ITEM 1. Business

McDonald's Corporation, the registrant, together with its sub-sidiaries, is referred to herein as the "Company."
a. General development of business
During 2013, there were no material changes to the Company's corporate structure or in its method of conducting business. In 2013, the Company continued the process it began in 2005 to realign certain subsidiaries to develop a corporate structure within its geographic segments that better reflects the operation of the McDonald's worldwide business.
b. Financial information about segments
Segment data for the years ended December 31, 2013, 2012, and 2011 are included in Part II, Item 8, page 39 of this Form 10-K.
c. Narrative description of business
General
The Company franchises and operates McDonald's restaurants in the global restaurant industry. These restaurants serve a broad menu (see Products) at various price points in more than 100 countries around the world.
All restaurants are operated either by the Company or by franchisees, including conventional franchisees under franchise arrangements, and developmental licensees and foreign affiliated markets under license agreements.
The Company's operations are designed to assure consistency and high quality at every restaurant. When granting franchises or licenses, the Company is selective and generally is not in the practice of franchising to passive investors.
Under the conventional franchise arrangement, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and décor of their restaurant businesses, and by reinvesting in the business over time. The Company owns the land and building or secures long-term leases for both Company-operated and conventional franchised restaurant sites. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. A discussion regarding site selection is included in Part I, Item 2, page 6 of this Form 10-K.
Conventional franchisees contribute to the Company's revenue stream through the payment of rent and royalties based upon a percent of sales, with specified minimum rent payments, along with initial fees received upon the opening of a new restaurant or the granting of a new franchise term. The conventional franchise arrangement typically lasts 20 years, and franchising practices are generally consistent throughout the world. Over 70% of franchised restaurants operate under conventional franchise arrangements.
Under a developmental license arrangement, licensees provide capital for the entire business, including the real estate interest. While the Company has no capital invested, it receives a royalty based on a percent of sales, as well as initial fees. The largest of these developmental license arrangements operates nearly 2,100 restaurants across 19 countries in Latin America and the Caribbean.
The Company has an equity investment in a limited number of foreign affiliated markets, referred to as "affiliates." The largest of these affiliates is Japan, where there are nearly 3,200 restaurants. The Company receives a royalty based on a percent of sales in these markets and records its share of net results in Equity in earnings of unconsolidated affiliates.

The Company and its franchisees purchase food, packaging, equipment and other goods from numerous independent suppliers. The Company has established and strictly enforces high quality standards and product specifications. The Company has quality centers around the world to ensure that its high standards are consistently met. The quality assurance process not only involves ongoing product reviews, but also on-site supplier visits. A quality leadership board, composed of the Company's technical, safety and supply chain specialists, provides strategic global leadership for all aspects of food quality and safety. In addition, the Company works closely with suppliers to encourage innovation, assure best practices and drive continuous improvement. Leveraging scale, supply chain infrastructure and risk management strategies, the Company also collaborates with suppliers toward a goal of achieving competitive, predictable food and paper costs over the long term.

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

McDonald’s global brand is well known. Marketing, promotional and public relations activities are designed to promote McDonald’s brand image and differentiate the Company from competitors. Marketing and promotional efforts focus on value, food taste, menu choice, nutrition, convenience and the customer experience. The Company continuously endeavors to improve its social responsibility and environmental practices to achieve long-term sustainability, which benefits McDonald’s and the communities it serves.

Products

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

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

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

Intellectual property

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

Seasonal operations

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

Working capital practices

Information about the Company’s working capital practices is incorporated herein by reference to Management’s discussion and analysis of financial condition and results of operations for the years ended December 31, 2013, 2012, and 2011 in Part II, Item 7, pages 10 through 25, and the Consolidated statement of cash flows for the years ended December 31, 2013, 2012, and 2011 in Part II, Item 8, page 29 of this Form 10-K.

Customers

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

Backlog

Company-operated restaurants have no backlog orders.

Government contracts

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

Competition

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

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

Based on data from Euromonitor International, the global IEO segment was composed of approximately 8 million outlets and generated $1.2 trillion in annual sales in 2012, the most recent year for which data is available. McDonald's Systemwide 2012 restaurant business accounted for 0.4% of those outlets and about 8% of the sales.

Management also on occasion benchmarks McDonald's against the entire restaurant industry, including the IEO segment defined above and all other full-service restaurants. Based on data from Euromonitor International, the restaurant industry was composed of approximately 16 million outlets and generated $2.3 trillion in annual sales in 2012. McDonald's Systemwide restaurant business accounted for 0.2% of those outlets and about 4% of the sales.

Research and development

The Company operates research and development facilities in the U.S., Europe and Asia. While research and development activities are important to the Company's business, these expenditures are not material. Independent suppliers also conduct research activities that benefit the Company, its franchisees and suppliers (collectively referred to as the "System").

Environmental matters

Increased focus by U.S. and overseas governmental authorities on environmental matters is likely to lead to new governmental initiatives, particularly in the area of climate change. While we cannot predict the precise nature of these initiatives, we expect that they may impact our business both directly and indirectly.

Although the impact would likely vary by world region and/or market, we believe that adoption of new regulations may increase costs, including for the Company, its franchisees and suppliers. Also, there is a possibility that governmental initiatives, or actual or perceived effects of changes in weather patterns or climate, could have a direct impact on the operations of our restaurants or the operations of our suppliers in ways which we cannot predict at this time.

The Company monitors developments related to environmental matters and plans to respond to governmental initiatives in a timely and appropriate manner. At this time, the Company has already begun to undertake its own initiatives relating to preservation of the environment, including the implementation of more energy efficient equipment and management of energy use, in many of its markets.

Number of employees

The Company's number of employees worldwide, including Company-operated restaurant employees, was approximately 440,000 as of year-end 2013.

d. Financial information about geographic areas

Financial information about geographic areas is incorporated herein by reference to Management's discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 25 and Segment and geographic information in Part II, Item 8, page 39 of this Form 10-K.

e. Available information

The Company is subject to the informational requirements of the Securities Exchange Act of 1934 ("Exchange Act"). The Company therefore files periodic reports, proxy statements and other information with the U.S. Securities and Exchange Commission ("SEC"). Such reports may be obtained by visiting the Public Reference Room of the SEC at 100 F Street, NE, Washington, DC 20549, or by calling the SEC at (800) SEC-0330. In addition, the SEC maintains an Internet site (www.sec.gov) that contains reports, proxy and information statements and other information. Financial and other information can also be accessed on the investor section of the Company's website at www.aboutmcdonalds.com. The Company makes available, free of charge, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after filing such material electronically or otherwise furnishing it to the SEC. Copies of financial and other information are also available free of charge by calling (800) 228-9623 or by sending a request to McDonald's Corporation Shareholder Services, Department 720, One McDonald's Plaza, Oak Brook, Illinois 60523.

Also posted on McDonald's website are the Company's Corporate Governance Principles; the charters for each of the Committees of the Board of Directors, including the Audit Committee, Compensation Committee and Governance Committee; the Code of Conduct for the Board of Directors; and the Company's Standards of Business Conduct, which applies to all officers and employees. Copies of these documents are also available free of charge by calling (800) 228-9623 or by sending a request to McDonald's Corporation Shareholder Services, Department 720, One McDonald's Plaza, Oak Brook, Illinois 60523.

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

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

The information in this report includes forward-looking statements about our plans and future performance, including those under Outlook. These statements use such words as “may,” “will,” “expect,” “believe” and “plan.” They reflect our expectations and speak only as of the date of this report. 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 and execution of our strategic plan, the Plan to Win, are subject to risks. The most important of these is whether we can remain relevant and a brand customers trust. Meeting customer expectations is complicated by the risks inherent in our global operating environment. Challenging economic conditions continue to pressure our operating and financial performance. In particular, in some of our major markets, IEO segments may remain stagnant or experience modest growth, reflecting broad-based consumer caution, price sensitivity, and intensifying competitive activity by both traditional and non-traditional competitors. Further, certain menu, pricing and promotional decisions may continue to yield results below desired levels and could continue to negatively impact sales, guest counts and market share. As our business model is built around growing comparable sales to realize margin leverage, given these conditions and persistent cost pressures, we expect our results for 2014 will remain challenged.

We have the added challenge of the cultural and regulatory differences that exist within and among the more than 100 countries where we operate. Initiatives we undertake may not have universal appeal among different segments of our customer base and can drive unanticipated changes in guest counts and customer perceptions. Our operations, plans and results are also affected by regulatory, tax and other initiatives around the world, notably the focus on nutritional content and the sourcing, processing and preparation of food “from field to front counter,” as well as industry marketing practices.

These risks can have an impact both in the near- and long-term and are reflected in the following considerations and factors that we believe are most likely to affect our performance.

Our ability to remain a relevant and trusted brand and to increase sales and profits depends largely on how well we execute the Plan to Win and our global growth priorities.

The Plan to Win aligns the McDonald's System around the three global growth priorities that represent our greatest opportunities to drive results - optimizing our menu, modernizing the customer experience and broadening accessibility to our brand in order to remain relevant to our customers. It also keeps us focused on a common approach to execution through our continued emphasis on people, products, place, price and promotion. The quality of our execution depends mainly on the following:

Our ability to anticipate and respond effectively to trends or other factors that affect the IEO segment and our competitive position in the diverse markets we serve, such as spending patterns, demographic changes, trends in food preparation, consumer preferences and publicity about us, all of which can drive perceptions of our business or affect the willingness of other companies to enter into site, supply or other arrangements with us;

Our continued innovation in all aspects of the McDonald's experience to differentiate the McDonald's experience in a way that balances value with margin levels;

The impact of changes to our value menu, which has been and will continue to be an important component of our overall menu strategy; our ability to continue robust menu development and manage the complexity of our restaurant operations; our ability to adapt our plans to deliver a locally-relevant experience in a highly competitive, value-driven operating environment; our ability to leverage promotional or operating successes across markets; and whether sales gains associated with new product introductions are sustained;

The risks associated with our franchise business model, including whether our franchisees have the experience and financial resources to be effective operators and remain aligned with us on operating, promotional and capital-intensive initiatives, especially during periods of underperformance, and the potential impact on us if they experience food safety or other operational problems or project a brand image inconsistent with our values, particularly if our contractual and other rights and remedies are limited, costly to exercise or subject to litigation;

The success of our tiered approach to menu offerings; the impact of pricing, product, marketing and promotional plans on sales and margins; and our ability to adjust these plans to respond quickly to changing economic and competitive conditions;
Our ability to drive restaurant improvements that achieve optimal capacity, particularly during peak mealtime hours, and motivate our restaurant personnel and our franchisees to achieve consistency and high service levels so as to improve perceptions of our ability to meet expectations for quality food served in clean and friendly environments;
Our plans for restaurant reimaging and rebuilding, and whether we are able to identify and develop restaurant sites consistent with our plans for net growth of Systemwide restaurants and achieve our sales and profitability targets;
Our ability to respond effectively to adverse perceptions about the quick-service category of the IEO segment or about our food (including its nutritional content and preparation), promotions and premiums, such as Happy Meal toys (collectively, our "products"), how we source the commodities we use, and our ability to manage the potential impact on McDonald's of food-borne illnesses or product safety issues;
The success of our sustainability initiatives to support our brand ambition of good food, good people and good neighbor, which will require Systemwide coordination and alignment, including with our franchisees, and whether we will be effective in addressing these and other matters of social responsibility in a way that inspires trust and confidence;
The costs and risks associated with our increasing reliance on technological and digital systems (e.g., point-of-sale and other in-store systems or platforms) that support our Systemwide restaurants; the risk that we will not fully realize the benefits of the significant investments we are making to enhance the customer experience; the potential for system performance failures, security breaches involving our systems or those of third-party providers; legal risks associated with data collection, protection and management, in particular as it relates to information we collect when we provide technology-related services to franchisees; and litigation risk involving intellectual property rights;
The impact of campaigns by labor organizations and activists, including through the use of social media and other mobile communications and applications, to promote adverse

perceptions of the quick-service category of the IEO segment or our brand, management, suppliers or franchisees, or to promote or threaten boycotts, strikes or other actions involving the industry, McDonald’s or our suppliers and franchisees;

The impact of events such as boycotts or protests, labor strikes and supply chain interruptions (including due to lack of supply or price increases) that can adversely affect us or the suppliers, franchisees and others that are also part of the McDonald's System and whose performance has a material impact on our results;

Our ability to recruit and retain qualified personnel to manage our operations and growth; and

Whether we will be able to develop an effective and compelling global digital strategy in the future that will enhance customer engagement and whether competitor loyalty initiatives will impact our ability to attract customers, particularly as these initiatives become established and customer acquisition costs (i.e., switching costs) increase.

Our results and financial condition are affected by global and local market conditions, and the prolonged challenging economic environment can be expected to continue to pressure our results.

Our results of operations are substantially affected by economic conditions, both globally and in local markets, and conditions can also vary substantially by market. The current global environment has been characterized by persistently weak economies, high unemployment rates, inflationary pressures and volatility in financial markets. Many major economies, both advanced and developing, are still facing ongoing economic issues. In the U.S., these include concerns about the long-term direction of federal fiscal policies. In many European markets, consumer and business confidence and spending remain muted. Important markets in Asia have also been experiencing slower growth rates. Uncertainty about the long-term environment could derail any potential improvements in economic activity for 2014.

These conditions have pressured our performance, adversely affecting sales, guest counts and/or our market share in many markets, including some major markets. We are also facing increasing competition from an expanded set of competitors that include many non-traditional market participants such as conventional retailers and coffee shops. To address this environment, we are intensifying our focus on value as a driver of guest counts through menu, pricing and promotional actions. These actions can adversely affect our margin percent and therefore we expect that margins will remain under pressure. The key factors that can affect our operations, plans and results in this environment are the following:

Whether our strategies will be effective in enabling market share gains, which have been achieved at declining rates in recent periods, while at the same time enabling us to achieve our targeted operating income growth despite the current adverse economic conditions, resurgent competitors and an increasingly complex and costly advertising environment;

The effectiveness of our supply chain management to assure reliable and sufficient product supply on favorable terms;

The impact on consumer disposable income levels and spending habits of governmental actions to manage national economic matters, whether through austerity or stimulus measures and initiatives intended to control wages, unemployment, credit availability, inflation, taxation and other economic drivers;

The impact on restaurant sales and margins of ongoing commodity price volatility, and the effectiveness of pricing, hedging and other actions taken to address this environment;

The impact on our margins of labor costs that we cannot offset through price increases, and the long-term trend toward higher wages and social expenses in both mature and developing markets, which may intensify with increasing public focus on matters of income inequality;

The impact of foreign exchange and interest rates on our financial condition and results;

The challenges and uncertainties 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, all of which are 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;

The nature and timing of decisions about underperforming markets or assets, including decisions that result in impairment charges that reduce our earnings; and

The impact of changes in our debt levels on our credit ratings, interest expense, availability of acceptable counterparties, ability to obtain funding on favorable terms or our operating or financial flexibility, especially if lenders impose new operating or financial covenants.

Increasing legal and regulatory complexity will continue to affect our operations and results in material ways.

Our legal and regulatory environment worldwide exposes us to complex compliance, litigation and similar risks that could affect our operations and results in material ways. In many of our markets, including the United States and Europe, we are subject to increasing regulation, which has increased our cost of doing business. In developing markets, we face the risks associated with new and untested laws and judicial systems. Among the more important regulatory and litigation risks we face and must manage are the following:

The cost, compliance and other risks associated with the often conflicting and highly prescriptive regulations we face, including where inconsistent standards imposed by governmental authorities can adversely affect popular perceptions of our business and increase our exposure to litigation or governmental investigations or proceedings;

The impact of new, potential or changing regulations that can affect our business plans, such as those relating to product packaging, marketing and the nutritional content and safety of our food and other products, as well as the risks and costs of our labeling and other disclosure practices, particularly given varying legal requirements and practices for testing and disclosure within our industry, 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;

The impact of nutritional, health and other scientific studies and conclusions, which constantly evolve and often have contradictory implications, but nonetheless drive popular opinion, litigation and regulation (including initiatives intended to drive consumer behavior) in ways that could be material to our business;

The impact of litigation trends, particularly in our major markets, including class actions, labor, employment and personal injury claims, litigation with or involving our relationship with franchisees, landlord/tenant disputes and intellectual property claims (including often aggressive or opportunistic attempts to enforce patents used in information technology systems); 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 or judgments, which may require us to make disclosures or take other actions that may affect perceptions of our brand and products; and the scope and terms of insurance or indemnification protections that we may have;

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;

The risks and costs to us, our franchisees and our supply chain of the effects of climate change, greenhouse gases, energy and water resources, as well as the increased public focus, including by governmental and non-governmental organizations, on these and other environmental sustainability matters (e.g., packaging and waste, animal health and welfare and land use) and the increased pressure to make commitments or set targets and take actions to meet them, which could expose the Company to market, operational and execution costs or risks, particularly when actions are undertaken Systemwide;

The increasing focus on workplace practices and conditions and costs and other effects of compliance with U.S. and overseas regulations affecting our workforce and labor practices, including those relating to wage and hour practices, healthcare, immigration, retirement and other employee benefits and unlawful workplace discrimination, and our exposure to reputational and other harm as a result of perceptions about our workplace practices or conditions or those of our franchisees;

Disruptions in our operations or price volatility in a market that can result from governmental actions, such as price, foreign exchange or import-export controls, increased tariffs or government-mandated closure of our or our suppliers' operations, and the cost and disruption of responding to governmental investigations or proceedings, whether or not they have merit;

The legal and compliance risks and costs associated with privacy, data protection and similar laws, particularly as they apply to children, the potential costs (including the loss of consumer confidence) arising from alleged security breaches of information systems, and the risk of resulting criminal penalties or civil liability related to such breaches;

The impact on our operations of tax and other 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; and

The impact of changes in financial reporting requirements, accounting principles or practices, including with respect to our critical accounting estimates, changes in tax accounting or tax laws (or related authoritative interpretations), particularly if corporate tax reform becomes a key component of budgetary initiatives in the United States and elsewhere, and the impact of settlements of pending or any future adjustments proposed by the IRS or other taxing authorities in connection with our tax audits, all of which will depend on their timing, nature and scope.

Trading volatility and price of our common stock may be 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, 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;

Changes in financial or tax reporting and accounting principles or practices that materially affect our reported financial condition and results and investor perceptions of our performance;

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 generally; 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 other corporate actions, such as those we may take from time to time as part of our continuous review of our corporate structure in light of business, legal and tax considerations.

Our results and prospects can be adversely affected by events such as severe weather conditions, natural disasters, hostilities and social unrest, among others.

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 or other factors that affect our results and prospects, such as commodity costs. Our receipt of proceeds under any insurance we maintain with respect to certain of these risks may be delayed or the proceeds may be insufficient to offset our losses fully.

ITEM 1B. Unresolved Staff Comments

None.

ITEM 2. Properties

The Company owns and leases real estate primarily in connection with its restaurant business. The Company identifies and develops sites that offer convenience to customers and long-term sales and profit potential to the Company. To assess potential, the Company analyzes traffic and walking patterns, census data and other relevant data. The Company's experience and access to advanced technology aid in evaluating this information. The Company generally owns the land and building or secures long-term leases for restaurant sites, which ensures long-term occupancy rights and helps control related costs. Restaurant profitability for both the Company and franchisees is important; therefore, ongoing efforts are made to control average development costs through construction and design efficiencies, standardization and by leveraging the Company's global sourcing network. Additional information about the Company's properties is included in Management's discussion and analysis of financial condition and results of operations in Part II, Item 7, pages 10 through 25 and in Financial statements and supplementary data in Part II, Item 8, pages 25 through 42 of this Form 10-K.

ITEM 3. Legal Proceedings

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

Franchising

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

Suppliers

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

Employees

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

Customers

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

Intellectual Property

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

Government Regulations

Local, state and federal governments have adopted laws and regulations involving various aspects of the restaurant business including, but not limited to, advertising, franchising, health, safety, environment, zoning, employment and taxes. The Company strives to comply with all applicable existing statutory and administrative rules and cannot predict the effect on its operations from the issuance of additional requirements in the future.

ITEM 4. Mine Safety Disclosures

Not applicable.

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

Jose Armario, 54, is Corporate Executive Vice President—Global Supply Chain, Development and Franchising, a position he has held since October 2011. He previously served as Group President, McDonald’s Canada and Latin America from February 2008 through September 2011 and President, McDonald’s Latin America from December 2003 to February 2008. Mr. Armario has been with the Company for 17 years.

Peter J. Bensen, 51, is Corporate Executive Vice President and Chief Financial Officer, a position he has held since January 2008. From April 2007 through December 2007, he served as Corporate Senior Vice President—Controller. Prior to that time, Mr. Bensen served as Corporate Vice President–Assistant Controller from February 2002 through March 2007. Mr. Bensen has been with the Company for 17 years.

Stephen J. Easterbrook, 46, is Corporate Executive Vice President and Global Chief Brand Officer, a position he has held since June 2013. From September 2012 through May 2013, Mr. Easterbrook served as the Chief Executive Officer of Wagamama Limited and from September 2011 to September 2012, he served as the the Chief Executive Officer of PizzaExpress Limited. Prior to September 2011, Mr. Easterbrook served in a number of roles with the Company. From December 2010 to September 2011, he held the position of President, McDonald's Europe, and from September 2010 to December 2010, he served as Corporate Executive Vice President and Global Chief Brand Officer. Mr. Easterbrook served as Chief Executive Officer and President, McDonald's U.K. from April 2006 to September 2010 and was given additional responsibility as President, Northern Division, Europe from January 2007 to September 2010. Except for the period he was with PizzaExpress and Wagamama, Mr. Easterbrook has been with the Company for 20 years.

Timothy J. Fenton, 56, is Chief Operating Officer, a position he has held since July 2012. From January 2005 through June 2012, he held the position of President, McDonald's Asia/Pacific, Middle East and Africa and he served as President, East Division for McDonald’s USA from May 2003 to January 2005. Mr. Fenton has been with the Company for 40 years.

Richard Floersch, 56, is Corporate Executive Vice President and Chief Human Resources Officer. Mr. Floersch joined the Company in November 2003. He previously served as Senior Vice President of Human Resources for Kraft Foods from 1998 through 2003. Mr. Floersch has been with the Company for 10 years.

Douglas M. Goare, 61, is President, McDonald’s Europe, a position he has held since October 2011. From February 2011 through September 2011, he served as Corporate Executive Vice President of Supply Chain and Development. From June 2007 through November 2010, he held the position of Corporate Senior Vice President of Supply Chain. In addition to this role, Mr. Goare assumed responsibility for Development in December 2010 and served as Corporate Senior Vice President of Supply Chain and Development through January 2011. Mr. Goare has been with the Company for 35 years.

David L. Hoffmann, 46, is President of Asia/Pacific, Middle East and Africa, a position he has held since July 2012. From January 2012 through June 2012, he held the position of Senior Vice President and Restaurant Support Officer for Asia/Pacific, Middle East and Africa. Prior to that time, he held the position of Vice President of Strategy, Insights and Development for Asia/Pacific, Middle East and Africa from May 2011 through December 2011. From November 2008 through April 2011, he held the position of Executive Vice President of McDonald's Japan. Mr. Hoffmann has been with the Company for 17 years.

Kenneth M. Koziol, 54, became Corporate Executive Vice President—Chief Restaurant Officer in February 2013. From July 2006 through January 2013, he held the position of Corporate Senior Vice President—Innovation. Prior to that time, Mr. Koziol served as Corporate Vice President Restaurant Solutions Group Worldwide Innovation from June 2004 to July 2006. Mr. Koziol has been with the Company for 25 years.

Kevin M. Ozan, 50, is Corporate Senior Vice President–Controller, a position he has held since February 2008. From May 2007 through January 2008, he served as Corporate Vice President—Assistant Controller. Mr. Ozan has been with the Company for 16 years.

Gloria Santona, 63, is Corporate Executive Vice President, General Counsel and Secretary, a position she has held since July 2003. Ms. Santona has been with the Company for 36 years.

Jeffrey P. Stratton, 58, is President, McDonald's USA, a position he has held since December 2012. He previously served as Corporate Executive Vice President–Chief Restaurant Officer from January 2005 through November 2012 and prior to that, served as U.S. Executive Vice President, Chief Restaurant Officer from January 2004 through December 2004. Mr. Stratton has been with the Company for 40 years.

Donald Thompson, 50, is President and Chief Executive Officer, a position he has held since July 2012. He served as President and Chief Operating Officer from January 2010 through June 2012. Mr. Thompson was also elected a Director in January 2011. Prior to that he served as President, McDonald’s USA, from August 2006 to January 2010, and as Executive Vice President and Chief Operations Officer for McDonald’s USA from January 2005 to August 2006. Mr. Thompson has been with the Company for 23 years.

PART II

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

MARKET INFORMATION AND DIVIDEND POLICY

The Company's common stock trades under the symbol MCD and is listed on the New York Stock Exchange in the U.S. The following table sets forth the common stock price ranges on the New York Stock Exchange and dividends declared per common share:

	2013				2012			
Dollars per share	High	Low	Dividend		High	Low	Dividend	
Quarter:								
First	99.78	89.25	0.77		102.22	95.13	0.70	
Second	103.70	95.16	0.77		99.50	85.92	0.70	
Third	101.81	94.01	1.58	*	94.00	86.15	1.47	*
Fourth	99.27	93.14			94.16	83.31		
Year	103.70	89.25	3.12		102.22	83.31	2.87	

* Includes a $0.77 and $0.70 per share dividend declared and paid in third quarter of 2013 and 2012, respectively, and a $0.81 and $0.77 per share dividend declared in third quarter and paid in fourth quarter of 2013 and 2012, respectively.

The number of shareholders of record and beneficial owners of the Company's common stock as of January 31, 2014 was estimated to be 1,824,000.

Given the Company's returns on equity, incremental invested capital and assets, management believes it is prudent to reinvest in the business in markets with acceptable returns and/or opportunity for long-term growth and use excess cash flow to return cash to shareholders through dividends and share repurchases. The Company has paid dividends on common stock for 38 consecutive years through 2013 and has increased the dividend amount at least once every year. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company's Board of Directors.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table presents information related to repurchases of common stock the Company made during the quarter ended December 31, 2013*:

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs(1)	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs(1)
October 1-31, 2013	2,203,213	94.81	2,203,213	$7,750,841,405
November 1-30, 2013	1,360,592	97.63	1,360,592	7,618,005,790
December 1-31, 2013	1,840,646	95.85	1,840,646	7,441,571,916
Total	5,404,451	95.88	5,404,451	

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

(1) On July 19, 2012, the Company's Board of Directors approved a share repurchase program, effective August 1, 2012, that authorizes the purchase of up to $10 billion of the Company's outstanding common stock with no specified expiration date.

ITEM 6. Selected Financial Data

6-Year Summary

Dollars in millions, except per share data	2013	2012	2011	2010	2009		2008	
Company-operated sales	$18,875	18,603	18,293	16,233	15,459		16,561	
Franchised revenues	$9,231	8,964	8,713	7,842	7,286		6,961	
Total revenues	$28,106	27,567	27,006	24,075	22,745		23,522	
Operating income	$8,764	8,605	8,530	7,473	6,841	(1)	6,443	
Net income	$5,586	5,465	5,503	4,946	4,551	(1,2)	4,313	(3)
Cash provided by operations	$7,121	6,966	7,150	6,342	5,751		5,917	
Cash used for investing activities	$2,674	3,167	2,571	2,056	1,655		1,625	
Capital expenditures	$2,825	3,049	2,730	2,135	1,952		2,136	
Cash used for financing activities	$4,043	3,850	4,533	3,729	4,421		4,115	
Treasury stock purchases[4]	$1,810	2,605	3,373	2,648	2,854		3,981	
Common stock cash dividends	$3,115	2,897	2,610	2,408	2,235		1,823	
Financial position at year end:								
Total assets	$36,626	35,386	32,990	31,975	30,225		28,462	
Total debt	$14,130	13,633	12,500	11,505	10,578		10,218	
Total shareholders’ equity	$16,010	15,294	14,390	14,634	14,034		13,383	
Shares outstanding in millions	990	1,003	1,021	1,054	1,077		1,115	
Per common share:								
Earnings-diluted	$5.55	5.36	5.27	4.58	4.11	(1,2)	3.76	(3)
Dividends declared	$3.12	2.87	2.53	2.26	2.05		1.63	
Market price at year end	$97.03	88.21	100.33	76.76	62.44		62.19	
Company-operated restaurants	6,738	6,598	6,435	6,399	6,262		6,502	
Franchised restaurants	28,691	27,882	27,075	26,338	26,216		25,465	
Total Systemwide restaurants	35,429	34,480	33,510	32,737	32,478		31,967	
Franchised sales[5]	$70,251	69,687	67,648	61,147	56,928		54,132	

(1) Includes pretax income due to Impairment and other charges (credits), net of $61.1 million ($91.4 million after tax or $0.08 per share) primarily related to the resolution of certain liabilities retained in connection with the 2007 Latin America developmental license transaction.

(2) Includes income of $58.8 million ($0.05 per share) for gain on sale of investment related to the sale of the Company’s minority ownership interest in Redbox Automated Retail, LLC.

(3) Includes income of $109.0 million ($0.09 per share) for gain on sale of investment from the sale of the Company’s minority ownership interest in U.K.- based Pret A Manger.

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

(5) While franchised sales are not recorded as revenues by the Company, management believes they are important in understanding the Company's financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base. Franchised restaurants represent more than 80% of McDonald's restaurants worldwide.

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

Overview

DESCRIPTION OF THE BUSINESS

The Company franchises and operates McDonald’s restaurants. Of the 35,429 restaurants in 119 countries at year-end 2013, 28,691 were franchised (including 20,355 franchised to conventional franchisees, 4,747 licensed to developmental licensees and 3,589 licensed to foreign affiliates ("affiliates")—primarily Japan) and 6,738 were operated by the Company. Under our 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 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. In certain circumstances, the Company participates in reinvestment for conventional franchised restaurants. Under our developmental license arrangement, licensees provide capital for the entire business, including the real estate interest, and the Company 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.

We view ourselves primarily as a franchisor and believe franchising is important to both delivering great, locally-relevant customer experiences and driving profitability. However, directly operating restaurants is paramount to being a credible franchisor and is essential to providing Company personnel with restaurant operations experience. In our Company-operated restaurants, and in collaboration with franchisees, we further develop and refine operating standards, marketing concepts and product and pricing strategies, so that only those that we believe are most beneficial are introduced in the restaurants. We continually review, and as appropriate adjust, our mix of Company-operated and franchised (conventional franchised, developmental licensed and foreign affiliated) restaurants to help optimize overall performance.

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 managed as distinct geographic segments. Significant reportable segments include the United States ("U.S."), Europe, and Asia/Pacific, Middle East and Africa ("APMEA"). In addition, throughout this report we present “Other Countries & Corporate” that includes operations in Canada and Latin America, as well as Corporate activities. The U.S., Europe and APMEA segments account for 31%, 40% and 23% of total revenues, respectively. The United Kingdom ("U.K."), France, Russia and Germany, collectively, account for 67% of Europe’s revenues; and China, Australia and Japan (a 50%-owned affiliate accounted for under the equity method), collectively, account for 54% of APMEA’s revenues. These seven markets along with the U.S. and Canada are referred to as “major markets” throughout this report and comprise 75% of total revenues.

In analyzing business trends, management reviews results on a constant currency basis and considers a variety of performance

and financial measures, including comparable sales and comparable guest count growth, Systemwide sales growth and returns.

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

Comparable sales and comparable guest counts are key performance indicators used within the retail industry and are indicative of the impact of the Company’s initiatives as well as local economic and consumer trends. Increases or decreases in comparable sales and comparable guest counts represent the percent change in sales and transactions, respectively, from the same period in the prior year for all restaurants, whether operated by the Company or franchisees, in operation at least thirteen months, including those temporarily closed. Some of the reasons restaurants may be temporarily closed include reimaging or remodeling, rebuilding, road construction and natural disasters. Comparable sales exclude the impact of currency translation. Comparable sales are driven by changes in guest counts and average check, which is affected by changes in pricing and product mix. Generally, pricing has a greater impact on average check than product mix. The goal is to achieve a balanced contribution from both guest counts and average check.

McDonald’s reports on a calendar basis and therefore the comparability of the same month, quarter and year with the corresponding period of the prior year will be impacted by the mix of days. The number of weekdays and weekend days in a given timeframe can have a positive or negative impact on comparable sales and guest counts. The Company refers to these impacts as calendar shift/trading day adjustments. In addition, the timing of holidays can impact comparable sales and guest counts. These impacts vary geographically due to consumer spending patterns and have a more pronounced effect on monthly comparable sales and guest counts while the annual impacts are typically minimal.

Systemwide sales include sales at all restaurants. While franchised sales are not recorded as revenues by the Company, management believes the information is important in understanding the Company’s financial performance because these sales are the basis on which the Company calculates and records franchised revenues and are indicative of the financial health of the franchisee base.

Return on incremental invested capital ("ROIIC") is a measure reviewed by management over one-year and three-year time periods to evaluate the overall profitability of the business units, the effectiveness of capital deployed and the future allocation of capital. The return is calculated by dividing the change in operating income plus depreciation and amortization (numerator) by the cash used for investing activities (denominator), primarily capital expenditures. The calculation uses a constant average foreign exchange rate over the periods included in the calculation.

STRATEGIC DIRECTION AND FINANCIAL PERFORMANCE

The strength of the alignment among the Company, its franchisees and suppliers (collectively referred to as the "System") has been key to McDonald's success. By leveraging our System, we are able to identify, implement and scale ideas that meet customers' changing needs and preferences. In addition, our business model enables McDonald's to consistently deliver locally-relevant restaurant experiences to customers and be an integral part of the communities we serve.

McDonald's customer-focused Plan to Win ("Plan") provides a common framework that aligns our global business and allows for local adaptation. We continue to focus on our three global growth priorities of optimizing our menu, modernizing the customer experience, and broadening accessibility to Brand McDonald's within the framework of our Plan. Our initiatives support these priorities, and are executed with a focus on the Plan's five pillars - People, Products, Place, Price and Promotion - to enhance our customers' experience and build shareholder value over the long term. We believe these priorities align with our customers' evolving needs, and - combined with our competitive advantages of convenience, menu variety, geographic diversification and System alignment - will drive long-term sustainable growth.

To measure our performance as we strive to build the business, we have the following long-term, average annual constant currency financial targets:

Systemwide sales growth of 3% to 5%;

Operating income growth of 6% to 7%;

ROIIC in the high teens.

In 2013, Systemwide sales growth was 1% (3% in constant currencies), operating income growth was 2% (3% in constant currencies), one-year ROIIC was 11.4% and three-year ROIIC was 20.2% (see reconciliation on page 23). Our operating income growth and returns fell below our long-term financial targets, reflecting the impact of soft comparable sales performance. In our heavily franchised business model, growing comparable sales is important to increasing operating income and returns.

In 2013, our comparable sales increased 0.2%, reflecting higher average check and negative comparable guest counts of 1.9%. Challenging conditions, including a flat or contracting informal eating out (“IEO”) segment in most major markets, heightened competitive activity and consumer price sensitivity, continued to pressure performance. Furthermore, McDonald’s customer-facing initiatives did not generate the comparable sales lift or customer visits necessary to overcome these headwinds.

In 2014, we do not expect significant changes in market dynamics given modest growth projections for the IEO segment. However, we continue to believe that our targets remain achievable over the long term.

The following is a summary of our 2013 sales performance and our initiatives within the three global growth priorities by major segment.

U.S.

In the U.S., comparable sales declined 0.2% and comparable guest counts declined 1.6%. Guest visits were down as initiatives did not resonate as strongly as expected with customers amid a sluggish IEO segment and heightened competitive activity.

The U.S. introduced a number of significant new products (such as Premium McWraps, Egg White Delight McMuffins and an extended line-up of Quarter Pounder Burgers) and featured new limited-time food and beverage options to enhance the relevance of its product offerings.

Modernizing the customer experience continued through our reimaging program. During 2013, we completed about 700 restaurant reimages, of which the majority added drive-thru capacity. Currently, 45% of our restaurant interiors and exteriors reflect our contemporary restaurant design.

We broadened accessibility by opening 225 new restaurants, extending hours in more restaurants, and improving the efficiency of our drive-thru service with side-by-side or tandem ordering, and hand-held order taking. More than half of our restaurants now use one of these multiple order points to maximize drive-thru capacity. In addition, the U.S. evolved its value proposition with the recent introduction of Dollar Menu & More, which is intended to offer value and variety to our customers at various price points.

Europe

In Europe, comparable sales were flat, while comparable guest counts declined 1.5%, as persistently low consumer confidence continued to negatively affect the IEO segment. Comparable sales results reflected positive performance in the U.K. and Russia, which were mostly offset by weak performance in Germany, where we are working on rebuilding brand relevance to address the current negative guest count trend.

In 2013, we remained focused on growing the business by emphasizing value menu enhancements, premium menu additions, limited-time offers and expansion of the breakfast daypart. We also successfully launched blended ice beverages in the U.K., which positively contributed to results.
In order to continue providing a relevant, contemporary customer experience, Europe completed about 470 restaurant reimages during the year. By the end of 2013, nearly 100% of restaurant interiors and 80% of exteriors were modernized.
We increased our accessibility and convenience by opening 312 new restaurants, extending operating hours and optimizing our drive-thrus. We enhanced our value offerings in certain markets with multiple pricing tiers across our menu to appeal to a broad range of customers. For example, in France we launched the Casse-Croûte, a two-item meal for 4.50 Euro, which positively contributed to recent results in that market.
APMEA
In APMEA, comparable sales declined 1.9% and comparable guest counts declined 3.8%. Our three largest markets experienced negative comparable sales, with Japan having the most significant impact. Though the challenges differ across the segment, overall performance was pressured amid slower economic growth, a highly competitive environment focused primarily on value, and issues such as Avian influenza in a few markets. In addition, softer than expected performance of new products and promotions did not overcome negative guest count trends.
Throughout the segment, we focused on accelerating growth across all dayparts, with particular emphasis on dinner and the expansion of breakfast. APMEA held a National Breakfast Day, during which five thousand restaurants gave away five million Egg McMuffins to promote breakfast in the segment. We were also committed to enhancing local relevance with consumers, by balancing our global core menu with locally-relevant food and beverage choices, which included new flavor profiles designed to match local tastes.
We continued to make progress in our reimaging program, completing about 240 restaurant reimages during the year. By the end of 2013, over 65% of restaurant interiors and over 55% of exteriors were modernized.
We opened 731 new restaurants, including 275 in China. We deployed our convenience initiatives to more restaurants, including dessert kiosks, delivery service, drive-thrus and extended hours. In addition, we continued to evolve our everyday value platform by including more affordable menu options and promotional offers across dayparts and price points.

Consolidated Operating Results

Globally, our approach to offering variety and value across the menu to our customers is complemented by a focus on driving operating efficiencies, and leveraging our scale and supply chain infrastructure to manage costs. In 2013, we maintained a full-year combined operating margin of 31.2%, as we grew revenues 2% and managed our expenses.

We continued our long-standing commitment to fiscal discipline and maintained a strong financial foundation. Cash from operations benefits from our heavily franchised business model as the rent and royalty income we receive from franchisees provides a stable revenue stream that has relatively low costs. In addition, the franchise business model is less capital intensive than the Company-owned model. We believe locally-owned and operated restaurants are important to McDonald's being not just a global brand, but also a locally-relevant one.

In 2013, cash from operations was $7.1 billion. Our substantial cash flow, strong credit rating and continued access to credit provided us flexibility to fund capital expenditures as well as return cash to shareholders. Capital expenditures of approximately $2.8 billion were invested in our business, of which more than half was devoted to new restaurant openings and the remainder was reinvested in our existing restaurants. Across the System, 1,438 restaurants were opened and over 1,500 existing locations were reimaged.

We continued to return all free cash flow (cash from operations less capital expenditures) to shareholders, and in 2013 returned $4.9 billion to shareholders consisting of $3.1 billion in dividends and $1.8 billion in share repurchases.

RESULTS FROM THE YEAR:

Global comparable sales increased 0.2% and comparable guest counts declined 1.9%.

Consolidated revenues increased 2% (2% in constant currencies).

Consolidated operating income increased 2% (3% in constant currencies).

Diluted earnings per share was $5.55, an increase of 4% (4% in constant currencies).

Cash provided by operations was $7.1 billion.

One-year ROIIC was 11.4% and three-year ROIIC was 20.2% for the period ended December 31, 2013.

The Company increased the quarterly cash dividend per share 5% to $0.81 for the fourth quarter, equivalent to an annual dividend of $3.24 per share.

The Company returned $4.9 billion to shareholders through dividends and share repurchases.

OUTLOOK FOR 2014

We are focused on delivering great-tasting, high-quality, affordable food and beverages and an exceptional experience for our customers. By leveraging our competitive advantages, we are well-positioned to pursue the long-term opportunities that exist in the over $1 trillion IEO segment.

We do not expect significant changes in market dynamics in 2014 given modest growth projections for the IEO segment. We will remain focused on matters within our control, with the customer as our first priority. We plan to strengthen our relationship with the customer through better restaurant execution and by further leveraging consumer insights in our efforts to optimize current initiatives for greater relevance and broader consumer reach.

We remain committed to adapting to keep pace with evolving customer needs and investing today to meet future demand. In addition, we are prioritizing our near-term efforts on improving performance in key opportunity markets that are significant contributors to consolidated results. These include Germany, Japan and the U.S., which have experienced weak or negative performance.

We will continue to execute against our three global growth priorities to optimize our menu, modernize the customer experience and broaden accessibility to Brand McDonald's.

Our focus will be on our core classics, as well as menu items in the beef, chicken, breakfast and beverages categories, where we believe there is the most growth opportunity relative to other categories in the industry. In addition, we plan to introduce new ingredients and greater choice to broaden the appeal of our menu.

We will enhance the customer experience by continuing to reimage our building interiors and exteriors, expand our service offerings and develop our digital strategies. At the same time, we remain committed to Quality, Service and Cleanliness, which is foundational to everything we do in the restaurants.

To broaden our accessibility, we plan to expand through geographically diversified new restaurant development, extend hours in more restaurants, improve the efficiency of our drive-thrus and provide more delivery service and dessert kiosks. In addition, we will continue to evolve our value platform, offering more choices at every price tier.

Furthermore, McDonald’s is committed to growing our business sustainably and making a positive difference in society. Our key areas of focus include improving customer perceptions of our food, sustainable sourcing, providing job opportunities and training for our people, developing environmentally efficient restaurants and having a positive impact in the communities we serve.

U.S.

In 2014, the U.S. will make adjustments designed to regain momentum, including providing greater customer relevance and better restaurant execution. Our 2014 menu strategies better balance affordability, core products, new choices and limited-time offers. We will also adjust the pace of product introductions to improve restaurant operations and marketing execution in order to provide a better customer experience. These initiatives are complemented by a consistent focus on core equities, such as breakfast. We will enhance the breakfast experience by emphasizing coffee through high-quality McCafé products paired with delicious foods - both existing and new. Bold new flavor extensions will be introduced to build upon our core and lay the groundwork for future innovations. We plan to open about 250 new restaurants and to continue our reimaging program by updating approximately 300 existing restaurants in 2014, a slightly slower pace as we prioritize other kitchen investments.

Europe

In Europe, we plan to optimize the menu through value menu enhancements, premium menu additions and limited-time offers, and will continue to expand the breakfast daypart by leveraging our strong foundation in coffee. In addition, following the U.K.’s successful rollout of McCafé smoothies and frappés, we anticipate about 4,500 restaurants in Europe will have the blended-ice platform by the end of 2014.

To modernize the way we interact with our customers, we plan to leverage the use of technology, such as self-order kiosks and mobile and web ordering. We will focus on broadening accessibility by continuing to extend operating hours, optimizing drive-thrus, and expanding everyday value platforms. We plan to open over 300 new restaurants and reimage approximately 400 existing restaurants in 2014.

APMEA

In 2014, APMEA’s growth opportunities include menu variety, convenience, value evolution and restaurant expansion. We will balance core and limited-time offers and execute a series of exciting food events. APMEA will shift existing value platforms toward more compelling offers that resonate with customers and generate incremental visits, including “mid-tier” options to fill the gap between entry-level options and Extra Value Meals. Our efforts around reimaging will continue as we expect to modernize approximately 400 existing restaurants. Our plan is to open around 800 new restaurants, with about 300 expected in China. In addition, we will evolve our franchising strategy to include more conventional franchisees and developmental licensees, enabling an increased pace of development and enhanced profitability.

Consolidated

In making capital allocation decisions, our goal is to make investments that elevate the McDonald's experience and drive sustainable long-term growth in sales and market share. We focus on markets that generate strong returns or have opportunities for long-term growth. We remain committed to returning all of our free cash flow (cash from operations less capital expenditures) to shareholders over the long-term via dividends and share repurchases.

McDonald's does not provide specific guidance on diluted 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 2.5 percentage points to 2014 Systemwide sales growth (in constant currencies), most of which will be due to the 949 net restaurants (1,098 net traditional openings less 149 net satellite closings) added in 2013.

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 Europe would change annual diluted earnings per share by about 4 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 2014, the total basket of goods cost is expected to increase 1.0-2.0% in the U.S. and Europe.

The Company expects full-year 2014 selling, general and administrative expenses to increase approximately 8% in constant currencies, with fluctuations expected between the quarters. The increase is primarily due to the impact of below target 2013 incentive-based compensation, expenses associated with our Worldwide Owner/Operator Convention and sponsorship of the Winter Olympic games, and costs related to other initiatives.

Based on current interest and foreign currency exchange rates, the Company expects interest expense for the full year 2014 to increase approximately 5-7% compared with 2013.

A significant part of the Company's operating income is generated outside the U.S., and about 40% of its total debt is denominated in foreign currencies. Accordingly, earnings are affected by changes in foreign currency exchange rates, particularly the Euro, British Pound, Australian Dollar and Canadian Dollar. Collectively, these currencies represent approximately 65% 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 2014 to be 31% to 33%. Some volatility may be experienced between the quarters resulting in a quarterly tax rate that is outside the annual range.

The Company expects capital expenditures for 2014 to be between $2.9 - $3.0 billion. Over half of this amount will be used to open new restaurants. The Company expects to open about 1,500 - 1,600 restaurants including about 500 restaurants in affiliated and developmental licensee markets, such as Japan and Latin America, where the Company does not fund any capital expenditures. The Company expects net additions of between 1,000 - 1,100 restaurants. The remaining capital will be used to reinvest in existing locations, in part through reimaging. Over 1,000 restaurants worldwide are expected to be reimaged, including locations in affiliated and developmental licensee markets that require no capital investment from the Company.

The Company expects to return approximately $5 billion to shareholders through dividends and share repurchases in 2014.

Consolidated Operating Results

Operating results

Dollars and shares in millions, except per share data	2013 Amount	2013 Increase/ (decrease)	2012 Amount	2012 Increase/ (decrease)	2011 Amount
Revenues					
Sales by Company-operated restaurants	$18,875	1 %	$18,603	2 %	$18,293
Revenues from franchised restaurants	9,231	3	8,964	3	8,713
Total revenues	28,106	2	27,567	2	27,006
Operating costs and expenses					
Company-operated restaurant expenses	15,579	2	15,224	3	14,838
Franchised restaurants-occupancy expenses	1,624	6	1,527	3	1,481
Selling, general & administrative expenses	2,386	(3)	2,455	3	2,394
Other operating (income) expense, net	(247)	(2)	(244)	(3)	(237)
Total operating costs and expenses	19,342	2	18,962	3	18,476
Operating income	8,764	2	8,605	1	8,530
Interest expense	522	1	517	5	493
Nonoperating (income) expense, net	38	n/m	9	(64)	25
Income before provision for income taxes	8,204	2	8,079	1	8,012
Provision for income taxes	2,618	0	2,614	4	2,509
Net income	$5,586	2 %	$5,465	(1 %)	$5,503
Earnings per common share—diluted	$5.55	4 %	$5.36	2 %	$5.27
Weighted-average common shares outstanding—diluted	1,006.0	(1 %)	1,020.2	(2 %)	1,044.9

n/m Not meaningful

IMPACT OF FOREIGN CURRENCY TRANSLATION ON REPORTED RESULTS

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

In 2013, foreign currency translation had a negative impact on consolidated operating results due to the weaker Australian Dollar, Japanese Yen and many other foreign currencies, partly offset by the stronger Euro. In 2012, foreign currency translation had a negative impact on consolidated operating results primarily due to the weaker Euro, along with most other currencies. In 2011, foreign currency translation had a positive impact on consolidated operating results driven by the stronger Euro and Australian Dollar, as well as most other currencies.

Impact of foreign currency translation on reported results

	Reported amount			Currency translation benefit/(cost)		
In millions, except per share data	2013	2012	2011	2013	2012	2011
Revenues	$28,106	$27,567	$27,006	$(29)	$(726)	$944
Company-operated margins	3,296	3,379	3,455	(7)	(97)	134
Franchised margins	7,607	7,437	7,232	(43)	(204)	213
Selling, general & administrative expenses	2,386	2,455	2,394	(5)	40	(55)
Operating income	8,764	8,605	8,530	(66)	(261)	301
Net income	5,586	5,465	5,503	(52)	(178)	195
Earnings per common share—diluted	5.55	5.36	5.27	(0.05)	(0.17)	0.19

NET INCOME AND DILUTED EARNINGS PER COMMON SHARE

In 2013, net income increased 2% (3% in constant currencies) to $5.6 billion and diluted earnings per common share increased 4% (4% in constant currencies) to $5.55. Foreign currency translation had a negative impact of $0.05 on diluted earnings per share. Net income and diluted earnings per share growth in constant currencies were positively impacted by higher franchised margin dollars, and to a lesser extent, lower selling, general and administrative expenses. This was partly offset by lower Company-operated margin dollars. A decrease in diluted weighted average shares outstanding also contributed to the diluted earnings per share growth in 2013.

In 2012, net income decreased 1% (increased 3% in constant currencies) to $5.5 billion and diluted earnings per common share

increased 2% (5% in constant currencies) to $5.36. Foreign currency translation had a negative impact of $0.17 on diluted earnings per share. Net income and diluted earnings per share growth in constant currencies were positively impacted by growth in franchised margin dollars, partly offset by a higher effective income tax rate and higher selling, general and administrative expenses. A decrease in diluted weighted average shares outstanding also contributed to the diluted earnings per share growth in 2012.

The Company repurchased 18.7 million shares of its stock for $1.8 billion in 2013 and 28.1 million shares of its stock for $2.6 billion in 2012, driving reductions in weighted-average shares outstanding on a diluted basis in both periods.

REVENUES

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

In 2013, constant currency revenue growth was due to expansion. Weak comparable sales reflected a muted response to customer-facing initiatives amid a highly competitive and sluggish IEO segment across many markets. In 2012, constant currency revenue growth was driven primarily by positive comparable sales as well as expansion.

Revenues

	Amount			Increase/(decrease)				Increase/(decrease) excluding currency translation			
Dollars in millions	2013	2012	2011	2013		2012		2013		2012	
Company-operated sales:											
U.S.	$4,512	$4,530	$4,433	0	%	2	%	0	%	2	%
Europe	8,138	7,850	7,852	4		0		3		6	
APMEA	5,425	5,350	5,061	1		6		2		5	
Other Countries & Corporate	800	873	947	(8	)	(8	)	(6	)	(7	)
Total	$18,875	$18,603	$18,293	1	%	2	%	1	%	4	%
Franchised revenues:											
U.S.	$4,339	$4,284	$4,096	1	%	5	%	1	%	5	%
Europe	3,162	2,977	3,034	6		(2	)	4		5	
APMEA	1,052	1,041	958	1		9		8		9	
Other Countries & Corporate	678	662	625	2		6		8		11	
Total	$9,231	$8,964	$8,713	3	%	3	%	3	%	6	%
Total revenues:											
U.S.	$8,851	$8,814	$8,529	0	%	3	%	0	%	3	%
Europe	11,300	10,827	10,886	4		(1	)	3		6	
APMEA	6,477	6,391	6,019	1		6		3		6	
Other Countries & Corporate	1,478	1,535	1,572	(4	)	(2	)	0		0	

Total	$28,106	$27,567	$27,006	2 %	2 %	2 %	5 %

In the U.S., revenues were relatively flat in 2013 as the positive impact of expansion was offset by negative comparable sales, reflecting initiatives that did not resonate as strongly as expected with customers. Revenues increased in 2012 primarily due to positive comparable sales, reflecting everyday value offerings, menu variety and the enhanced customer experience due to reimaging, despite broad competitive activity.
Europe's constant currency increase in revenues in 2013 benefited from expansion, primarily in Russia (which is almost entirely Company-operated), and positive comparable sales performance in the U.K. and Russia, the segment's two largest Company-operated restaurant markets, partly offset by negative results in Germany. The 2012 increase was primarily driven by positive comparable sales in the U.K. and Russia, as well as expansion in Russia.

In APMEA, the constant currency increase in revenues in 2013 was driven by expansion in China and other markets, partly offset by negative comparable sales, primarily in China (which is mostly Company-operated). The constant currency increase in revenues in 2012 was primarily driven by positive comparable sales in China, Australia and many other markets, as well as expansion, primarily in China.

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

	2013		2012		2011	
	Sales	Guest Counts	Sales	Guest Counts	Sales	Guest Counts
U.S.	(0.2 %)	(1.6 %)	3.3 %	1.9 %	4.8 %	3.3 %
Europe	0.0	(1.5)	2.4	(0.5)	5.9	3.4
APMEA	(1.9)	(3.8)	1.4	2.2	4.7	4.3
Other Countries & Corporate	7.0	0.4	7.7	3.0	10.1	4.5
Total	0.2 %	(1.9 %)	3.1 %	1.6 %	5.6 %	3.7 %

In 2013, comparable guest count performance declined 1.9%. Germany was the main contributor to the decline in Europe and Japan accounted for half of the decline in APMEA.
Systemwide sales increases/(decreases)

			Excluding currency translation	
	2013	2012	2013	2012
U.S.	1 %	4 %	1 %	4 %
Europe	5	(2)	3	5
APMEA	(5)	5	3	6
Other Countries & Corporate	3	4	10	10
Total	1 %	3 %	3 %	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 financial health of the franchisee base. The following table presents franchised sales and the related increases/(decreases):
Franchised sales

	Amount			Increase/(decrease)		Increase excluding currency translation	
Dollars in millions	2013	2012	2011	2013	2012	2013	2012
U.S.	$31,344	$31,063	$29,739	1 %	4 %	1 %	4 %
Europe	17,737	16,857	17,243	5	(2)	3	5
APMEA	12,759	13,723	13,041	(7)	5	4	6
Other Countries & Corporate	8,411	8,044	7,625	5	5	12	12
Total	$70,251	$69,687	$67,648	1 %	3 %	3 %	6 %

RESTAURANT MARGINS

Franchised margins

Franchised margin dollars represent revenues from franchised restaurants less the Company's occupancy costs (rent and depreciation) associated with those sites. Franchised margin dollars represented about two-thirds of the combined restaurant margins in 2013, 2012 and 2011. Franchised margin dollars increased $170 million or 2% (3% in constant currencies) in 2013 primarily due to expansion and increased $205 million or 3% (6% in constant currencies) in 2012 primarily driven by positive comparable sales.

Franchised margins

In millions	2013	2012	2011
U.S.	$3,626	$3,594	$3,436
Europe	2,475	2,352	2,400
APMEA	923	924	858

Other Countries & Corporate	583	567	538
Total	$7,607	$7,437	$7,232
Percent of revenues			
U.S.	83.6 %	83.9 %	83.9 %
Europe	78.3	79.0	79.1
APMEA	87.7	88.8	89.5
Other Countries & Corporate	86.0	85.6	86.1
Total	82.4 %	83.0 %	83.0 %

In the U.S., the franchised margin percent decreased in 2013 due to higher depreciation related to reimaging and weak comparable sales. The franchised margin percent was flat in 2012 as positive comparable sales performance was offset by higher depreciation related to reimaging.

In Europe, the franchised margin percent decreased in 2013 due to higher rent expense in many markets and weak comparable sales primarily due to Germany. The decrease in 2012 reflected positive comparable sales and higher occupancy costs.

In APMEA, the franchised margin percent decreased in 2013 partly due to Japan's negative sales performance and the impact of the weaker Yen, which reduced its contribution to the segment's margin percent. In addition, the segment was negatively impacted by a decline in Australia's results. The decrease in 2012 was primarily due to Australia.

The franchised margin percent in APMEA and Other Countries & Corporate is higher relative to the U.S. and Europe due to a larger proportion of developmental licensed and/or affiliated restaurants where the Company receives royalty income with no corresponding occupancy costs.

Company-operated margins

Company-operated margin dollars represent sales by Company-operated restaurants less the operating costs of these restaurants. Company-operated margin dollars decreased $83 million or 2% (2% in constant currencies) in 2013, and decreased $76 million or 2% (increased 1% in constant currencies) in 2012.

In 2013, Company-operated margin dollars reflected weak comparable sales in many markets, which impacted our ability to overcome cost pressures. On a constant currency basis, the decrease in Company-operated margin dollars was primarily due to APMEA and the U.S., partly offset by positive performance in Europe.

In 2012, Company-operated margin dollars were negatively impacted by foreign currency translation of $97 million, primarily in Europe. On a constant currency basis, the increase in Company-operated margin dollars was due to positive performance in Europe, offset by lower results in APMEA and the U.S. as positive comparable sales were more than offset by higher costs.

Company-operated margins

In millions	2013		2012		2011	
U.S.	$830		$883		$914	
Europe	1,566		1,501		1,514	
APMEA	771		849		876	
Other Countries & Corporate	129		146		151	
Total	$3,296		$3,379		$3,455	
Percent of sales						
U.S.	18.4	%	19.5	%	20.6	%
Europe	19.2		19.1		19.3	
APMEA	14.2		15.9		17.3	
Other Countries & Corporate	16.0		16.8		16.0	
Total	17.5	%	18.2	%	18.9	%

In the U.S., the Company-operated margin percent decreased in 2013 primarily due to higher labor, commodity costs and other operating costs. The margin percent decreased in 2012 primarily due to higher commodity and labor costs, partly offset by positive comparable sales.

Europe’s Company-operated margin percent increased in 2013 due to the positive impact of sales performance in Russia, the U.K. and France, mostly offset by higher commodity and occupancy costs. The margin percent decreased in 2012 primarily due to higher labor and commodity costs across several markets, despite positive comparable sales in Russia and the U.K.

In APMEA, the Company-operated margin percent in 2013 decreased primarily due to higher labor, occupancy and other costs, and negative comparable guest counts, partly offset by a higher average check. The margin percent decreased in 2012 primarily due to higher labor and occupancy costs, partly offset by positive comparable sales. New restaurant openings, mainly in China, negatively impacted the margin percent in both periods. Similar to other markets, new restaurants in China initially open with lower margins that grow over time.

SELLING, GENERAL & ADMINISTRATIVE EXPENSES

Consolidated selling, general and administrative expenses decreased 3% (3% in constant currencies) in 2013 and increased 3% (4% in constant currencies) in 2012. The 2013 decrease was due to lower incentive-based compensation, partly offset by higher employee costs. The comparison to costs related to the 2012 London Olympics sponsorship and the 2012 Worldwide Owner/Operator Convention also contributed to the decrease in 2013, as well as the increase in 2012. The growth in 2012 was also due to higher employee and technology- related costs, partly offset by lower incentive-based compensation.

Selling, general & administrative expenses

	Amount			Increase/(decrease)		Increase/(decrease) excluding currency translation	
Dollars in millions	2013	2012	2011	2013	2012	2013	2012
U.S.	$740	$782	$779	(5 %)	0 %	(5 %)	0 %
Europe	703	695	699	1	(1)	0	5
APMEA	355	353	341	1	4	1	3
Other Countries & Corporate[1]	588	625	575	(6)	9	(6)	9
Total	$2,386	$2,455	$2,394	(3 %)	3 %	(3 %)	4 %

(1) Included in Other Countries & Corporate are home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training.

Selling, general and administrative expenses as a percent of revenues were 8.5% in 2013 and 8.9% in 2012 and 2011. Selling, general and administrative expenses as a percent of Systemwide sales were 2.7% in 2013 and 2.8% in 2012 and 2011. Management believes that analyzing selling, general and administrative expenses as a percent of Systemwide sales, as well as revenues, is meaningful because these costs are incurred to support the overall McDonald's business.

OTHER OPERATING (INCOME) EXPENSE, NET

Other operating (income) expense, net

In millions	2013	2012	2011
Gains on sales of restaurant businesses	$(199)	$(152)	$(82)
Equity in earnings of unconsolidated affiliates	(78)	(144)	(178)
Asset dispositions and other expense	30	52	23
Total	$(247)	$(244)	$(237)

Gains on sales of restaurant businesses

The Company's purchases and sales of businesses with its franchisees are aimed at achieving an optimal ownership mix in each market. Resulting gains or losses on sales of restaurant businesses are recorded in operating income because these transactions are a recurring part of our business. Gains on sales of restaurant businesses increased in 2013 due primarily to more stores sold in Australia. The increase in 2012 was due primarily to sales of restaurants in China to developmental licensees, as well as sales of restaurants in Europe and Canada.

Equity in earnings of unconsolidated affiliates

Unconsolidated affiliates and partnerships are businesses in which the Company actively participates, but does not control. The Company records equity in earnings from these entities representing McDonald's share of results. For foreign affiliated markets—primarily Japan—results are reported after interest expense and income taxes. McDonald's share of results for partnerships in certain consolidated markets such as the U.S. is reported before income taxes. These partnership restaurants are operated under conventional franchise arrangements and, therefore, are classified as conventional franchised restaurants. Equity in earnings of unconsolidated affiliates decreased in 2013 and 2012 due to lower operating results, primarily in Japan.

Asset dispositions and other expense

Asset dispositions and other expense consists of gains or losses on excess property and other asset dispositions, provisions for restaurant closings and uncollectible receivables, asset write-offs due to restaurant reinvestment, and other miscellaneous income and expenses. Asset dispositions and other expense decreased in 2013 due to the favorable resolution of certain liabilities and lower asset retirements, partly offset by lower gains on property sales and unconsolidated partnership dissolutions. The increase in 2012 was primarily due to lower gains on unconsolidated partnership dissolutions in the U.S.

OPERATING INCOME

Operating income

	Amount			Increase/(decrease)		Increase excluding currency translation	
Dollars in millions	2013	2012	2011	2013	2012	2013	2012
U.S.	$3,779	$3,751	$3,666	1 %	2 %	1 %	2 %
Europe	3,371	3,196	3,227	5	(1)	4	6
APMEA	1,480	1,566	1,526	(6)	3	0	3
Other Countries & Corporate	134	92	111	46	(17)	86	9
Total	$8,764	$8,605	$8,530	2 %	1 %	3 %	4 %

In the U.S., results for 2013 increased due to lower selling, general and administrative expenses and higher franchised margin dollars, partly offset by lower Company-operated margin dollars. Results for 2012 increased due to higher franchised margin dollars, partly offset by lower other operating income and Company-operated margin dollars.

In Europe, results for 2013 and 2012 were driven by higher franchised and Company-operated margin dollars. Results in 2012 also benefited from higher gains on sales of restaurants, partly offset by incremental selling, general and administrative expenses related to the 2012 London Olympics.

In APMEA, results for 2013 reflected higher franchised margin dollars, mostly offset by lower Company-operated margin dollars. Results for 2012 increased primarily due to higher franchised margin dollars and gains on sales of restaurants in China to developmental licensees, partly offset by lower Company-operated margin dollars and lower operating results in Japan.

Combined operating margin

Combined operating margin is defined as operating income as a percent of total revenues. Combined operating margin was 31.2% in 2013 and 2012, and 31.6% in 2011.

INTEREST EXPENSE

Interest expense increased 1% and 5% in 2013 and 2012, respectively, primarily due to higher average debt balances, partly offset by lower average interest rates.

NONOPERATING (INCOME) EXPENSE, NET

Nonoperating (income) expense, net

In millions	2013	2012	2011
Interest income	$(15)	$(28)	$(39)
Foreign currency and hedging activity	8	9	9
Other expense	45	28	55
Total	$38	$9	$25

Interest income consists primarily of interest earned on short-term cash investments. Foreign currency and hedging activity includes net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams.

PROVISION FOR INCOME TAXES

In 2013, 2012 and 2011, the reported effective income tax rates were 31.9%, 32.4% and 31.3%, respectively.

In 2013, the effective income tax rate included a tax benefit of nearly $50 million, reflecting the retroactive impact of certain tax benefits as a result of the American Taxpayer Relief Act of 2012.

In 2012, the effective income tax rate reflected the negative impact of certain tax benefits in the U.S. that had expired at December 31, 2011 and were reinstated retroactively in 2013 as noted above.

Consolidated net deferred tax liabilities included tax assets, net of valuation allowance, of $1.5 billion in 2013 and 2012. Substantially all of the net tax assets are expected to be realized in the U.S. and other profitable markets.

Cash Flows

The Company generates significant cash from its operations and has substantial credit availability and capacity to fund operating and discretionary spending such as capital expenditures, debt repayments, dividends and share repurchases. Cash provided by operations totaled $7.1 billion and exceeded capital expenditures by $4.3 billion in 2013, while cash provided by operations totaled $7.0 billion and exceeded capital expenditures by $3.9 billion in 2012. In 2013, cash provided by operations increased $155 million or 2% compared with 2012 primarily due to increased operating results. In 2012, cash provided by operations decreased $184 million or 3% compared with 2011 despite increased operating results, primarily due to higher income tax payments and the negative impact of foreign currency translation on operating results.

Cash used for investing activities totaled $2.7 billion in 2013, a decrease of $493 million compared with 2012. The decrease primarily reflected lower capital expenditures and a decrease in other investing activities related to short-term time deposits. Cash used for investing activities totaled $3.2 billion in 2012, an increase of $596 million compared with 2011. The increase primarily reflected higher capital expenditures, an increase in other investing activities related to short-term time deposits, and lower proceeds from sales of restaurant businesses.

Cash used for financing activities totaled $4.0 billion in 2013, an increase of $193 million compared with 2012, primarily due to lower net debt issuances and higher dividend payments, partly offset by lower treasury stock purchases. Cash used for financing activities totaled $3.8 billion in 2012, a decrease of $683 million compared with 2011, primarily due to lower treasury stock purchases and higher net debt issuances, partly offset by higher dividend payments.

The Company’s cash and equivalents balance was $2.8 billion and $2.3 billion at year end 2013 and 2012, respectively. The Company made a debt repayment of $535 million in January 2014. In addition to cash and equivalents on hand and cash provided by operations, the Company can meet short-term funding needs through its continued access to commercial paper borrowings and line of credit agreements.

RESTAURANT DEVELOPMENT AND CAPITAL EXPENDITURES

In 2013, the Company opened 1,393 traditional restaurants and 45 satellite restaurants (small, limited-menu restaurants for which the land and building are generally leased), and closed 295 traditional restaurants and 194 satellite restaurants. In 2012, the Company opened 1,404 traditional restaurants and 35 satellite restaurants and closed

269 traditional restaurants and 200 satellite restaurants. The majority of restaurant openings and closings occurred in the major markets in both years. The Company closes restaurants for a variety of reasons, such as existing sales and profit performance or loss of real estate tenure.

Systemwide restaurants at year end[1]

	2013	2012	2011
U.S.	14,278	14,157	14,098
Europe	7,602	7,368	7,156
APMEA	9,918	9,454	8,865
Other Countries & Corporate	3,631	3,501	3,391
Total	35,429	34,480	33,510

(1) Includes satellite units at December 31, 2013, 2012 and 2011, as follows: U.S.—973, 997, 1,084; Europe—261, 246, 240; APMEA (primarily Japan)—733, 871, 949; Other Countries & Corporate—451, 453, 459.

Approximately 70% of Company-operated restaurants and 75% of franchised restaurants were located in the major markets at the end of 2013. Over 80% of the restaurants at year-end 2013 were franchised.

Capital expenditures decreased $224 million or 7% in 2013, primarily due to lower reinvestment in existing restaurants, partly offset by higher investment in new restaurants. Capital expenditures increased $319 million or 12% in 2012, primarily due to higher reinvestment in existing restaurants and higher investment in new restaurants. In 2013, the lower reinvestment primarily reflected fewer planned reimages. In both years, the increase related to new restaurants reflected our commitment to broaden accessibility to our brand.

Capital expenditures invested in major markets, excluding Japan, represented over 70% of the total in 2013, 2012 and 2011. Japan is accounted for under the equity method, and accordingly its capital expenditures are not included in consolidated amounts.

Capital expenditures

In millions	2013	2012	2011
New restaurants	$1,473	$1,340	$1,193
Existing restaurants	1,244	1,615	1,432
Other(1)	108	94	105
Total capital expenditures	$2,825	$3,049	$2,730
Total assets	$36,626	$35,386	$32,990

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

New restaurant investments in all years were concentrated in markets with strong returns or opportunities for long-term growth. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market. These costs, which include land, buildings and equipment, are managed through the use of optimally-sized restaurants, construction and design efficiencies, and leveraging best practices. Although the Company is not responsible for all costs for every restaurant opened, total development costs (consisting of land, buildings and equipment) for new traditional McDonald’s restaurants in the U.S. averaged approximately $3.0 million in 2013.

The Company owned approximately 45% of the land and about 70% of the buildings for restaurants in its consolidated markets at year-end 2013 and 2012.

SHARE REPURCHASES AND DIVIDENDS

For the last three years, the Company returned a total of $16.4 billion to shareholders through a combination of share repurchases and dividends.

Shares repurchased and dividends

In millions, except per share data	2013	2012	2011
Number of shares repurchased	18.7	28.1	41.9
Shares outstanding at year end	990	1,003	1,021
Dividends declared per share	$3.12	$2.87	$2.53
Treasury stock purchases (in Shareholders' equity)	$1,810	$2,605	$3,373
Dividends paid	3,115	2,897	2,610
Total returned to shareholders	$4,925	$5,502	$5,983

The Company’s Board of Directors approved a share repurchase program, effective August 1, 2012, that authorizes the purchase of up to $10 billion of the Company's outstanding common stock with no specified expiration date. In 2013, approximately 18.7 million shares were repurchased for $1.8 billion, bringing the total purchases under the program to $2.6 billion.

The Company has paid dividends on its common stock for 38 consecutive years and has increased the dividend amount every year. The 2013 full year dividend of $3.12 per share reflects the quarterly dividend paid for each of the first three quarters of $0.77 per share, with an increase to $0.81 per share paid in the fourth quarter. This 5% increase in the quarterly dividend equates to a $3.24 per share annual dividend and reflects the Company’s confidence in the ongoing strength and reliability of its cash flow. As in the past, future dividend amounts will be considered after reviewing profitability expectations and financing needs, and will be declared at the discretion of the Company’s Board of Directors.

Financial Position and Capital Resources

TOTAL ASSETS AND RETURNS

Total assets increased $1.2 billion or 4% in 2013. Excluding the effect of changes in foreign currency exchange rates, total assets increased $1.5 billion in 2013. Approximately 80% of total assets were in major markets at year-end 2013. Net property and equipment increased $1.1 billion in 2013, primarily due to capital expenditures, partly offset by depreciation, and represented about 70% of total assets at year end.

Operating income is used to compute return on average assets, while net income is used to calculate return on average common equity. Month-end balances are used to compute both average assets and average common equity.

Returns on assets and equity

	2013		2012		2011	
Return on average assets	24.8	%	25.4	%	26.0	%
Return on average common equity	35.8		37.5		37.7	

In 2013, return on average assets and return on average common equity decreased, reflecting lower growth in operating results. In 2012, return on average assets and return on average common equity decreased due to the negative impact of foreign currency translation primarily on operating income and net income. Operating income does not include interest income; however, cash balances are included in average assets. The inclusion of cash balances in average assets reduced return on average assets by about two percentage points for all years presented.

FINANCING AND MARKET RISK

The Company generally borrows on a long-term basis and is exposed to the impact of interest rate changes and foreign currency fluctuations. Debt obligations at December 31, 2013 totaled $14.1 billion, compared with $13.6 billion at December 31, 2012. The net increase in 2013 was primarily due to net issuances of $535 million.

Debt highlights(1)

	2013		2012		2011	
Fixed-rate debt as a percent of total debt(2,3)	74	%	74	%	69	%
Weighted-average annual interest rate of total debt(3)	4.0		4.0		4.2	
Foreign currency-denominated debt as a percent of total debt(2)	41		36		40	
Total debt as a percent of total capitalization (total debt and total Shareholders' equity)(2)	47		47		46	
Cash provided by operations as a percent of total debt(2)	50		51		57	

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

(2) Based on debt obligations before the effect of fair value hedging adjustments. This effect is excluded as these adjustments have no impact on the obligation at maturity. See Debt financing note to the consolidated financial statements.

(3) Includes the effect of interest rate swaps.

Fitch, Standard & Poor’s and Moody’s currently rate, with a stable outlook, the Company’s commercial paper F1, A-1 and P-1, respectively; and its long-term debt A, A and A2, respectively.

Certain of the Company’s debt obligations contain cross-acceleration provisions and restrictions on Company and subsidiary mortgages and the long-term debt of certain subsidiaries. There are no provisions in the Company’s debt obligations that would accelerate repayment of debt as a result of a change in credit ratings or a material adverse change in the Company’s business. Under existing authorization from the Company’s Board of Directors, at December 31, 2013, the Company had $3.6 billion of authority remaining to borrow funds, including through (i) public or private offering of debt securities; (ii) direct borrowing from banks or other financial institutions; and (iii) other forms of indebtedness. In addition to debt securities available through a medium-term notes program registered with the U.S. Securities and Exchange Commission ("SEC") and a Global Medium-Term Notes program, the Company has $1.5 billion available under a committed line of credit agreement as well as authority to issue commercial paper in the U.S. and global markets (see Debt Financing note to the consolidated financial statements). Debt maturing in 2014 is approximately $530 million of long-term corporate debt. In 2014, the Company expects to issue commercial paper and long-term debt to refinance this maturing debt. As of December 31, 2013, the Company's subsidiaries also had $610 million of borrowings outstanding, primarily under uncommitted foreign currency line of credit agreements.

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

In managing the impact of interest rate changes and foreign currency fluctuations, the Company uses interest rate swaps and finances in the currencies in which assets are denominated. The Company uses foreign currency debt and derivatives to hedge the foreign currency risk associated with certain royalties, intercompany financings and long-term investments in foreign subsidiaries and affiliates. This reduces the impact of fluctuating foreign currencies on cash flows and shareholders’ equity. Total foreign currency-denominated debt was $5.8 billion and $4.9 billion for the years ended December 31, 2013 and 2012, respectively. In addition, where practical, the Company’s restaurants purchase

goods and services in local currencies resulting in natural hedges. See the Summary of significant accounting policies note to the consolidated financial statements related to financial instruments and hedging activities for additional information regarding the accounting impact and use of derivatives.
The Company does not have significant exposure to any individual counterparty and has master agreements that contain netting arrangements. Certain of these agreements also require each party to post collateral if credit ratings fall below, or aggregate exposures exceed, certain contractual limits. At December 31, 2013, neither the Company nor its counterparties were required to post collateral on any derivative position, other than on hedges of certain of the Company’s supplemental benefit plan liabilities where our counterparty was required to post collateral on its liability position.
The Company’s net asset exposure is diversified among a broad basket of currencies. The Company’s largest net asset exposures (defined as foreign currency assets less foreign currency liabilities) at year end were as follows:
Foreign currency net asset exposures

In millions of U.S. Dollars	2013	2012
Euro	$7,302	$6,692
Australian Dollars	1,933	2,450
British Pounds Sterling	1,479	1,117
Canadian Dollars	1,412	1,319
Russian Ruble	737	651

The Company prepared sensitivity analyses of its financial instruments to determine the impact of hypothetical changes in interest rates and foreign currency exchange rates on the Company’s results of operations, cash flows and the fair value of its financial instruments. The interest rate analysis assumed a one percentage point adverse change in interest rates on all financial instruments, but did not consider the effects of the reduced level of economic activity that could exist in such an environment. The foreign currency rate analysis assumed that each foreign currency rate would change by 10% in the same direction relative to the U.S. Dollar on all financial instruments; however, the analysis did not include the potential impact on revenues, local currency prices or the effect of fluctuating currencies on the Company’s anticipated foreign currency royalties and other payments received from the markets. Based on the results of these analyses of the Company’s financial instruments, neither a one percentage point adverse change in interest rates from 2013 levels nor a 10% adverse change in foreign currency rates from 2013 levels would materially affect the Company’s results of operations, cash flows or the fair value of its financial instruments.

LIQUIDITY

The Company has significant operations outside the U.S. where we earn over 60% of our operating income. A significant portion of these historical earnings are considered to be indefinitely reinvested in foreign jurisdictions where the Company has made, and will continue to make, substantial investments to support the ongoing development and growth of our international operations. Accordingly, no U.S. federal or state income taxes have been provided on these undistributed foreign earnings. The Company's cash and equivalents held by our foreign subsidiaries totaled approximately $2.0 billion as of December 31, 2013. We do not intend, nor do we foresee a need, to repatriate these funds.

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

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

While the likelihood is remote, to the extent foreign cash is available, the Company could also elect to repatriate earnings from foreign jurisdictions that have previously been considered to be indefinitely reinvested. Upon distribution of those earnings in the form of dividends or otherwise, the Company may be subject to additional U.S. income taxes (net of an adjustment for foreign tax credits), which could result in a use of cash. This could also result in a higher effective tax rate in the period in which such a determination is made to repatriate prior period foreign earnings. Refer to the Income Taxes note to the consolidated financial statements for further information related to our income taxes and the undistributed earnings of the Company's foreign subsidiaries.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The Company has long-term contractual obligations primarily in the form of lease obligations (related to both Company-operated and franchised restaurants) and debt obligations. In addition, the Company has long-term revenue and cash flow streams that relate to its franchise arrangements. Cash provided by operations (including cash provided by these franchise arrangements) along with the Company’s borrowing capacity and other sources of cash will be used to satisfy the obligations. The following table summarizes the Company’s contractual obligations and their aggregate maturities as well as future minimum rent payments due to the Company under existing franchise arrangements as of December 31, 2013. See discussions of cash flows and financial position and capital resources as well as the Notes to the consolidated financial statements for further details.

	Contractual cash outflows		Contractual cash inflows
In millions	Operating leases	Debt obligations(1)	Minimum rent under franchise arrangements
2014	$1,440		$2,703
2015	1,334	$1,199	2,612
2016	1,218	2,095	2,507
2017	1,099	1,054	2,377
2018	990	1,004	2,260
Thereafter	7,632	8,765	18,042
Total	$13,713	$14,117	$30,501

(1) The maturities reflect reclassifications of short-term obligations to long-term obligations of $1.2 billion, as they are supported by a long-term line of credit agreement expiring in November 2016. Debt obligations do not include $13 million of noncash fair value hedging adjustments or $222 million of accrued interest.

In the U.S., the Company maintains certain supplemental benefit plans that allow participants to (i) make tax-deferred contributions and (ii) receive Company-provided allocations that cannot be made under the qualified benefit plans because of Internal Revenue Service ("IRS") limitations. At December 31, 2013, total liabilities for the supplemental plans were $531 million.

In addition, total liabilities for gross unrecognized tax benefits were $513 million at December 31, 2013.

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

Other Matters

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Property and equipment

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

Share-based compensation

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

The fair value of each stock option granted is estimated on the date of grant using a closed-form pricing model. The pricing model requires assumptions, which impact the assumed fair value, including the expected life of the stock option, the risk-free interest rate, expected volatility of the Company's stock over the expected life and the expected dividend yield. The Company uses historical data to determine these assumptions and if these assumptions change significantly for future grants, share-based compensation expense will fluctuate in future years. The fair value of each RSU granted is equal to the market price of the Company's stock at date of grant less the present value of expected dividends over the vesting period.

Long-lived assets impairment review

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

Litigation accruals

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

Income taxes

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

The Company operates within multiple taxing jurisdictions and is subject to audit in these jurisdictions. The Company records accruals for the estimated outcomes of these audits, and the accruals may change in the future due to new developments in each matter. In 2012, the Internal Revenue Service ("IRS") completed its examination of the Company's U.S. federal income tax returns for 2007 and 2008. The Company and the IRS reached an agreement on adjustments that had been previously proposed by the IRS. The agreement did not have a material impact on the Company's cash flows, results of operations or financial position.

The Company's 2009 and 2010 U.S. federal income tax returns are currently under examination and the completion of the field examination is expected in 2014. In connection with this examination, the Company received notices of proposed adjustments ("NOPAs") in 2014 and expects to receive additional NOPAs within the next 12 months from the IRS related to certain transfer pricing matters. It is reasonably possible that the receipt of these future NOPAs will provide new information that causes the Company to reassess the total amount of unrecognized tax benefits recorded. While the Company cannot estimate the impact that new information may have on our unrecognized tax benefit balance, we believe that the liabilities recorded are appropriate and adequate as determined under Topic 740 - Income Taxes of the Accounting Standards Codification.

Deferred U.S. income taxes have not been recorded for temporary differences totaling $16.1 billion related to investments in certain foreign subsidiaries and corporate affiliates. The temporary differences consist primarily of undistributed earnings that are considered permanently invested in operations outside the U.S. If management's intentions change in the future, deferred taxes may need to be provided.

EFFECTS OF CHANGING PRICES—INFLATION

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

RECONCILIATION OF RETURNS ON INCREMENTAL INVESTED CAPITAL

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

The denominator is the weighted-average cash used for investing activities during the applicable one-or three-year period. The weighted-average cash used for investing activities is based on a weighting applied on a quarterly basis. These weightings are used to reflect the estimated contribution of each quarter’s investing activities to incremental operating income. For example, fourth quarter 2013 investing activities are weighted less because the assets purchased have only recently been deployed and would have generated little incremental operating income (12.5% of fourth quarter 2013 investing activities are included in the one-year and three-year calculations). In contrast, fourth quarter 2012 is heavily weighted because the assets purchased were deployed more than 12 months ago, and therefore have a full-year impact on 2013 operating income, with little or no impact to the base period (87.5% and 100.0% of fourth quarter 2012 investing activities are included in the one-year and three-year calculations, respectively). Management believes that weighting cash used for investing activities provides a more accurate reflection of the relationship between its investments and returns than a simple average.

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

One-year ROIIC calculation (dollars in millions):

Years ended December 31,	2013	2012	Incremental change	
NUMERATOR:				
Operating income	$8,764.3	$8,604.6	$159.7	
Depreciation and amortization	1,585.1	1,488.5	96.6	
Currency translation[1]			81.8	
Incremental operating income plus depreciation and amortization (at constant foreign exchange rates)			$338.1	
DENOMINATOR:				
Weighted-average cash used for investing activities[2]			$2,951.7	
Currency translation[1]			1.2	
Weighted-average cash used for investing activities (at constant foreign exchange rates)			$2,952.9	
One-year ROIIC			11.4	%

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

(2) Represents one-year weighted-average cash used for investing activities, determined by applying the weightings below to the cash used for investing activities for each quarter in the two-year period ended December 31, 2013.

	Years ended December 31,			
	2013		2012	
Cash used for investing activities	$2,673.8		$3,167.3	
AS A PERCENT				
Quarters ended:				
March 31	87.5	%	12.5	%
June 30	62.5		37.5	
September 30	37.5		62.5	
December 31	12.5		87.5	

Three-year ROIIC calculation (dollars in millions):

Years ended December 31,	2013	2010	Incremental change	
NUMERATOR:				
Operating income	$8,764.3	$7,473.1	$1,291.2	
Depreciation and amortization	1,585.1	1,276.2	308.9	
Currency translation[3]			25.1	
Incremental operating income plus depreciation and amortization (at constant foreign exchange rates)			$1,625.2	
DENOMINATOR:				
Weighted-average cash used for investing activities[4]			$8,089.6	
Currency translation[3]			(27.5	)
Weighted-average cash used for investing activities (at constant foreign exchange rates)			$8,062.1	
Three-year ROIIC			20.2	%

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

(4) Represents three-year weighted-average cash used for investing activities, determined by applying the weightings below to the cash used for investing activities for each quarter in the four-year period ended December 31, 2013.

	Years ended December 31,			
	2013	2012	2011	2010
Cash used for investing activities	$2,673.8	$3,167.3	$2,570.9	$2,056.0
AS A PERCENT				
Quarters ended:				
March 31	87.5 %	100.0 %	100.0 %	12.5 %
June 30	62.5	100.0	100.0	37.5
September 30	37.5	100.0	100.0	62.5
December 31	12.5	100.0	100.0	87.5

RISK FACTORS AND CAUTIONARY STATEMENT ABOUT FORWARD-LOOKING INFORMATION

This report includes forward-looking statements about our plans and future performance, including those under Outlook for 2014. These statements use such words as “may,” “will,” “expect,” “believe” and “plan.” They reflect our expectations and speak only as of the date of this report. 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. We have identified the principal risks and uncertainties that affect our performance elsewhere in this report, and investors are urged to consider these risks and uncertainties when evaluating our historical and expected performance.

ITEM 7A. Quantitative and Qualitative Disclosures About Market Risk

Quantitative and qualitative disclosures about market risk are included in Part II, Item 7, page 21 of the Form 10-K.

ITEM 8. Financial Statements and Supplementary Data

Consolidated Statement of Income

In millions, except per share data	Years ended December 31, 2013	2012	2011
REVENUES			
Sales by Company-operated restaurants	$18,874.2	$18,602.5	$18,292.8
Revenues from franchised restaurants	9,231.5	8,964.5	8,713.2
Total revenues	28,105.7	27,567.0	27,006.0
OPERATING COSTS AND EXPENSES			
Company-operated restaurant expenses			
Food & paper	6,361.3	6,318.2	6,167.2
Payroll & employee benefits	4,824.1	4,710.3	4,606.3
Occupancy & other operating expenses	4,393.2	4,195.2	4,064.4
Franchised restaurants-occupancy expenses	1,624.4	1,527.0	1,481.5
Selling, general & administrative expenses	2,385.6	2,455.2	2,393.7
Other operating (income) expense, net	(247.2)	(243.5)	(236.8)
Total operating costs and expenses	19,341.4	18,962.4	18,476.3
Operating income	8,764.3	8,604.6	8,529.7
Interest expense-net of capitalized interest of $15.5, $15.9 and $14.0	521.9	516.6	492.8
Nonoperating (income) expense, net	37.9	9.0	24.7
Income before provision for income taxes	8,204.5	8,079.0	8,012.2
Provision for income taxes	2,618.6	2,614.2	2,509.1
Net income	$5,585.9	$5,464.8	