

## Description of the Business

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The Company franchises and operates McDonald's restaurants. of the 32,737 restaurants in 117 countries at year-end 2010, 26,338 were franchised or licensed (including 19,279 franchised to conventional franchisees, 3,485 licensed to developmental licensees and 3,574 licensed to foreign affiliates (affiliates) – primarily Japan) and 6,399 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 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. 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 and/or franchise restaurants within a market.

We view ourselves primarily as a franchisor and believe franchising is important to 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 34%, 40% and 21% of total revenues, respectively. the United Kingdom (U.K.), France and Germany, collectively, account for over 50% of Europe's revenues; and China, Australia and Japan (a 50%-owned affiliate accounted for under the equity method), collectively, account for over 50% of APMEA's revenues. These six markets along with the U.S. and Canada are referred to as "major markets" throughout this report and comprise approximately 70% of total revenues.



## Consolidated Statement of Income

Years ended December 31,

In millions, except per share data

2010      2009      2008

**REVENUES**

Sales by Company-operated restaurants	16,233.3	15,458.5	16,560.9
Revenues from franchised restaurants	7,841.3	7,286.2	6,961.5
<b>Total revenues</b>	<b>24,074.6</b>	<b>22,744.7</b>	<b>23,522.4</b>

**OPERATING COSTS and EXPENSES**

Company-operated restaurant expenses			
Food & paper	5,300.1	5,178.0	5,586.1
Payroll & employee benefits	4,121.4	3,965.6	4,300.1
Occupancy & other operating expenses	3,638.0	3,507.6	3,766.7
Franchised restaurants occupancy expenses	1,377.8	1,301.7	1,230.3
Selling, general & administrative expenses	2,333.3	2,234.2	2,355.5
Impairment and other charges (credits), net	29.1	(61.1)	6.0
Other operating (income) expense, net	(198.2)	(222.3)	(165.2)
<b>Total operating costs and expenses</b>	<b>16,601.5</b>	<b>15,903.7</b>	<b>17,079.5</b>

**Operating income**

Operating income	7,473.1	6,841.0	6,442.9
Interest expense net of capitalized interest of \$12, 11.7 and 12.3	450.9	473.2	522.6
Nonoperating (income) expense, net	21.9	(24.3)	(77.6)
Gain on sale of investment		(94.9)	(160.1)
Income before provision for income taxes	7,000.3	6,487.0	6,158.0
Provision for income taxes	2,054.0	1,936.0	1,844.8
<b>Net income</b>	<b>4,946.3</b>	<b>4,551.0</b>	<b>4,313.2</b>

Earnings per common share basic	\$ 4.64	\$ 4.17	\$ 3.83
Earnings per common share diluted	\$ 4.58	\$ 4.11	\$ 3.76
Dividends declared per common share	\$ 2.26	\$ 2.05	\$ 1.63
Weighted-average shares outstanding basic	1,066.0	1,092.2	1,126.6
Weighted-average shares outstanding diluted	1,080.3	1,107.4	1,146.0

**Balance Sheet**

December 31,

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In millions, except per share data	2010	2009	Change	Average
<b>ASSETS</b>				
Cash and equivalents	2,387.0	1,796.0	591.0	
Accounts and notes receivable	1,179.1	1,060.4	118.7	
Inventories, at cost, not in excess of market	109.9	106.2	3.7	
Prepaid expenses and other current assets	692.5	453.7	238.8	
<b>Total current assets</b>	<b>4,368.5</b>	<b>3,416.3</b>	<b>952.2</b>	
Investments in and advances to affiliates	1,335.3	1,212.7	122.6	
Goodwill	2,586.1	2,425.2	160.9	
Miscellaneous	1,624.7	1,639.2	(14.5)	
<b>Total other assets</b>	<b>5,546.1</b>	<b>5,277.1</b>	<b>269.0</b>	
Property and equipment, at cost	34,482.4	33,440.5	1,041.9	
Accumulated depreciation and amortization	(12,421.8)	(11,909.0)	(512.8)	
Net property and equipment	22,060.6	21,531.5	529.1	
<b>Total assets</b>	<b>31,975.2</b>	<b>30,224.9</b>	<b>1,750.3</b>	
<b>Liabilities and Shareholders Equity</b>				
Accounts payable	943.9	636.0	307.9	
Income taxes	111.3	202.4	(91.1)	
Other taxes	275.6	277.4	(1.8)	
Accrued interest	200.7	195.8	4.9	
Accrued payroll and other liabilities	1,384.9	1,659.0	(274.1)	
Current maturities of long-term debt	8.3	18.1	(9.8)	
<b>Total current liabilities</b>	<b>2,924.7</b>	<b>2,988.7</b>	<b>(64.0)</b>	
Long-term debt	11,497.0	10,560.3	936.7	
Other long-term liabilities	1,586.9	1,363.1	223.8	
Deferred income taxes	1,332.4	1,278.9	53.5	
Common stock, \$.01 par value; authorized 1,660.6 million shares outstanding	16.6	16.6	0.0	
Additional paid-in capital	5,196.4	4,853.9	342.5	
Retained earnings	33,811.7	31,270.8	2,540.9	
Accumulated other comprehensive income	752.9	747.4	5.5	
Common stock in treasury, at cost; 607 and 583.9 million shares	(25,143.4)	(22,854.8)	(2,288.6)	
<b>Total shareholders equity</b>	<b>14,634.2</b>	<b>14,033.9</b>	<b>600.3</b>	
<b>Total liabilities and shareholders equity</b>	<b>31,975.2</b>	<b>30,224.9</b>	<b>1,750.3</b>	

## Segment and Geographic Information

In millions	2010	2009	2008
U.S.	8,111.6	7,943.8	8,078.3
Europe	9,569.2	9,273.8	9,922.9
APMEA	5,065.5	4,337.0	4,230.8
Other Countries Corporate	1,328.3	1,190.1	1,290.4
<b>Total revenues</b>	<b>24,074.6</b>	<b>22,744.7</b>	<b>23,522.4</b>
U.S.	3,446.5	3,231.7	3,059.7
Europe	2,796.8	2,588.1	2,608.0
APMEA	1,199.9	989.5	818.8
Other Countries Corporate	29.9	31.7	(43.6)
<b>Total operating income</b>	<b>7,473.1</b>	<b>6,841.0</b>	<b>6,442.9</b>
U.S.	10,467.7	10,429.3	10,356.7
Europe	11,360.7	11,494.4	10,532.7
APMEA	5,374.0	4,409.0	4,074.6
Other Countries Corporate	4,772.8	3,892.2	3,497.5
<b>Total assets</b>	<b>31,975.2</b>	<b>30,224.9</b>	<b>28,461.5</b>
U.S.	530.5	659.4	837.4
Europe	978.5	859.3	864.1
APMEA	493.1	354.6	360.6
Other Countries Corporate	133.4	78.8	73.6
<b>Total capital expenditures</b>	<b>2,135.5</b>	<b>1,952.1</b>	<b>2,135.7</b>
U.S.	433.0	423.8	400.9
Europe	500.5	483.2	506.3
APMEA	232.4	202.9	193.4
Other Countries Corporate	110.3	106.3	107.2
<b>Total depreciation and amortization</b>	<b>1,276.2</b>	<b>1,216.2</b>	<b>1,207.8</b>

## Notes

### Other operating (income) expense, net

In millions	2010	2009	2008
Gains on sales of restaurant businesses	79	113	126
Equity in earnings of unconsolidated affiliates	164	168	111
Asset dispositions and other expense	45	59	72
Total	198	222	165

### Gains on sales of restaurant businesses

Gains on sales of restaurant businesses include gains from sales of Company-operated restaurants as well as gains from exercises of purchase options by franchisees with business facilities lease arrangements (arrangements where the Company leases the businesses, including equipment, to franchisees who generally have options to purchase the 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 are recorded in operating income because the transactions are a recurring part of our business. The Company realized lower gains on sales of restaurant businesses in 2010 compared with 2009 and 2008 primarily as a result of selling less Company-operated restaurants to franchisees.

### 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. Results in 2010 reflected a reduction in the number of unconsolidated affiliate restaurants worldwide partly offset by improved operating performance in Japan. Results in 2009 also reflected improved operating performance in Japan and benefited from the stronger Japanese Yen.

### Asset dispositions and other

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-off due to restaurant reinvestment, and other miscellaneous income and expenses.

### Nonoperating (income) expense, net

In millions	2010	2009	2008
Interest income	(20)	(19)	(85)
Foreign currency and hedging activity	(2)	(32)	(5)
Other expense	44	27	12
Total	22	(24)	(78)

Interest income consists primarily of interest earned on short-term cash investments. Interest income decreased in 2009 primarily due to lower average interest rates. Foreign currency and hedging activity primarily relates to net gains or losses on certain hedges that reduce the exposure to variability on certain intercompany foreign currency cash flow streams. Other expense primarily consists of amortization of debt issuance costs and other nonoperating income and expenses.

### Gain on sale of investment

In 2009, the Company sold its minority ownership interest in Redbox to Coinstar, Inc., the majority owner, for total consideration of \$140 million. as a result of the transaction, the Company recognized a nonoperating pretax gain of \$95 million (after tax-\$59 million or \$0.05 per share). in 2008, the Company sold its minority ownership interest in U.K.-based Pret a Manger. In connection with the sale, the Company received cash proceeds of \$229 million and recognized nonoperating pretax gain of \$160 million (after tax-\$109 million or \$0.09 per share).

## Leasing Arrangements

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At December 31, 2010, the Company was the lessee at 13,957 restaurant locations through ground leases (the Company leases the land and the Company or franchisee owns the building) and through improved leases (the Company leases land and buildings). Lease terms for most restaurants, where market conditions allow, are generally for 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalation terms vary by geographic segment with examples including fixed-rent escalations, escalations based on an inflation index, and fair-value market adjustments. The timing of these escalations generally ranges from annually to every five years. For most locations, the Company is obligated for the related occupancy costs including property taxes, insurance and maintenance; however, for franchised sites, the Company requires the franchisees to pay these costs. In addition, the Company is the lessee under noncancelable leases covering certain offices and vehicles. Future minimum payments required under existing operating leases with initial terms of one year or more are:

In millions	Restaurant	Other	Total
2011	1,124.1	76.4	1,200.5
2012	1,054.7	60.9	1,115.6
2013	986.7	47.5	1,034.2
2014	885.5	40.4	925.9
2015	797.4	29.6	827.0
Thereafter	5,823.6	194.5	6,018.1
Total minimum payments	10,672.0	449.3	11,121.3

The following table provides detail of rent expense:

In millions	2010	2009	2008
<b>Company-operated restaurants:</b>			
U.S.	60.4	65.2	73.7
Outside the U.S.	545.0	506.9	532.0
Total	605.4	572.1	605.7
<b>Franchised restaurants:</b>			
U.S.	409.7	393.9	374.7
Outside the U.S.	463.5	431.4	409.4
Total	873.2	825.3	784.1
Other	98.1	98.9	101.8
Total rent expense	1,576.7	1,496.3	1,491.6

## Income Taxes

Income before provision for income taxes, classified by source of income, was as follows:

In millions	2010	2009	2008
U.S.	2,763.0	2,700.4	2,769.4
Outside the U.S.	4,237.3	3,786.6	3,388.6
Income before provision for income taxes	7,000.3	6,487.0	6,158.0

Net deferred tax liabilities consisted of:

In millions	December 31,	2010	2009	
Property and equipment		\$ 1,655.2	1,609.4	
Other		489.8	419.1	
Total deferred tax liabilities		2,145.0	2,028.5	
Property and equipment		(352.4)	(287.7)	
Employee benefit plans		(356.4)	(311.0)	
Intangible assets		(268.6)	(289.3)	
Deferred foreign tax credits		(310.7)	(152.8)	
Capital loss carryforwards		(37.5)	(50.9)	
Operating loss carryforwards		(56.8)	(65.7)	
Indemnification liabilities		(36.5)	(43.5)	
Other		(284.0)	(334.3)	
Total deferred tax assets before valuation allowance		(1,702.9)	(1,535.2)	
Valuation allowance		104.7	118.1	
Net deferred tax liabilities		\$ 546.8	611.4	64.6
Balance sheet presentation:				
Deferred income taxes		\$ 1,332.4	1,278.9	
Other assets miscellaneous		(590.4)	(541.2)	
Current assets prepaid expenses and other current assets		(195.2)	(126.3)	
Net deferred tax liabilities		\$ 546.8	611.4	

The statutory U.S. federal income tax rate reconciles to the effective income tax rates as follows:

<b>Percentages</b>	2010	2009
Statutory U.S. federal income tax rate	35.0	35.0
State income taxes, net of related federal income tax benefit	1.6	1.6
Benefits and taxes related to foreign operations	(6.9)	(6.3)
Other, net	(0.4)	(0.5)
Effective income tax rates	29.3	29.8

## Questions

### 1 Consolidated Statements of Cash Flows

Refer to the sections of 2010 financial statements, supplemental disclosures and notes of McDonalds Corporation. Construct the Consolidated Statements of Cash Flows for McDonalds for the year ending December 31, 2010 using the indirect method. For your convenience, the increases in all balance sheet accounts are also given. Depreciation expenses are given in the Segment and Geographic Information note.



e. Return on Total capital, ROTC, (For Year Ending 12/31/2010).

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f Derive ROTC from ROA, (For Year Ending 12/31/2010).

g Derive ROE from ROTC, (For Year Ending 12/31/2010).

h Asset Turnover, ATO, (For Year Ending 12/31/2010).

i Margin before Interest and Taxes, MBIT, (For Year Ending 12/31/2010).

j Derive ROA form MBIT and ATO.

k Book value per share as of Dec 31, 2010.

### Question 3

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Assume that the average interest rate for all borrowings for McDonalds is 5 percent.

Assume that the useful life for reporting purposes for assets under leases is 8 years.

Assume that lease amounts to be paid after the 5th year are spread over 7 years.

- a** Suppose you want to consider all the operating leases of McDonalds as capital leases. What changes need to be made in the balance sheets of December 31, 2009 and 2010. What changes need to be made in the income statement for the year ending December 31, 2010?

Using data from adjustments that you computed in the previous question compute the following ratios on Dec 31, 2010

Do they show a better picture of McDonalds? Comment on the differences.

**b. Debt - to - Equity**

**c. Times Interest Earned.**

**Question 4**

*Use the tax footnote for the following questions*

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- a. How much taxes did McDonalds actually pay in the year ending 12/31/2010?
- b. How much depreciation expense on Property and Equipment did McDonalds count for tax purposes for the year ending 12/31/2010?
- c. What was the average much state income tax rate for McDonalds the year ending 12/31/2010?  
Assume that McDonalds paid all state income taxes are paid in the US.
- d. What was the average tax rate for income abroad of McDonalds for the year ending 12/31/2010 ?



## Question 5

Two pages from McDonald's annual report are attached - Six year performance and stock performance. In these questions look at the trend from 2005 to 2010.

For your answers cite numbers from the statement.

- a** Has MCD been growing? Has it invested in property, plant and equipment?
- b** What was all the free cash flow used for?  
Is MCD in a cash flow-rich business or growth business?
- c** What is MCD's beta (how the stock varies with market returns)?  
Did MCD's stock perform differently from the market any year? Why?
- d** Explain the stock price appreciation of MCD using accounting performance?
- e** The stock price of MCD on December 31, 2011 was: \$ 74.00  
What was the stock price of MCD on December 31, 2010 was?

## 6-Year Summary

<i>Dollars in millions, except per share data</i>	2010	2009	2008	2007	2006	2005
Company-operated sales	\$16,233	15,459	16,561	16,611	15,402	14,018
Franchised revenues	\$ 7,842	7,286	6,961	6,176	5,493	5,099
<b>Total revenues</b>	<b>\$24,075</b>	<b>22,745</b>	<b>23,522</b>	<b>22,787</b>	<b>20,895</b>	<b>19,117</b>
<b>Operating income</b>	<b>\$ 7,473<sup>(1)</sup></b>	<b>6,841<sup>(2)</sup></b>	<b>6,443</b>	<b>3,879<sup>(5)</sup></b>	<b>4,433<sup>(8)</sup></b>	<b>3,984</b>
<b>Income from continuing operations</b>	<b>\$ 4,946<sup>(1)</sup></b>	<b>4,551<sup>(2,3)</sup></b>	<b>4,313<sup>(4)</sup></b>	<b>2,335<sup>(5,6)</sup></b>	<b>2,866<sup>(8)</sup></b>	<b>2,578<sup>(10)</sup></b>
<b>Net income</b>	<b>\$ 4,946<sup>(1)</sup></b>	<b>4,551<sup>(2,3)</sup></b>	<b>4,313<sup>(4)</sup></b>	<b>2,395<sup>(5,6,7)</sup></b>	<b>3,544<sup>(8,9)</sup></b>	<b>2,602<sup>(10)</sup></b>
<b>Cash provided by operations</b>	<b>\$ 6,342</b>	<b>5,751</b>	<b>5,917</b>	<b>4,876</b>	<b>4,341</b>	<b>4,337</b>
<b>Cash used for investing activities</b>	<b>\$ 2,056</b>	<b>1,655</b>	<b>1,625</b>	<b>1,150</b>	<b>1,274</b>	<b>1,818</b>
<b>Capital expenditures</b>	<b>\$ 2,136</b>	<b>1,952</b>	<b>2,136</b>	<b>1,947</b>	<b>1,742</b>	<b>1,607</b>
<b>Cash used for (provided by) financing activities</b>	<b>\$ 3,729</b>	<b>4,421</b>	<b>4,115</b>	<b>3,996</b>	<b>5,460</b>	<b>(442)</b>
<b>Treasury stock repurchased<sup>(11)</sup></b>	<b>\$ 2,648</b>	<b>2,854</b>	<b>3,981</b>	<b>3,949</b>	<b>3,719</b>	<b>1,228</b>
<b>Common stock cash dividends</b>	<b>\$ 2,408</b>	<b>2,235</b>	<b>1,823</b>	<b>1,766</b>	<b>1,217</b>	<b>842</b>
<b>Financial position at year end:</b>						
Total assets	\$31,975	30,225	28,462	29,392	28,974	29,989
Total debt	\$11,505	10,578	10,218	9,301	8,408	10,137
Total shareholders' equity	\$14,634	14,034	13,383	15,280	15,458	15,146
Shares outstanding <i>in millions</i>	1,054	1,077	1,115	1,165	1,204	1,263
<b>Per common share:</b>						
Income from continuing operations—diluted	\$ 4.58 <sup>(1)</sup>	4.11 <sup>(2,3)</sup>	3.76 <sup>(4)</sup>	1.93 <sup>(5,6)</sup>	2.29 <sup>(8)</sup>	2.02 <sup>(10)</sup>
Net income—diluted	\$ 4.58 <sup>(1)</sup>	4.11 <sup>(2,3)</sup>	3.76 <sup>(4)</sup>	1.98 <sup>(5,6,7)</sup>	2.83 <sup>(8,9)</sup>	2.04 <sup>(10)</sup>
Dividends declared	\$ 2.26	2.05	1.63	1.50	1.00	0.67
Market price at year end	\$ 76.76	62.44	62.19	58.91	44.33	33.72
Company-operated restaurants	6,399	6,262	6,502	6,906	8,166	8,173
Franchised restaurants	26,338	26,216	25,465	24,471	22,880	22,593
<b>Total Systemwide restaurants</b>	<b>32,737</b>	<b>32,478</b>	<b>31,967</b>	<b>31,377</b>	<b>31,046</b>	<b>30,766</b>
<b>Franchised sales<sup>(12)</sup></b>	<b>\$61,147</b>	<b>56,928</b>	<b>54,132</b>	<b>46,943</b>	<b>41,380</b>	<b>38,913</b>

(1) Includes net pretax expense due to Impairment and other charges (credits), net of \$29.1 million (\$24.6 million after tax or \$0.02 per share) primarily related to the Company's share of restaurant closing costs in McDonald's Japan (a 50%-owned affiliate) partially offset by income primarily related to the resolution of certain liabilities retained in connection with the 2007 Latin America developmental license transaction.

(2) Includes net 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.

(3) Includes income of \$58.8 million (\$0.05 per share) in Gain on sale of investment related to the sale of the Company's minority ownership interest in Redbox Automated Retail, LLC.

(4) Includes income of \$109.0 million (\$0.09 per share) in Gain on sale of investment from the sale of the Company's minority ownership interest in U.K.-based Pret A Manger.

(5) Includes pretax operating charges of \$1.7 billion (\$1.32 per share) due to Impairment and other charges (credits), net primarily as a result of the Company's sale of its businesses in 18 Latin American and Caribbean markets to a developmental licensee.

(6) Includes a tax benefit of \$316.4 million (\$0.26 per share) resulting from the completion of an Internal Revenue Service (IRS) examination of the Company's 2003-2004 U.S. federal tax returns.

(7) Includes income of \$60.1 million (\$0.05 per share) related to discontinued operations primarily from the sale of the Company's investment in Boston Market.

(8) Includes pretax operating charges of \$134 million (\$98 million after tax or \$0.08 per share) due to Impairment and other charges (credits), net.

(9) Includes income of \$678 million (\$0.54 per share) related to discontinued operations primarily resulting from the disposal of the Company's investment in Chipotle.

(10) Includes a net tax benefit of \$73 million (\$0.05 per share) comprised of \$179 million (\$0.14 per share) of income tax benefit resulting from the completion of an IRS examination of the Company's 2000-2002 U.S. tax returns, partly offset by \$106 million (\$0.09 per share) of incremental tax expense resulting from the decision to repatriate certain foreign earnings under the Homeland Investment Act (HIA).

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

(12) 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.

## Stock performance graph

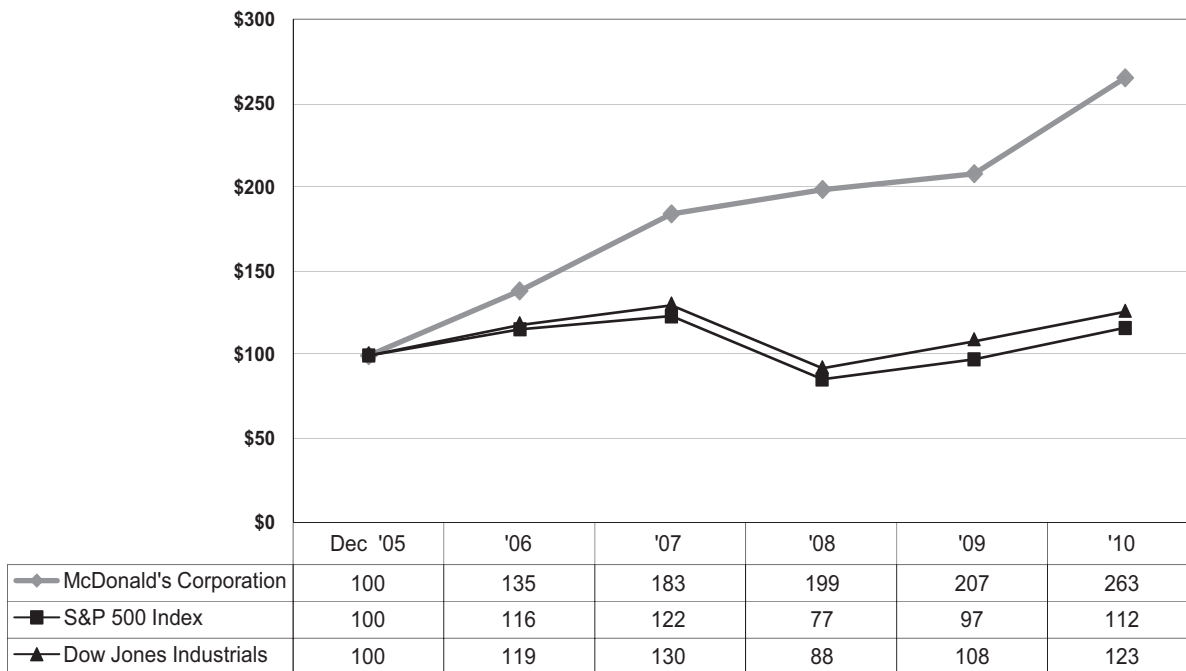
At least annually, we consider which companies comprise a readily identifiable investment peer group. McDonald's is included in published restaurant indices; however, unlike most other companies included in these indices, which have no or limited international operations, McDonald's does business in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

Our market capitalization, trading volume and importance in an industry that is vital to the U.S. economy have resulted in McDonald's inclusion in the Dow Jones Industrial Average (DJIA) since 1985. Like McDonald's, many DJIA companies generate mean-

ingful revenues and income outside the U.S. and some manage global brands. Thus, we believe that the use of the DJIA companies as the group for comparison purposes is appropriate.

The following performance graph shows McDonald's cumulative total shareholder returns (i.e., price appreciation and reinvestment of dividends) relative to the Standard & Poor's 500 Stock Index (S&P 500 Index) and to the DJIA companies for the five-year period ended December 31, 2010. The graph assumes that the value of an investment in McDonald's common stock, the S&P 500 Index and the DJIA companies (including McDonald's) was \$100 at December 31, 2005. For the DJIA companies, returns are weighted for market capitalization as of the beginning of each period indicated. These returns may vary from those of the Dow Jones Industrial Average Index, which is not weighted by market capitalization, and may be composed of different companies during the period under consideration.

**COMPARISON OF CUMULATIVE FIVE YEAR TOTAL RETURN**



Source: Capital IQ, a Standard & Poor's business