

# Consolidated Statement of Income

<i>(In millions, except per common share data)</i>	Years ended December 31, <b>1996</b>			1995	1994
<b>Revenues</b>					
Sales by Company-operated restaurants	<b>\$ 7,570.7</b>	\$6,863.5	\$5,792.6		
Revenues from franchised and affiliated restaurants	<b>3,115.8</b>	2,931.0	2,528.2		
<b>Total revenues</b>	<b>10,686.5</b>	9,794.5	8,320.8		
<b>Operating costs and expenses</b>					
Company-operated restaurants					
Food and packaging	<b>2,546.6</b>	2,319.4	1,934.2		
Payroll and other employee benefits	<b>1,909.8</b>	1,730.9	1,459.1		
Occupancy and other operating expenses	<b>1,706.8</b>	1,497.4	1,251.7		
	<b>6,163.2</b>	5,547.7	4,645.0		
Franchised restaurants—occupancy expenses	<b>570.1</b>	514.9	435.5		
General, administrative and selling expenses	<b>1,366.4</b>	1,236.3	1,083.0		
Other operating (income) expense—net	<b>(45.8)</b>	(105.7)	(83.9)		
<b>Total operating costs and expenses</b>	<b>8,053.9</b>	7,193.2	6,079.6		
<b>Operating income</b>	<b>2,632.6</b>	2,601.3	2,241.2		
Interest expense—net of capitalized interest of \$22.2, \$22.5 and \$20.6	<b>342.5</b>	340.2	305.7		
Nonoperating income (expense)—net	<b>(39.1)</b>	(92.0)	(48.9)		
<b>Income before provision for income taxes</b>	<b>2,251.0</b>	2,169.1	1,886.6		
Provision for income taxes	<b>678.4</b>	741.8	662.2		
<b>Net income</b>	<b>\$ 1,572.6</b>	\$1,427.3	\$1,224.4		
<b>Net income per common share</b>	<b>\$ 2.21</b>	\$ 1.97	\$ 1.68		
<b>Dividends per common share</b>	<b>\$ .29</b>	\$ .26	\$ .23		

*The accompanying Financial Comments are an integral part of the consolidated financial statements.*

# Consolidated Balance Sheet

<i>(In millions)</i>	December 31, 1996	1995
<b>Assets</b>		
<b>Current assets</b>		
Cash and equivalents	\$ 329.9	\$ 334.8
Accounts receivable	467.1	377.3
Notes receivable	28.3	36.3
Inventories, at cost, not in excess of market	69.6	58.0
Prepaid expenses and other current assets	207.6	149.4
<b>Total current assets</b>	<b>1,102.5</b>	<b>955.8</b>
<b>Other assets and deferred charges</b>		
Notes receivable due after one year	85.3	98.5
Investments in and advances to affiliates	694.0	656.9
Miscellaneous	405.1	357.3
<b>Total other assets and deferred charges</b>	<b>1,184.4</b>	<b>1,112.7</b>
<b>Property and equipment</b>		
Property and equipment, at cost	19,133.9	17,137.6
Accumulated depreciation and amortization	(4,781.8)	(4,326.3)
<b>Net property and equipment</b>	<b>14,352.1</b>	<b>12,811.3</b>
<b>Intangible assets-net</b>	<b>747.0</b>	<b>534.8</b>
<b>Total assets</b>	<b>\$17,386.0</b>	<b>\$15,414.6</b>
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Notes payable	\$ 597.8	\$ 413.0
Accounts payable	638.0	564.3
Income taxes	22.5	55.4
Other taxes	136.7	127.1
Accrued interest	121.7	117.4
Other accrued liabilities	523.1	352.5
Current maturities of long-term debt	95.5	165.2
<b>Total current liabilities</b>	<b>2,135.3</b>	<b>1,794.9</b>
<b>Long-term debt</b>	<b>4,830.1</b>	<b>4,257.8</b>
<b>Other long-term liabilities and minority interests</b>	<b>726.5</b>	<b>664.7</b>
<b>Deferred income taxes</b>	<b>975.9</b>	<b>835.9</b>
<b>Shareholders' equity</b>		
Preferred stock, no par value; authorized-165.0 million shares; issued-7.2 thousand	358.0	358.0
Common stock, 1996-\$0.01 par value; 1995-no par value; authorized, 1996-3.5 billion shares; 1995-1.25 billion shares; issued-830.3 million	8.3	92.3
Additional paid-in capital	574.2	387.4
Guarantee of ESOP Notes	(193.2)	(214.2)
Retained earnings	11,173.0	9,831.3
Foreign currency translation adjustment	(175.1)	(87.1)
	<b>11,745.2</b>	<b>10,367.7</b>
Common stock in treasury, at cost; 135.7 and 130.6 million shares	(3,027.0)	(2,506.4)
<b>Total shareholders' equity</b>	<b>8,718.2</b>	<b>7,861.3</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$17,386.0</b>	<b>\$15,414.6</b>

The accompanying Financial Comments are an integral part of the consolidated financial statements.

# Consolidated Statement of Cash Flows

<i>(In millions)</i>	Years ended December 31, 1996			1995	1994
<b>Operating activities</b>					
Net income	<b>\$ 1,572.6</b>	\$ 1,427.3	\$ 1,224.4		
Adjustments to reconcile to cash provided by operations					
Depreciation and amortization	<b>742.9</b>	709.0	628.6		
Deferred income taxes	<b>32.9</b>	(4.2)	(5.6)		
Changes in operating working capital items					
Accounts receivable increase	<b>(77.5)</b>	(49.5)	(51.6)		
Inventories, prepaid expenses and other current assets increase	<b>(18.7)</b>	(20.4)	(15.0)		
Accounts payable increase	<b>44.5</b>	52.6	105.4		
Accrued interest increase (decrease)	<b>5.0</b>	13.0	(25.5)		
Taxes and other liabilities increase	<b>116.4</b>	158.3	95.2		
Other-net	<b>42.9</b>	10.1	(29.7)		
<b>Cash provided by operations</b>	<b>2,461.0</b>	2,296.2	1,926.2		
<b>Investing activities</b>					
Property and equipment expenditures	<b>(2,375.3)</b>	(2,063.7)	(1,538.6)		
Purchases of restaurant businesses	<b>(137.7)</b>	(110.1)	(133.8)		
Sales of restaurant businesses	<b>198.8</b>	151.6	151.5		
Property sales	<b>35.5</b>	66.2	66.0		
Notes receivable additions	<b>(36.4)</b>	(33.4)	(15.1)		
Notes receivable reductions	<b>59.2</b>	31.5	56.7		
Other	<b>(314.4)</b>	(151.1)	(92.6)		
<b>Cash used for investing activities</b>	<b>(2,570.3)</b>	(2,109.0)	(1,505.9)		
<b>Financing activities</b>					
Net short-term borrowings (repayments)	<b>228.8</b>	(272.9)	521.7		
Long-term financing issuances	<b>1,391.8</b>	1,250.2	260.9		
Long-term financing repayments	<b>(841.3)</b>	(532.2)	(536.9)		
Treasury stock purchases	<b>(599.9)</b>	(314.5)	(495.6)		
Common and preferred stock dividends	<b>(232.0)</b>	(226.5)	(215.7)		
Other	<b>157.0</b>	63.6	39.4		
<b>Cash provided by (used for) financing activities</b>	<b>104.4</b>	(32.3)	(426.2)		
<b>Cash and equivalents increase (decrease)</b>	<b>(4.9)</b>	154.9	(5.9)		
Cash and equivalents at beginning of year	<b>334.8</b>	179.9	185.8		
<b>Cash and equivalents at end of year</b>	<b>\$ 329.9</b>	\$ 334.8	\$ 179.9		
<b>Supplemental cash flow disclosures</b>					
Interest paid	<b>\$ 369.0</b>	\$ 331.0	\$ 323.9		
Income taxes paid	<b>\$ 558.1</b>	\$ 667.6	\$ 621.8		

*The accompanying Financial Comments are an integral part of the consolidated financial statements.*

# Consolidated Statement of Shareholders' Equity

<i>(In millions, except per share data)</i>	Preferred stock issued		Common stock issued		Additional paid-in capital	Guarantee of ESOP Notes	Retained earnings	Foreign currency translation adjustment	Common stock in treasury	
	Shares	Amount	Shares	Amount					Shares	Amount
Balance at December 31, 1993	11.4	\$ 677.3	830.3	\$92.3	\$256.7	\$(253.6)	\$7,612.6	\$(192.2)	(123.0)	\$(1,919.0)
Net income							1,224.4			
Common stock cash dividends (\$ .23 per share)							(163.9)			
Preferred stock cash dividends (per share: \$1.01 for Series B, \$1.16 for Series C and \$3,860 for Series E), (net of tax benefits of \$3.7)							(47.2)			
Preferred stock conversion	(.2)	(3.1)			.5				.2	2.6
ESOP Notes payment						17.5				
Treasury stock acquisitions									(17.6)	(499.8)
Translation adjustments (including taxes of \$50.8)								77.3		
Common equity put options issuance										(54.6)
Stock option exercises and other (including tax benefits of \$20.3)					28.8	1.7			3.8	27.1
Balance at December 31, 1994	11.2	674.2	830.3	92.3	286.0	(234.4)	8,625.9	(114.9)	(136.6)	(2,443.7)
Net income							1,427.3			
Common stock cash dividends (\$ .26 per share)							(181.4)			
Preferred stock cash dividends (per share: \$1.01 for Series B, \$1.16 for Series C and \$3,860 for Series E), (net of tax benefits of \$1.6)							(40.5)			
Preferred stock conversion	(11.2)	(316.2)			25.3				8.8	144.6
ESOP Notes payment						19.0				
Treasury stock acquisitions									(8.8)	(321.0)
Translation adjustments (including taxes of \$9.0)								27.8		
Common equity put options expiration										56.2
Stock option exercises and other (including tax benefits of \$42.2)					76.1	1.2			6.0	57.5
Balance at December 31, 1995	0.0*	358.0	830.3	92.3	387.4	(214.2)	9,831.3	(87.1)	(130.6)	(2,506.4)
Net income							<b>1,572.6</b>			
Common stock cash dividends (\$ .29 per share)							<b>(203.3)</b>			
Preferred stock cash dividends (per share: \$3,860 for Series E)							<b>(27.6)</b>			
Conversion to \$.01 par value stock				<b>(84.0)</b>	<b>84.0</b>					
ESOP Notes payment						<b>20.2</b>				
Treasury stock acquisitions									<b>(12.9)</b>	<b>(604.8)</b>
Translation adjustments (including taxes of \$50.6)								<b>(88.0)</b>		
Stock option exercises and other (including tax benefits of \$86.4)					<b>102.8</b>	<b>0.8</b>			<b>7.8</b>	<b>84.2</b>
<b>Balance at December 31, 1996</b>	<b>0.0*</b>	<b>\$ 358.0</b>	<b>830.3</b>	<b>\$ 8.3</b>	<b>\$574.2</b>	<b>\$(193.2)</b>	<b>\$11,173.0</b>	<b>\$(175.1)</b>	<b>(135.7)</b>	<b>\$(3,027.0)</b>

\*At December 31, 1996 and 1995, 7.2 thousand shares were outstanding.

The accompanying Financial Comments are an integral part of the consolidated financial statements.

# Financial Comments

## Summary of significant accounting policies

### Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. Investments in affiliates owned 50% or less are accounted for by the equity method.

### Estimates in financial statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

### Foreign currency translation

The functional currency of substantially all operations outside the U.S. is the respective local currency, except for hyperinflationary countries where it is the U.S. Dollar.

### Advertising costs

Production costs for radio and television advertising are expensed when the commercials are initially aired. Advertising expenses included in costs of Company-operated restaurants and general, administrative and selling expenses were (in millions): 1996–\$503.3; 1995–\$431.0; 1994–\$385.6.

### Stock-based compensation

The Company accounts for stock options as prescribed by APB Opinion No. 25 and included pro forma information in the Stock options footnote, as permitted by Statement of Financial Accounting Standard No. 123, *Accounting for Stock-Based Compensation* (SFAS 123).

### Property and equipment

Property and equipment are stated at cost, with depreciation and amortization provided on the straight-line method over the following estimated useful lives: buildings—up to 40 years; leasehold improvements—lesser of useful lives of assets or lease terms including option periods; and equipment—three to 12 years.

### Intangible assets

Intangible assets, primarily franchise rights reacquired from franchisees and affiliates, are amortized on the straight-line method over an average life of about 30 years.

### Accounting for the impairment of long-lived assets

In the first quarter 1996, the Company adopted Statement of Financial Accounting Standard No. 121, *Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed of* (SFAS 121). This statement requires impairment losses be recognized for long-lived assets, whether these assets are held for disposal or continue to be used in operations, when indicators of impairment are present and the fair value of assets are estimated to be less than carrying amounts. The fair value of assets was based on projected future cash flows. The adoption of this standard in 1996 resulted in a \$16 million pre-tax charge to operating income, equivalent to 2 cents per common share, related to restaurant sites in Mexico.

### Financial instruments

The Company uses derivatives to manage risk, but not for trading purposes. Non-U.S. Dollar financing transactions generally are effective as hedges of either long-term investments in or intercompany loans to foreign subsidiaries and affiliates. Foreign currency gains and losses on hedges of long-term investments are recorded in shareholders' equity as foreign currency translation adjustments. Gains and losses related to hedges of intercompany loans offset the gains and losses on intercompany loans and are recorded in nonoperating income (expense)—net.

Interest-rate exchange agreements are designated and effective to modify the Company's interest-rate exposures. Net interest is accrued as either interest receivable or payable with the offset recorded in interest expense. Gains or losses from the early termination of interest-rate swaps are amortized as an adjustment to interest expense over the shorter of the remaining life of the swap or the underlying debt being hedged.

The Company purchases foreign currency options (with little or no initial intrinsic value) to hedge anticipated foreign currency royalty and other payments received in the U.S. The premiums paid for these options are amortized over the option life and are recorded as nonoperating expense. Any realized gains on exercised options are deferred and recognized as nonoperating income in the period in which the related royalty or other payment is received.

Short-term forward foreign exchange contracts are also used to mitigate exposure on foreign currency cash flows received from affiliates and subsidiaries. These contracts are marked to market with the resulting gains or losses recorded in nonoperating income (expense)—net. Gains and losses associated with these forward contracts have not been material.

If a hedged item matures or is extinguished, or if a hedged anticipated royalty or other payment is no longer probable, the associated derivative is marked to market with the resulting gain or loss recognized immediately. The derivative is then redesignated as a hedge of some other item or terminated.

### Statement of cash flows

The Company considers short-term, highly liquid investments to be cash equivalents. The impact of fluctuating foreign currencies on cash and equivalents was not material.

### Segment and geographic information

The Company operates exclusively in the foodservice industry. Substantially all revenues result from the sale of menu products at restaurants operated by the Company, franchisees or affiliates. Operating income includes the Company's share of operating results of affiliates. All intercompany revenues and expenses are eliminated in computing revenues and operating income. Fees received from subsidiaries outside the U.S. were (in millions): 1996–\$419.0; 1995–\$358.4; 1994–\$268.9.

The corporate component of operating income represents corporate general, administrative and selling expenses. Corporate assets include corporate cash, investments, asset portions of financing instruments and certain intangibles.

(In millions)	1996	1995	1994
U.S.	\$ 4,590.3	\$ 4,473.9	\$ 4,155.5
Europe/Africa/Middle East/India	3,660.3	3,255.1	2,604.7
Asia/Pacific	1,272.7	1,010.8	730.7
Latin America	595.7	506.9	283.8
Canada	567.5	547.8	546.1
<b>Total revenues</b>	<b>\$10,686.5</b>	<b>\$ 9,794.5</b>	<b>\$ 8,320.8</b>
U.S.	\$ 1,144.0	\$ 1,252.4	\$ 1,216.7
Europe/Africa/Middle East/India	951.3	840.3	645.8
Asia/Pacific	357.2	309.6	233.5
Latin America	113.7	132.7	76.0
Canada	118.4	114.5	116.8
Corporate	(52.0)	(48.2)	(47.6)
<b>Total operating income</b>	<b>\$ 2,632.6</b>	<b>\$ 2,601.3</b>	<b>\$ 2,241.2</b>
U.S.	\$ 7,553.5	\$ 7,040.2	\$ 6,492.7
Europe/Africa/Middle East/India	6,011.9	5,069.2	4,257.5
Asia/Pacific	2,108.4	1,813.6	1,547.7
Latin America	900.3	812.5	616.4
Canada	539.6	510.5	487.6
Corporate	272.3	168.6	190.0
<b>Total assets</b>	<b>\$17,386.0</b>	<b>\$15,414.6</b>	<b>\$13,591.9</b>

### Other operating (income) expense – net

(In millions)	1996	1995	1994
Gains on sales of restaurant businesses	\$(85.2)	\$ (63.9)	\$(67.1)
Equity in earnings of unconsolidated affiliates	(76.8)	(96.5)	(47.0)
Net losses from property dispositions	41.1	49.2	20.0
Special charge	72.0		
Other – net	3.1	5.5	10.2
<b>Other operating (income) expense – net</b>	<b>\$(45.8)</b>	<b>\$(105.7)</b>	<b>\$(83.9)</b>

Net losses from property dispositions in 1996 included the \$16.0 million charge for restaurant sites in Mexico, upon the adoption of SFAS 121.

A special charge of \$72.0 million was recorded in 1996 related primarily to plans to strengthen the U.S. business and reduce ongoing costs by closing approximately 115 low-volume U.S. satellite restaurants, replacing certain restaurant equipment, outsourcing excess property management and implementing other cost efficiencies.

### Profit sharing program

The Company's program for U.S. employees includes profit sharing, 401(k) (McDESOP) and leveraged employee stock ownership (LESOP) features. McDESOP allows participants to make contributions which are partly matched by the Company. Profit sharing assets and contributions made by McDESOP participants can be invested in McDonald's common stock or among several other investment alternatives. Company contributions to McDESOP are invested in McDonald's common stock. Due to the conversion of all remaining preferred shares in 1995, the LESOP is now invested only in McDonald's common stock.

Executives, staff and restaurant managers participate in profit sharing contributions and shares released under the LESOP, based on participant's compensation. The profit sharing contribution is discretionary, and the Company determines the amount each year. The LESOP contribution is based on the loan payments necessary to amortize the debt incurred to acquire the stock. Shares held by the LESOP are allocated to participants as the loan is repaid. Dividends on shares held by the LESOP are used to ser-

vice the debt, and shares are released to participants to replace the dividends on shares that have been allocated to them. LESOP costs shown in the following table were based upon the cash paid for loan payments less these dividends.

(In millions)	1996	1995	1994
Profit sharing	\$11.6	\$14.2	\$15.2
LESOP	34.2	29.9	25.4
McDESOP	14.1	11.7	9.5
<b>U.S. program costs</b>	<b>\$59.9</b>	<b>\$55.8</b>	<b>\$50.1</b>

Certain subsidiaries outside the U.S. also offer profit sharing, stock purchase or other similar benefit plans. Total plan costs outside the U.S. were (in millions): 1996 – \$30.6; 1995 – \$26.6; 1994 – \$18.1.

Other postretirement benefits and postemployment benefits were immaterial.

### Income taxes

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

(In millions)	1996	1995	1994
U.S. and Corporate	\$ 933.9	\$1,026.2	\$1,084.9
Outside the U.S.	1,317.1	1,142.9	801.7
<b>Income before provision for income taxes</b>	<b>\$2,251.0</b>	<b>\$2,169.1</b>	<b>\$1,886.6</b>

The provision for income taxes, classified by the timing and location of payment, was as follows:

(In millions)	1996	1995	1994
U.S. federal	\$260.0	\$363.7	\$379.3
U.S. state	49.4	60.5	71.1
Outside the U.S.	336.1	321.8	217.4
<b>Current tax provision</b>	<b>645.5</b>	<b>746.0</b>	<b>667.8</b>
U.S. federal	(13.2)	(17.6)	(21.2)
U.S. state	1.6	(3.9)	(3.0)
Outside the U.S.	44.5	17.3	18.6
<b>Deferred tax provision</b>	<b>32.9</b>	<b>(4.2)</b>	<b>(5.6)</b>
<b>Provision for income taxes</b>	<b>\$678.4</b>	<b>\$741.8</b>	<b>\$662.2</b>

### Net deferred tax liabilities consisted of:

(In millions)	December 31, 1996	1995
Property and equipment basis differences	\$ 986.2	\$ 898.6
Other	236.7	197.8
<b>Total deferred tax liabilities</b>	<b>1,222.9</b>	<b>1,096.4</b>
Deferred tax assets before valuation allowance (1)	(348.5)	(360.5)
Valuation allowance	43.2	52.7
<b>Net deferred tax liabilities (2)</b>	<b>\$ 917.6</b>	<b>\$ 788.6</b>

(1) Includes tax effects of loss carryforwards (in millions): 1996 – \$56.6; 1995 – \$56.1.

(2) Net of current tax assets (in millions): 1996 – \$58.3; 1995 – \$47.3.

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

	1996	1995	1994
Statutory U.S. federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of related federal income tax benefit	1.5	1.7	2.3
Benefits and taxes related to foreign operations	(6.8)	(2.9)	(2.7)
Other – net	.4	.4	.5
<b>Effective income tax rates</b>	<b>30.1%</b>	<b>34.2%</b>	<b>35.1%</b>

Deferred U.S. income taxes have not been provided on basis differences related to investments in certain foreign subsidiaries and affiliates. These basis differences were approximately \$1.4 billion at December 31, 1996, and consisted primarily of undistributed earnings considered permanently invested in the businesses. The tax liability, if any, on these undistributed earnings depends on circumstances existing when remittance occurs. Since the Company does not anticipate distributing these earnings in the foreseeable future, it is not practicable to determine the amount of tax liability, if any, if these earnings were not considered permanently invested.

## Property and equipment

(In millions)	December 31, 1996	1995
Land	\$ 3,566.0	\$ 3,251.5
Buildings and improvements on owned land	7,038.3	6,419.7
Buildings and improvements on leased land	5,735.5	4,986.3
Equipment, signs and seating	2,148.4	1,942.3
Other	645.7	537.8
	19,133.9	17,137.6
Accumulated depreciation and amortization	(4,781.8)	(4,326.3)
Net property and equipment	\$14,352.1	\$12,811.3

Depreciation and amortization was (in millions): 1996-\$673.4; 1995-\$619.9; 1994-\$550.5. Contractual obligations for the acquisition and construction of property totaled \$261.0 million at December 31, 1996.

## Other long-term liabilities and minority interests

(In millions)	December 31, 1996	1995
Security deposits by franchisees	\$160.8	\$155.0
Preferred stock issued by subsidiaries	453.8	400.6
Minority interests in consolidated subsidiaries	34.9	33.2
Other	77.0	75.9
Other long-term liabilities and minority interests	\$726.5	\$664.7

One subsidiary issued preferred stock in British Pounds Sterling as follows: £150 million of Series C, D and E at an average rate of 7.04% in 1995; £25 million of 5.42% Series B in 1994; and £50 million of 5.91% Series A in 1993. The combined series was valued at U.S. \$385.3 million at December 31, 1996. Unless redeemed at the Company's option, each series must be redeemed five years from the date of issuance. The preferred stock of another subsidiary had a dividend rate of 8.76% (adjusted annually) and was valued at U.S. \$68.5 million at December 31, 1996. This stock is redeemable at the option of the holder.

Included in other was the \$100 per share redemption value of 181,868 shares of 5% Series D Preferred Stock. This stock carries one vote per share and must be redeemed on the occurrence of specified events.

## Leasing arrangements

At December 31, 1996, the Company was lessee at 3,513 locations through ground leases (the Company leases land and owns buildings) and at 4,862 locations through improved leases (the Company leases land and buildings). Lease terms for most restaurants are generally for 20 to 25 years and, in many cases, provide for rent escalations and renewal options with certain leases pro-

viding purchase options. For most locations, the Company is obligated for the related occupancy costs which include property taxes, insurance and maintenance. In addition, the Company is lessee under noncancelable leases covering offices and vehicles.

Future minimum payments required under operating leases with initial terms of one year or more are:

(In millions)	Restaurant	Other	Total
1997	\$ 471.3	\$ 44.5	\$ 515.8
1998	460.3	39.4	499.7
1999	439.9	32.0	471.9
2000	421.4	26.6	448.0
2001	404.7	22.9	427.6
Thereafter	3,859.1	139.1	3,998.2
Total minimum payments	\$6,056.7	\$304.5	\$6,361.2

Rent expense was (in millions): 1996-\$581.6; 1995-\$497.6; 1994-\$394.4. These amounts included percent rents in excess of minimum rents (in millions): 1996-\$91.4; 1995-\$73.5; 1994-\$40.3.

## Franchise arrangements

Franchise arrangements include a lease and a license and generally provide for initial fees, as well as continuing rent and service fee payments to the Company, based upon a percent of sales with minimum rent payments. Franchisees are granted the right to operate a McDonald's restaurant using the McDonald's system as well as the use of a restaurant facility generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance, maintenance and a refundable, non-interest-bearing security deposit. The results of operations of restaurant businesses purchased and sold in transactions with franchisees and affiliates were not material to the consolidated financial statements for periods prior to purchase and sale.

(In millions)	1996	1995	1994
Owned sites	\$ 802.6	\$ 708.6	\$ 633.4
Leased sites	548.1	521.4	446.0
Minimum rents	1,350.7	1,230.0	1,079.4
Percent rent and service fees	1,689.7	1,638.4	1,411.8
Initial fees	75.4	62.6	37.0
Revenues from franchised and affiliated restaurants	\$3,115.8	\$2,931.0	\$2,528.2

Future minimum rent payments due to the Company under franchise arrangements are:

(In millions)	Owned sites	Leased sites	Total
1997	\$ 993.8	\$ 536.3	\$ 1,530.1
1998	1,005.1	541.2	1,546.3
1999	988.3	533.8	1,522.1
2000	969.2	520.8	1,490.0
2001	963.3	514.3	1,477.6
Thereafter	9,242.2	4,881.9	14,124.1
Total minimum payments	\$14,161.9	\$7,528.3	\$21,690.2

At December 31, 1996, net property and equipment under franchise arrangements totaled \$8.1 billion (including land of \$2.5 billion) after deducting accumulated depreciation and amortization of \$2.5 billion.

## Debt financing

### Line of credit agreements

The Company has a line of credit agreement for \$675.0 million with various banks which expires on April 19, 2001. Accordingly, \$675.0 million of notes maturing within one year have been reclassified as long-term debt. Fees are .06% per annum on the total commitment. The Company has an additional \$25.0 million line of credit agreement with various banks with a renewable term of 364 days and fees of .07% per annum on the total commitment. Both agreements remained unused at December 31, 1996. Borrowings under the agreements bear interest at one of several specified floating rates selected by the Company at the time of borrowing. In addition, certain subsidiaries outside the U.S. had unused lines of credit totaling \$454.2 million at December 31, 1996; these were principally short-term and denominated in various currencies at local market rates of interest. The weighted-average interest rate of short-term borrowings, composed of commercial paper and foreign currency bank line borrowings, was 6.4% at December 31, 1996, and 1995.

### Exchange agreements

The Company has entered into agreements for the exchange of various currencies, certain of which also provide for the periodic exchange of interest payments. These agreements, and other interest-rate exchange agreements, expire through 2008. Such currency exchange agreements had a notional amount equivalent to U.S. \$2.6 billion at December 31, 1996, and related primarily to the exchange of French Francs, Deutsche Marks and Swiss Francs. The notional principal is the amount used to calculate interest payments which are exchanged over the life of the swap transaction and is equal to the amount of foreign currency or U.S. Dollar principal exchanged at maturity. The interest-rate exchange agreements (primarily U.S. Dollars, British Pounds Sterling and Deutsche Marks) had a notional amount equivalent to U.S. \$1.9 billion at December 31, 1996. The net value of each exchange agreement based on its current spot rate was classified as an asset or liability, and any related interest income was netted against interest expense.

The counterparties to these agreements consist of a diverse group of financial institutions. The Company continually monitors its positions and the credit ratings of its counterparties, and adjusts positions as appropriate. The Company does not have significant exposure to any individual counterparty and has entered into master agreements that contain netting arrangements.

At December 31, 1996, the Company had purchased foreign currency options outstanding (primarily British Pounds Sterling, Deutsche Marks and Swiss Francs) with a notional amount equivalent to U.S. \$180.9 million. The unamortized premium related to these currency options was \$2.8 million and there were no related deferred gains recorded as of year end. Short-term forward foreign exchange contracts outstanding at December 31, 1996 (primarily Deutsche Marks, Japanese Yen and Swiss Francs) had a U.S. Dollar equivalent of \$33.7 million.

### Guarantees

The Company has guaranteed and included in total debt at December 31, 1996, \$133.0 million of 7.4% ESOP Notes Series A and \$70.6 million of 7.1% ESOP Notes Series B issued by the

Leveraged Employee Stock Ownership Plan with payments through 2004 and 2006, respectively. The Company has agreed to repurchase the notes upon the occurrence of certain events. The Company also has guaranteed certain affiliate loans totaling \$138.6 million at December 31, 1996.

### Fair values

(In millions)	December 31, 1996	
	Carrying amount	Fair value
<b>Liabilities</b>		
Debt	\$4,804.1	\$4,930.7
Notes payable	597.8	597.8
Foreign currency exchange agreements (1)	121.5	198.9
Interest-rate exchange agreements (2)		9.0
<b>Total liabilities</b>	<b>5,523.4</b>	<b>5,736.4</b>
<b>Assets</b>		
Foreign currency exchange agreements (1)	45.1	4.1
<b>Net debt</b>	<b>\$5,478.3</b>	<b>\$5,732.3</b>
Purchased foreign currency options	\$ 2.8	\$ 7.1

(1) Combined notional amount equivalent to U.S. \$2.6 billion.

(2) Notional amount equivalent to U.S. \$1.9 billion.

The carrying amounts for cash and equivalents and notes receivable approximated fair value. No fair value was provided for non-interest-bearing security deposits by franchisees as these deposits are an integral part of the overall franchise arrangements.

Short-term forward foreign exchange contracts were recorded at their fair value of \$33.7 million at December 31, 1996. The fair value of the debt and notes payable obligations (excluding capital leases), the currency and interest-rate exchange agreements and the foreign currency options was estimated using quoted market prices, various pricing models or discounted cash flow analyses. The Company has no current plans to retire a significant amount of its debt prior to maturity. Given the market value of its common stock and its significant real estate holdings, the Company believes that the fair value of total assets was higher than their carrying value at December 31, 1996.

### Debt obligations

The Company has incurred debt obligations principally through public and private offerings and bank loans. The terms of most debt obligations contain restrictions on Company and subsidiary mortgages and long-term debt of certain subsidiaries. Under certain agreements, the Company has the option to retire debt prior to maturity, either at par or at a premium over par. The following table summarizes these debt obligations, including the gross effects of currency and interest-rate exchange agreements.

**FINANCIAL REVIEW**

<i>(In millions of U.S. Dollars)</i>	Maturity dates	Interest rates (1) December 31		Amounts outstanding December 31		Aggregate maturities by currency for 1996 balances					
		1996	1995	1996	1995	1997	1998	1999	2000	2001	Thereafter
Fixed—original issue (2)		7.2%	7.5%	\$ 2,610.8	\$ 2,172.6						
Fixed—converted via exchange agreements (3)		6.0	5.9	(2,249.6)	(1,844.2)						
Floating		5.6	5.5	206.4	216.5						
Total U.S. Dollars	1997-2036			567.6	544.9	\$ 14.8	\$(319.7)	\$(321.9)	\$288.8	\$(301.6)	\$1,207.2
Fixed		5.7	6.0	737.6	552.7						
Floating		3.8	4.4	390.2	376.6						
Total Deutsche Marks	1997-2007			1,127.8	929.3	295.8	268.6	211.1	139.2	147.9	65.2
Fixed		7.2	7.8	940.5	727.3						
Floating		3.9	5.8	136.4	177.4						
Total French Francs	1997-2006			1,076.9	904.7	102.2	156.8	177.9	39.2	98.3	502.5
Fixed		9.9	9.3	304.4	382.3						
Floating		6.2	6.2	256.4	121.1						
Total British Pounds Sterling	1997-2003			560.8	503.4	170.8	23.2		94.2	77.1	195.5
Fixed		4.5	4.4	387.2	409.5						
Floating		0.8	0.6	51.8	130.5						
Total Japanese Yen	1997-2023			439.0	540.0	86.3		51.8	43.2	43.2	214.5
Fixed		9.4	11.0	141.7	113.8						
Floating		6.7	7.6	94.0	100.5						
Total Australian Dollars	1997-2000			235.7	214.3	159.1	70.8	1.7	4.1		
Fixed		5.3	6.2	185.1	136.9						
Floating		3.2	4.2	36.4	32.2						
Total Netherland Guilders	1997-2001			221.5	169.1	13.4	100.5	25.7	28.7	53.2	
Fixed		8.7		99.8							
Floating		8.4	12.4	47.8	3.8						
Total Italian Lira	1997-2003			147.6	3.8	47.7				50.1	49.8
Fixed		8.3	8.5	61.8	43.9						
Floating		6.1	7.9	85.7	65.3						
Total New Taiwan Dollars	1997-2003			147.5	109.2	85.7		3.6	14.5	7.3	36.4
Fixed		9.4	9.0	56.5	130.3						
Floating		3.1	6.0	73.0	22.0						
Total Canadian Dollars	1997-2021			129.5	152.3	55.0	0.2	73.2	0.2	0.1	0.8
Fixed		4.6	4.7	68.7	81.1						
Floating		1.7	2.3	60.1	30.4						
Total Swiss Francs	1997-2000			128.8	111.5	7.8	29.9	26.1	65.0		
Fixed		9.0	9.5	101.4	63.5						
Floating		7.2	11.3	22.2	39.1						
Total Spanish Pesetas	1998-2003			123.6	102.6		81.9				41.7
Fixed		8.3	8.7	45.2	77.6						
Floating		6.1	6.6	55.9	40.1						
Total Hong Kong Dollars	1997-2008			101.1	117.7	52.4	17.6	11.2	11.1	2.4	6.4
Fixed		8.0	8.4	218.2	161.7						
Floating		10.4	10.9	252.7	230.9						
Total other currencies (4)	1997-2016			470.9	392.6	276.0	33.6	78.8	12.5	56.9	13.1
Debt obligations including the net effects of currency and interest-rate exchange agreements				5,478.3	4,795.4	1,367.0	463.4	339.2	740.7	234.9	2,333.1
Obligations supported by long-term line of credit agreement						(675.0)				675.0	
Net asset positions of currency exchange agreements (included in miscellaneous other assets)				45.1	40.6	1.3	5.9	21.8	6.4	7.3	2.4
<b>Total debt obligations</b>				<b>\$ 5,523.4</b>	<b>\$ 4,836.0</b>	<b>\$ 693.3</b>	<b>\$ 469.3</b>	<b>\$ 361.0</b>	<b>\$ 747.1</b>	<b>\$ 917.2</b>	<b>\$ 2,335.5</b>

(1) Weighted-average effective rate, computed on a semi-annual basis.

(2) Includes \$333.5 million of debentures with maturities in 2025 and 2036 which are subordinated to senior debt and which provide for the ability to defer interest payments up to five years under certain conditions.

(3) A portion of U.S. Dollar fixed-rate debt effectively has been converted into other currencies and/or into floating-rate debt through the use of exchange agreements. The rates shown reflect the fixed rate on the receivable portion of the exchange agreements. All other obligations in this table reflect the gross effects of these and other exchange agreements.

(4) Consists of debt obligations denominated in 18 other foreign currencies.

## Stock options

At December 31, 1996, the Company had three stock-based compensation plans, two for employees and one for non-employee directors, accounted for under APB Opinion No. 25. Options to purchase common stock are granted at prices not less than the fair market value of the stock on date of grant. Therefore, no compensation cost has been recognized in the consolidated financial statements for these plans.

Substantially all of the options become exercisable in four equal installments, every two years, beginning a year from the date of the grant, and expiring 10 years from the grant date. At December 31, 1996, the number of shares of common stock reserved for issuance under the two employee plans was 97.3 million, including 24.6 million available for future grants.

A summary of the status of the Company's plans as of December 31, 1996, 1995 and 1994, and changes during the years ending on those dates is presented below:

Options	1996		1995		1994	
	Shares (in millions)	Weighted- average exercise price	Shares (in millions)	Weighted- average exercise price	Shares (in millions)	Weighted- average exercise price
Outstanding at beginning of year	68.1	\$23.86	62.3	\$21.02	55.1	\$18.16
Granted	15.0	49.14	13.7	33.24	13.6	29.90
Exercised	(7.8)	17.75	(6.0)	15.76	(4.1)	12.14
Forfeited	(2.6)	32.31	(1.9)	24.55	(2.3)	18.72
Outstanding at end of year	72.7	\$29.46	68.1	\$23.86	62.3	\$21.02
Options exercisable at end of year	26.7		24.4		21.4	

Options granted each year were about 2% of average common shares outstanding for 1996, 1995 and 1994, respectively, representing grants to approximately 10,300, 8,500 and 7,700 employees in those three years. When stock options are exercised, shares are issued from treasury stock.

Pro forma net income and net income per common share in the table below were determined as if the Company had accounted for its employee stock options under the fair value method of SFAS 123.

	1996	1995
Net income—pro forma (in millions)	\$1,538.3	\$1,414.0
Net income per common share—pro forma	2.16	1.95
Weighted-average fair value of options granted	16.88	13.07

For the pro forma disclosures, the options' estimated fair value was amortized over their expected seven-year life. These pro forma amounts are not indicative of anticipated future disclosures because SFAS 123 does not apply to grants before 1995. Therefore, the pro forma disclosures do not include a full seven years of grants. The fair value for these options was estimated at the date of grant using an option pricing model which was designed to estimate the fair value of options which, unlike employee stock options, can be traded at any time and are fully transferable. In addition, such models require the input of highly subjective assumptions, including the expected volatility of the stock price. Therefore, in management's opinion, the existing models do not provide a reliable single measure of the value of employee stock options. The following weighted-average assumptions were used to estimate the fair value of these options.

	1996	1995
Expected dividend yield	.65%	.65%
Expected stock price volatility	19.4%	20.9%
Risk-free interest rate	6.14%	7.39%
Expected life of options (in years)	7	7

The following table shows the potential dilution of common shares outstanding from stock option exercises, assuming all options outstanding and in-the-money at year end are exercised. The calculation assumes that shares issued upon exercise are partly offset by shares purchased with proceeds from the exercise, based on the December 31 price of the Company's common stock each year.

	1996	1995	1994
Common shares outstanding at year end (in millions)	694.6	699.8	693.7
Potential dilution of common shares outstanding from option exercises (in millions)	18.4	20.4	11.4
Potential dilution as a percent of shares outstanding at year end	2.6%	2.9%	1.6%
Average option exercise price	\$17.75	\$15.76	\$12.14
Average cost of treasury stock issued for option exercises	\$ 7.65	\$ 7.16	\$ 7.05

As shown above, the average option exercise price has consistently exceeded the average cost of treasury stock issued for option exercises. This is because the Company prefunds the program through share repurchase. Thus, stock option exercises have generated additional capital, since cash received from employees has exceeded the Company's average acquisition cost of treasury stock. In addition, stock option exercises have generated \$148.9 million of tax benefits for the Company during the three years ended December 31, 1996.

Range of exercise prices	Options outstanding			Options exercisable	
	Number of options (in millions)	Weighted-average remaining contractual life (in years)	Weighted-average exercise price	Number of options (in millions)	Weighted-average exercise price
\$11 to 15	10.3	2.8	\$13.91	8.7	\$13.70
16 to 22	14.6	5.2	19.51	8.1	18.76
24 to 36	33.2	7.4	30.03	9.8	29.21
37 to 52	14.6	9.5	49.11	0.1	39.21
\$11 to 52	72.7	6.7	\$29.46	26.7	\$21.04

## Capital stock

### Per common share information

Income used in the computation of per common share information was reduced by preferred stock cash dividends (net of tax benefits). In 1995, income was also reduced by \$3.9 million for the one-time effect of the Company's exchange of its Series E 7.72% Cumulative Preferred Stock for subordinated debt securities, and by an additional \$.4 million for the effect of the Company's repurchase of additional Series E preferred stock. Adjusted net income was divided by the weighted-average shares of common stock outstanding during each year (in millions): 1996—698.2; 1995—701.5; 1994—701.8. Including the effect of potentially dilutive securities, fully diluted earnings per common share amounts and increases were: 1996—\$2.16, 13%; 1995—\$1.92, 18%; 1994—\$1.63, 16%.

### Preferred stock

In December 1992, the Company issued \$500.0 million of Series E 7.72% Cumulative Preferred Stock with a liquidation preference of \$50,000 per share. One preferred share is equal to 2,000 depositary shares. Each preferred share is entitled to one vote under certain circumstances, and is redeemable at the option of the Company beginning on December 3, 1997, at its liquidation value plus accrued dividends. In 1995, the Company completed an exchange of depositary shares equalling 2,600 shares of this preferred stock for subordinated debt securities and repurchased depositary shares equalling approximately 250 shares.

In September 1989 and April 1991, respectively, the Company sold \$200.0 million of Series B and \$100.0 million of Series C ESOP Convertible Preferred Stock to the LESOP. The LESOP financed the purchase by issuing notes guaranteed by the Company and included in long-term debt, with an offsetting reduction in shareholders' equity. Each preferred share had a liquidation preference of \$14.375 and \$16.5625, respectively, and was convertible to a minimum of .7692 and .8 common share (conversion rate), respectively. Upon termination of employment, employees were guaranteed a minimum value payable in common shares equal to the greater of the conversion rate; the fair market value of their preferred shares; or the liquidation preference plus accrued dividends, not to exceed one common share. Each preferred share was entitled to one vote and was redeemable at the option of the Company. In 1992, 8.2 million Series B shares were converted into 6.4 million common shares. During 1995, the remaining 5.2 million Series B shares and 5.8 million Series C shares were converted into 8.7 million common shares.

### Change in par value

In May 1996, Company shareholders approved an increase in the number of authorized shares of Common Stock from

1.25 billion with no par value to 3.5 billion with \$.01 par value. The change in par value did not affect any of the existing rights of shareholders and has been recorded as an adjustment to additional paid-in capital and common stock.

### Shareholder rights plan

In December 1988, the Company declared a dividend of one Preferred Share Purchase Right (Right) on each outstanding share of common stock. Under certain conditions, each Right may be exercised to purchase one four-hundredth of a share of Series A Junior Participating Preferred Stock at an exercise price of \$62.50 (which may be adjusted under certain circumstances). The Right is transferable apart from the common stock 10 days following a public announcement that a person or group has acquired beneficial ownership of 20% or more of the outstanding common shares, or 10 business days following the commencement or announcement of an intention to make a tender or exchange offer resulting in beneficial ownership by a person or group exceeding the threshold. The threshold may be reduced by the Board of Directors to as low as 10%.

Once the threshold has been exceeded, or if the Company is acquired in a merger or other business combination transaction, each Right will entitle the holder, other than such person or group, to purchase at the then current exercise price, stock of the Company or the acquiring company having a market value of twice the exercise price.

Each Right is nonvoting and expires on December 28, 1998, unless redeemed by the Company, at a price of \$.0025, at any time prior to the public announcement that a person or group has exceeded the threshold. At December 31, 1996, 2.1 million shares of the Series A Junior Participating Preferred Stock were reserved for issuance under this plan.

## Quarterly Results (unaudited)

(In millions, except per common share data)	Quarters ended December 31		September 30		June 30		March 31	
	1996	1995	1996	1995	1996	1995	1996	1995
Systemwide sales	\$8,284.5	\$7,734.4	\$8,286.1	\$7,866.6	\$7,932.0	\$7,641.3	\$7,309.5	\$6,671.6
Revenues								
Sales by Company-operated restaurants	\$2,005.5	\$1,812.2	\$1,965.6	\$1,811.9	\$1,885.8	\$1,727.8	\$1,713.8	\$1,511.6
Revenues from franchised and affiliated restaurants	816.1	773.3	808.2	768.2	779.3	739.8	712.2	649.7
Total revenues	2,821.6	2,585.5	2,773.8	2,580.1	2,665.1	2,467.6	2,426.0	2,161.3
Operating costs and expenses								
Company-operated restaurants	1,638.7	1,476.8	1,582.1	1,448.0	1,523.1	1,389.7	1,419.3	1,233.2
Franchised restaurants	150.0	137.2	142.2	131.7	140.7	127.8	137.2	118.2
General, administrative and selling expenses	381.0	341.4	347.9	314.1	326.3	305.4	311.2	275.4
Other operating (income) expense—net	37.9*	(16.0)	(42.4)	(35.8)	(37.1)	(41.7)	(4.2)	(12.2)
Total operating costs and expenses	2,207.6	1,939.4	2,029.8	1,858.0	1,953.0	1,781.2	1,863.5	1,614.6
Operating income	614.0	646.1	744.0	722.1	712.1	686.4	562.5	546.7
Interest expense	90.2	87.7	84.7	86.1	82.8	85.4	84.8	81.0
Nonoperating income (expense)—net	(0.3)	(18.8)	(9.4)	(26.5)	(3.8)	(16.1)	(25.6)	(30.6)
Income before provision for income taxes	523.5	539.6	649.9	609.5	625.5	584.9	452.1	435.1
Provision for income taxes	113.5**	172.8	209.3	209.4	205.1	205.2	150.5	154.4
Net income	\$ 410.0	\$ 366.8	\$ 440.6	\$ 400.1	\$ 420.4	\$ 379.7	\$ 301.6	\$ 280.7
Net income per common share	\$ .58	\$ .51	\$ .62	\$ .56	\$ .59	\$ .52	\$ .42	\$ .39
Dividends per common share	\$ .07½	\$ .06¾	\$ .07½	\$ .06¾	\$ .07½	\$ .06¾	\$ .06¾	\$ .06

\* Included the \$72 million special charge.

\*\* Included a \$50 million tax benefit as a result of certain international transactions.

## Management's Report

Management is responsible for the preparation, integrity and fair presentation of the consolidated financial statements and Financial Comments appearing in this annual report. The financial statements were prepared in accordance with generally accepted accounting principles and include certain amounts based on management's judgment and best estimates. Other financial information presented in the annual report is consistent with the financial statements.

The Company maintains a system of internal control over financial reporting including safeguarding of assets against unauthorized acquisition, use or disposition, which is designed to provide reasonable assurance to the Company's management and Board of Directors regarding the preparation of reliable published financial statements and such asset safeguarding. The system includes a documented organizational structure and appropriate division of responsibilities; established policies and procedures which are communicated throughout the Company; careful selection, training, and development of our people; and utilization of an internal audit program. Policies and procedures prescribe that the Company and all employees are to maintain the highest ethical standards and that business practices throughout the world are to be conducted in a manner which is above reproach.

There are inherent limitations in the effectiveness of any sys-

tem of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation and safeguarding of assets. Furthermore, the effectiveness of an internal control system can change with circumstances. The Company believes that at December 31, 1996, it maintained an effective system of internal control over financial reporting and safeguarding of assets against unauthorized acquisition, use or disposition.

The consolidated financial statements have been audited by independent auditors, Ernst & Young LLP, who were given unrestricted access to all financial records and related data. The audit report of Ernst & Young LLP is presented below.

The Board of Directors, operating through its Audit Committee composed entirely of independent Directors, provides oversight to the financial reporting process. Ernst & Young LLP has independent access to the Audit Committee and periodically meets with the Committee to discuss accounting, auditing and financial reporting matters.

McDONALD'S CORPORATION  
Oak Brook, Illinois  
January 23, 1997

## Report of Independent Auditors

The Board of Directors and Shareholders  
McDonald's Corporation  
Oak Brook, Illinois

We have audited the accompanying consolidated balance sheet of McDonald's Corporation as of December 31, 1996 and 1995, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 1996. These financial statements are the responsibility of McDonald's Corporation management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting

principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of McDonald's Corporation at December 31, 1996 and 1995, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1996, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP  
Chicago, Illinois  
January 23, 1997