



# 2013 ANUAL REPORT



**To Our Valued Shareholders:**

**Moving into 2014, I am very excited about the prospects for Arcos Dorados as we bring the McDonald's brand to an even wider audience in Latin America and the Caribbean. During the year just ended, we added our 2,000<sup>th</sup> McDonald's store in 2014, we are looking forward to an event-filled calendar that includes the FIFA World Cup™ in Brazil.**

**Even more compelling, though, are the long-term prospects for our business in the region. Every day, more than 4.3 million customers across 20 countries and territories in Latin America and the Caribbean visit our restaurants. A swelling middle class, changing habits and demographics, and untapped demand for our products are driving the long-term expansion of our addressable market. As the leader in the quick serve restaurant (QSR) segment, we benefit greatly from these trends.**

**It is important to understand that in our markets, McDonald's is an aspirational brand rooted solidly in the middle class, and a meal with the family at one of our stores can easily rank as a special event. We work very hard to make the trip worthwhile, with many special offerings for our youngest customers. In fact, during the year we reinvigorated the Happy Meal by launching the "Happy" character, a child-friendly mascot that provides an engaging, consistent presence alongside our promotions.**





No single competitor can rival our footprint across Latin America and the Caribbean. Since Arcos Dorados acquired the operating territories in 2007, we have increased our restaurant base by more than 25%. We serve middle-class families across these territories with a total of 2,062 stores as of year-end 2013. These include 812 in Brazil, our largest market, 507 in our North Latin America Division, 378 in our South Latin America Division and 365 in the Caribbean Division.

Importantly, nearly half of our portfolio is comprised of freestanding restaurants, which provide multiple revenue generating opportunities, such as McCafés, Dessert Centers and a drive-thru service, as well as the ability to stay open for 24 hours and address all of the day parts. The branding and revenue potential of these locations is significantly superior to that of a simple point of sale. We believe that building a balanced portfolio of restaurants is the best long term growth strategy to capitalize on the opportunity in Latin America and the Caribbean.

Of course, the key to success for any restaurant chain is the quality of the dining experience and here we are unsurpassed. Thanks to the efforts of our more than 95,000 team members across the region, consumers continue to prefer us by a margin of 3-to-1 over other QSR competitors. Satisfaction levels increased for the seventh consecutive year in 2013 as we achieved one of the highest rankings within the McDonald's system.

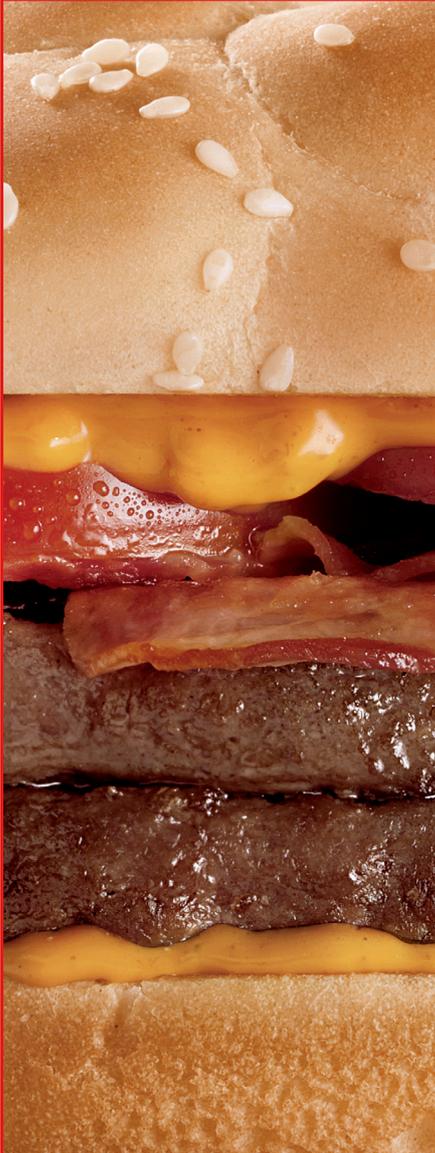




No matter the region, our products are tailored to the diverse tastes and preferences of our customers. In Mexico there is the “Hamburguesa Jalapeño Especial”, in Colombia we have the “Yucas” and “Arepas”, in Argentina we serve the “Angus Criollo” and in Brazil, the “Pão de Queijo”. We have also been offering hot and cold beverages, such as smoothies and frappes, in a dedicated space within some of our Brazilian and Puerto Rican restaurants, which has proved very popular.

Clearly, one of our major competitive advantages is the McDonald’s brand, which is truly a global phenomenon. We work tirelessly to leverage the power of the brand with marketing efforts tailored to the tastes and preferences of consumers in the countries we serve. For example, in 2013 we introduced the Monopoly promotion in Brazil and Argentina and launched Chicken McBites in various countries. Another strong brand building exercise was the launch of the Restaurant Quality Campaign, called “Más allá de la cocina” or “Beyond the Kitchen”, which brings our customers closer to the providence of our food and focuses on farms and other local sources of our quality ingredients.

Looking ahead, of course, the biggest event in 2014 is the FIFA World Cup™ in Brazil. Already, FIFA has selected Arcos Dorados to train more than 15,000 volunteers at the event and you will see McDonald’s visible across the event venues during all 64 games in addition to a variety of promotions including new product introductions and event-related promotions such as the “Copos Campeões”, or “Champions Glasses”, in Brazil, and the “Combo de la Copa”, or Cup Combo, in Argentina.





We also leverage the brand by supporting the communities we serve. For the third consecutive year we held the annual McDonald's 5K Women Run in 19 cities across Latin America, which is the largest women-only race in Latin America with more than 70,000 participants. This focus also helps us attract the best and brightest talent. In 2013, we once again ranked as one of the best places to work in Latin America and we remain the largest first-time employer for Latin America's young people.

From a financial perspective, 2013 was a strong year for Arcos Dorados. Comparable sales increased for the sixth consecutive year and organic Adjusted EBITDA delivered double-digit annual growth\*. Importantly, we were able to achieve this despite economic headwinds in some of our markets. This is a challenge anyone operating in Latin America faces, but at Arcos Dorados benefits from having one of the most experienced and talented management teams in the region to guide us through the peaks and troughs.

Looking ahead through 2014, we expect these economic challenges to continue and plan to meet them by adjusting the pace of our unit expansion with a focus on maintaining solid top-line growth and a higher baseline level of operating profitability, as we seek to expand market share, maximize traffic and contain costs. And this focus is based on the five vectors of our growth

\*For further information on the financial statements as of December 31, 2013, please refer to the Form 6-K filled with the SEC on March 11, 2014.





blueprint, “La Receta Para Ganar” or “Recipe to Win”, which remains our guiding strategy and serves to keep our focus on the key factors that generate value for our business.

Most important, we approach our business in Latin America and the Caribbean with an overwhelming focus on the long-term opportunities for the McDonald’s brand. These opportunities are tremendous. As long as we remain focused on the quality of the experience in our stores, the effectiveness of our marketing programs, and the quality and satisfaction of the people we employ, we expect to ride out any headwinds and reward shareholders with continued growth.

My heartfelt thanks to all of our shareholders for your continued support.

Sincerely,

Woods Staton  
Chairman and CEO



UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 20-F**

- (Mark One)
- REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR
- 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  
OR
- SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report \_\_\_\_\_  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-35129

**ARCOS DORADOS HOLDINGS INC.**

(Exact name of Registrant as specified in its charter)

**British Virgin Islands**

(Jurisdiction of incorporation or organization)

**Roque Saenz Peña 432**

**B1636FFB Olivos, Buenos Aires, Argentina**

(Address of principal executive offices)

**Juan David Bastidas**

**Chief Legal Officer**

**Arcos Dorados Holdings Inc.**

**Roque Saenz Peña 432**

**B1636FFB Olivos, Buenos Aires, Argentina**

**Telephone: +54 (11) 4711-2504**

**Fax: +54 (11) 4711-2094 (ext. 2504)**

(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

**Title of each class**

Class A shares, no par value

**Name of each exchange on which registered**

New York Stock Exchange

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

**None**

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

**None**

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital stock or common stock as of the close of the period covered by the annual report.

Class A shares: 129,867,426

Class B shares: 80,000,000

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes  No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

US GAAP

International Financial Reporting Standards as issued by

Other

the International Accounting Standards Board

If "Other" has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow.

Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

ARCOS DORADOS HOLDINGS INC.

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## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

All references to “U.S. dollars,” “dollars,” “U.S.\$” or “\$” are to the U.S. dollar. All references to “Argentine pesos” or “ARS\$” are to the Argentine *peso*. All references to “Brazilian reais” or “R\$” are to the Brazilian *real*. All references to “Mexican pesos” or “Ps.” are to the Mexican *peso*. All references to “Venezuelan bolívares fuertes” or “Bs.F” are to the Venezuelan *bolívar fuerte*, the legal currency in Venezuela. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls” for information regarding exchange rates for the Argentine, Brazilian, Mexican and Venezuelan currencies since January 1, 2009.

### Definitions

In this annual report, unless the context otherwise requires, all references to “Arcos Dorados” or the “Company,” “we,” “our,” “ours,” “us” or similar terms refer to Arcos Dorados Holdings Inc., together with its subsidiaries. All references to “systemwide” refer only to the system of McDonald’s-branded restaurants operated by us or our franchisees in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the Territories, and do not refer to the system of McDonald’s-branded restaurants operated by McDonald’s Corporation, its affiliates or its franchisees (other than us).

We own our McDonald’s franchise rights pursuant to a Master Franchise Agreement for all of the Territories, except Brazil, which we refer to as the MFA, and a separate, but substantially identical, Master Franchise Agreement for Brazil, which we refer to as the Brazilian MFA. We refer to the MFA and the Brazilian MFA, as amended or otherwise modified to date, collectively as the MFAs. We commenced operations on August 3, 2007, as a result of our purchase of McDonald’s operations and real estate in the Territories (except for Trinidad and Tobago), which we refer to collectively as the McDonald’s LatAm business, and the acquisition of McDonald’s franchise rights pursuant to the MFAs, which together with the purchase of the McDonald’s LatAm business, we refer to as the Acquisition.

### Financial Statements

We maintain our books and records in U.S. dollars and prepare our financial statements in accordance with accounting principles and standards generally accepted in the United States, or U.S. GAAP.

The financial information contained in this annual report includes our consolidated financial statements at December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, as stated in their report included elsewhere in this annual report.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006.

Our fiscal year ends December 31. References in this annual report to a fiscal year, such as “fiscal year 2013,” relate to our fiscal year ended on December 31 of that calendar year.

### Operating Data

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of the South Latin America division, or SLAD, became part of the Caribbean division with headquarters located in Colombia. Therefore, from the beginning of 2013, SLAD is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, and the Caribbean division is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. Our other geographical divisions are Brazil and the

North Latin America division, or NOLAD, consisting of Costa Rica, Mexico and Panama. In accordance with ASC 280 Segment Reporting, we began reporting the results of the revised structure of our geographical divisions on our segment financial reporting in the first quarter of fiscal year 2013. In accordance with ASC 280, Segment Reporting, we have restated our comparative segment information as of and for the years ended December 31, 2012 and 2011 based on the structure prevailing since January 1, 2013. We have not adjusted the segment information as of and for the years ended December 31, 2010 and 2009. Therefore, the segment information as of and for the years ended December 31, 2013, 2012 and 2011 presented in this annual report on Form 20-F is not directly comparable to the segment information as of and for the years ended December 31, 2010 and 2009 that is presented in this annual report on Form 20-F and the segment information in our consolidated financial statements at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 included in our annual report on Form 20-F for the year ended December 31, 2012.

We operate McDonald's-branded restaurants under two different operating formats: those directly operated by us, or Company-operated restaurants, and those operated by franchisees, or franchised restaurants. All references to "restaurants" are to our freestanding, food court, in-store and mall store restaurants and do not refer to our McCafé locations or Dessert Centers. Systemwide data represents measures for both our Company-operated restaurants and our franchised restaurants.

We are the majority stakeholder in several joint ventures with third parties that collectively own 28 restaurants. We consider these restaurants to be Company-operated restaurants. We also have granted developmental licenses to 12 restaurants. Developmental licensees own or lease the land and buildings on which their restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald's. We consider these restaurants to be franchised restaurants.

### **Other Financial Measures**

We disclose in this annual report a financial measure titled Adjusted EBITDA. We use Adjusted EBITDA to facilitate operating performance comparisons from period to period. Adjusted EBITDA is defined as our operating income plus depreciation and amortization plus/minus the following losses/gains included within other operating expenses, net and within general and administrative expenses in our statement of income: compensation expense related to a special award granted to our CEO, incremental compensation expense related to our 2008 long-term incentive plan, gains from sale of property and equipment, write-off of property and equipment, impairment of long-lived assets and goodwill, stock-based compensation related to the special awards under the 2011 Equity Incentive Plan and bonuses granted in connection with our initial public offering.

We believe Adjusted EBITDA facilitates company-to-company operating performance comparisons by backing out potential differences caused by variations such as capital structures (affecting net interest expense and other financial charges), taxation (affecting income tax expense) and the age and book depreciation of facilities and equipment (affecting relative depreciation expense), which may vary for different companies for reasons unrelated to operating performance. In addition, we exclude compensation expense related to the award granted to our CEO due to its special nature; gains from sale of property and equipment not related to our core business; write-offs of property and equipment and impairment of long-lived assets and goodwill that do not result in cash payments; stock-based compensation related to the special awards under the 2011 Equity Incentive Plan; and bonuses granted in connection with our initial public offering due to its special nature. In addition, in 2010 and 2011 we excluded the incremental compensation expense that resulted from the remeasurement of our liability under our 2008 long-term incentive plan because of our decision in 2011 to replace the existing formula for determining the current value of the award with the quoted market price of our shares. While a GAAP measure for purposes of our segment reporting, Adjusted EBITDA is a non-GAAP measure for reporting our total Company performance. Our management believes, however, that disclosure of Adjusted EBITDA provides useful information to investors, financial analysts and the public in their evaluation of our operating performance.

### **Market Share and Other Information**

Market data and certain industry forecast data used in this annual report were obtained from internal reports and studies, where appropriate, as well as estimates, market research, publicly available information (including information available from the United States Securities and Exchange Commission website) and industry publications, including Millward Brown Optimor, the United Nations Economic Commission for Latin America and the Caribbean and the CIA World Factbook. Industry publications generally state that the information they include

has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal reports and studies, estimates and market research, which we believe to be reliable and accurately extracted by us for use in this annual report, have not been independently verified. However, we believe such data is accurate and agree that we are responsible for the accurate extraction of such information from such sources and its correct reproduction in this annual report.

### **Basis of Consolidation**

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

### **Rounding**

We have made rounding adjustments to some of the figures included in this annual report. Accordingly, numerical figures shown as totals in some tables may not be an arithmetic aggregation of the figures that preceded them.

## **FORWARD-LOOKING STATEMENTS**

This annual report contains statements that constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Many of the forward-looking statements contained in this annual report can be identified by the use of forward-looking words such as “anticipate,” “believe,” “could,” “expect,” “should,” “plan,” “intend,” “estimate” and “potential,” among others.

Forward-looking statements appear in a number of places in this annual report and include, but are not limited to, statements regarding our intent, belief or current expectations. Forward-looking statements are based on our management’s beliefs and assumptions and on information currently available to our management. Such statements are subject to risks and uncertainties, and actual results may differ materially from those expressed or implied in the forward-looking statements due to of various factors, including, but not limited to, those identified in “Item 3. Key Information—D. Risk Factors” in this annual report. These risks and uncertainties include factors relating to:

- general economic, political, demographic and business conditions in Latin America and the Caribbean;
- fluctuations in inflation and exchange rates in Latin America and the Caribbean;
- our ability to implement our growth strategy;
- the success of operating initiatives, including advertising and promotional efforts and new product and concept development by us and our competitors;
- our ability to compete and conduct our business in the future;
- changes in consumer tastes and preferences, including changes resulting from concerns over nutritional or safety aspects of beef, poultry, french fries or other foods or the effects of health pandemics and food-borne illnesses such as “mad cow” disease and avian influenza or “bird flu,” and changes in spending patterns and demographic trends, such as the extent to which consumers eat meals away from home;
- the availability, location and lease terms for restaurant development;
- our intention to focus on our restaurant reimagining plan;
- our franchisees, including their business and financial viability and the timely payment of our franchisees’ obligations due to us and to McDonald’s;
- our ability to comply with the requirements of the MFAs, including McDonald’s standards;
- our decision to own and operate restaurants or to operate under franchise agreements;

- the availability of qualified restaurant personnel for us and for our franchisees, and the ability to retain such personnel;
- changes in commodity costs, labor, supply, fuel, utilities, distribution and other operating costs;
- our ability, if necessary, to secure alternative distribution of supplies of food, equipment and other products to our restaurants at competitive rates and in adequate amounts, and the potential financial impact of any interruptions in such distribution;
- changes in government regulation;
- other factors that may affect our financial condition, liquidity and results of operations; and
- other risk factors discussed under “Item 3. Key Information—D. Risk Factors.”

Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments or to release publicly any revisions to these statements in order to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

## ENFORCEMENT OF JUDGMENTS

We are incorporated under the laws of the British Virgin Islands with limited liability. We are incorporated in the British Virgin Islands because of certain benefits associated with being a British Virgin Islands company, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions and the availability of professional and support services. However, the British Virgin Islands has a less developed body of securities laws as compared to the United States and provides protections for investors to a significantly lesser extent. In addition, British Virgin Islands companies may not have standing to sue before the federal courts of the United States.

A majority of our directors and officers, as well as certain of the experts named herein, reside outside of the United States. A substantial portion of our assets and several of such directors, officers and experts are located principally in Argentina, Brazil and Uruguay. As a result, it may not be possible for investors to effect service of process outside Argentina, Brazil and Uruguay upon such directors or officers, or to enforce against us or such parties in courts outside Argentina, Brazil and Uruguay judgments predicated solely upon the civil liability provisions of the federal securities laws of the United States or other non-Argentine, Brazilian or Uruguayan regulations, as applicable. In addition, local counsel to the Company have advised that there is doubt as to whether the courts of Argentina, Brazil or Uruguay would enforce in all respects, to the same extent and in as timely a manner as a U.S. court or non-Argentine, Brazilian or Uruguayan court, an original action predicated solely upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable; and that the enforceability in Argentina, Brazilian or Uruguayan courts of judgments of U.S. courts or non-Argentine, Brazilian or Uruguayan courts predicated upon the civil liability provisions of the U.S. federal securities laws or other non-Argentine, Brazilian or Uruguayan regulations, as applicable, will be subject to compliance with certain requirements under Argentine, Brazilian or Uruguayan law, including the condition that any such judgment does not violate Argentine, Brazilian or Uruguayan public policy.

We have been advised by Maples and Calder, our counsel as to British Virgin Islands law, that the United States and the British Virgin Islands do not have a treaty providing for reciprocal recognition and enforcement of judgments of courts of the United States in civil and commercial matters and that a final judgment for the payment of money rendered by any general or state court in the United States based on civil liability, whether or not predicated solely upon the U.S. federal securities laws, would not be automatically enforceable in the British Virgin Islands. We have been advised by Maples and Calder that a final and conclusive judgment obtained in U.S. federal or state courts under which a sum of money is payable (i.e., not being a sum claimed by a revenue authority for taxes or other charges of a similar nature by a governmental authority, or in respect of a fine or penalty or multiple or punitive damages) may be the subject of an action on a debt in the court of the British Virgin Islands under British Virgin Islands common law.

## PART I

### ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

#### A. Directors and Senior Management

Not applicable.

#### B. Advisers

Not applicable.

#### C. Auditors

Not applicable.

### ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

#### A. Offer Statistics

Not applicable.

#### B. Method and Expected Timetable

Not applicable.

### ITEM 3. KEY INFORMATION

#### A. Selected Financial Data

The selected balance sheet data as of December 31, 2013 and 2012 and the income statement data for the years ended December 31, 2013, 2012 and 2011 of Arcos Dorados Holdings Inc. are derived from the consolidated financial statements included elsewhere in this annual report, which have been audited by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global. The selected balance sheet data as of December 31, 2011, 2010 and 2009 and the income statement data for the years ended December 31, 2010 and 2009 of Arcos Dorados Holdings Inc. are derived from consolidated financial statements audited by Pistrelli, Henry Martin y Asociados S.R.L., which are not included herein.

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of SLAD, became part of the Caribbean division with headquarters located in Colombia. Therefore, from the beginning of 2013, SLAD is comprised of Argentina, Chile, Ecuador, Peru and Uruguay, and the Caribbean division is comprised of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. Our other geographical divisions are Brazil and NOLAD, consisting of Costa Rica, Mexico and Panama. In accordance with ASC 280 Segment Reporting, we began reporting the results of the revised structure of our geographical divisions on our segment financial reporting in the first quarter of fiscal year 2013. In accordance with ASC 280, Segment Reporting, we have restated our comparative segment information as of and for the years ended December 31, 2012 and 2011 based on the structure prevailing since January 1, 2013. We have not adjusted the segment information as of and for the years ended December 31, 2010 and 2009. Therefore, the segment information as of and for the years ended December 31, 2013, 2012 and 2011 presented in this annual report on Form 20-F is not directly comparable to the segment information as of and for the years ended December 31, 2010 and 2009 that is presented in this annual report on Form 20-F and the segment information in our consolidated financial statements at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 included in our annual report on Form 20-F for the year ended December 31, 2012.

We were incorporated on December 9, 2010 as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. The merger was accounted for as a reorganization of entities under common control in a manner similar to a pooling of interest and the consolidated

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financial statements reflect the historical consolidated operations of Arcos Dorados Limited as if the reorganization structure had existed since Arcos Dorados Limited was incorporated in July 2006. We did not commence operations until the Acquisition on August 3, 2007.

We maintain our books and records in U.S. dollars and prepare our consolidated financial statements in accordance with U.S. GAAP. This financial information should be read in conjunction with "Presentation of Financial and Other Information," "Item 5. Operating and Financial Review and Prospects" and our consolidated financial statements, including the notes thereto, included elsewhere in this annual report.

	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands of U.S. dollars, except for share data)				
<b>Income Statement Data:</b>					
Sales by Company-operated restaurants	\$ 3,859,883	\$ 3,634,371	\$ 3,504,128	\$ 2,894,466	\$ 2,536,655
Revenues from franchised restaurants	173,427	163,023	153,521	123,652	128,821
<b>Total revenues</b>	<b>4,033,310</b>	<b>3,797,394</b>	<b>3,657,649</b>	<b>3,018,118</b>	<b>2,665,476</b>
Company-operated restaurant expenses:					
Food and paper	(1,350,515)	(1,269,146)	(1,216,141)	(1,023,464)	(929,718)
Payroll and employee benefits	(814,112)	(753,120)	(701,278)	(569,084)	(491,214)
Occupancy and other operating expenses	(1,055,188)	(984,004)	(918,102)	(765,777)	(667,438)
Royalty fees	(188,885)	(180,547)	(170,400)	(140,973)	(121,901)
Franchised restaurants—occupancy expenses	(63,273)	(56,057)	(51,396)	(37,634)	(42,327)
General and administrative expenses	(317,745)	(314,619)	(334,914)	(254,165)	(189,507)
Other operating expenses, net	(15,070)	(3,261)	(14,665)	(22,464)	(16,562)
<b>Total operating costs and expenses</b>	<b>(3,804,788)</b>	<b>(3,560,754)</b>	<b>(3,406,896)</b>	<b>(2,813,561)</b>	<b>(2,458,667)</b>
<b>Operating income</b>	<b>228,522</b>	<b>236,640</b>	<b>250,753</b>	<b>204,557</b>	<b>206,809</b>
Net interest expense	(88,156)	(54,247)	(60,749)	(41,613)	(52,473)
Loss from derivative instruments	(4,141)	(891)	(9,237)	(32,809)	(39,935)
Foreign currency exchange results	(38,783)	(18,420)	(23,926)	3,237	(14,098)
Other non-operating (expenses) income, net	(848)	(2,119)	3,562	(23,630)	(1,240)
<b>Income before income taxes</b>	<b>96,594</b>	<b>160,963</b>	<b>160,403</b>	<b>109,742</b>	<b>99,063</b>
Income tax expense	(42,722)	(46,375)	(44,603)	(3,450)	(18,709)
<b>Net income</b>	<b>53,872</b>	<b>114,588</b>	<b>115,800</b>	<b>106,292</b>	<b>80,354</b>
Less: Net income attributable to non-controlling interests	(18)	(256)	(271)	(271)	(332)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>53,854</b>	<b>114,332</b>	<b>115,529</b>	<b>106,021</b>	<b>80,022</b>
<b>Earnings per share:</b>					
Basic net income per common share attributable to Arcos Dorados Holdings Inc.	\$ 0.26	\$ 0.55	\$ 0.54	\$ 0.44	\$ 0.33
Diluted net income per common share attributable to Arcos Dorados Holdings Inc.	\$ 0.26	\$ 0.55	\$ 0.54	\$ 0.44	\$ 0.33

	As of December 31,				
	2013	2012	2011	2010	2009
	(in thousands of U.S. dollars, except for share data)				
<b>Balance Sheet Data(1):</b>					
Cash and cash equivalents	\$ 175,648	\$ 184,851	\$ 176,301	\$ 208,099	\$ 167,975
<b>Total current assets</b>	<b>666,451</b>	<b>601,498</b>	<b>588,614</b>	<b>552,355</b>	<b>394,011</b>
Property and equipment, net	1,244,311	1,176,350	1,023,180	911,730	785,862
<b>Total non-current assets</b>	<b>1,513,808</b>	<b>1,447,665</b>	<b>1,286,792</b>	<b>1,231,911</b>	<b>1,088,937</b>
<b>Total assets</b>	<b>2,180,259</b>	<b>2,049,163</b>	<b>1,875,406</b>	<b>1,784,266</b>	<b>1,482,948</b>
Accounts payable	311,060	244,365	220,941	217,326	151,175
Short-term debt and current portion of long-term debt	12,276	2,202	3,811	17,947	11,046
<b>Total current liabilities</b>	<b>659,156</b>	<b>578,274</b>	<b>589,292</b>	<b>605,148</b>	<b>396,810</b>
Long-term debt, excluding current portion	771,171	649,968	525,951	451,423	454,461
<b>Total non-current liabilities</b>	<b>825,804</b>	<b>724,579</b>	<b>606,485</b>	<b>629,923</b>	<b>632,092</b>
<b>Total liabilities</b>	<b>1,484,960</b>	<b>1,302,853</b>	<b>1,195,777</b>	<b>1,235,071</b>	<b>1,028,902</b>
Total common stock	491,735	484,569	484,569	377,546	377,546
<b>Total equity</b>	<b>695,299</b>	<b>746,310</b>	<b>679,629</b>	<b>549,195</b>	<b>454,046</b>
<b>Total liabilities and equity</b>	<b>2,180,259</b>	<b>2,049,163</b>	<b>1,875,406</b>	<b>1,784,266</b>	<b>1,482,948</b>
Shares outstanding(2)	209,867,426	209,529,412	209,529,412	241,882,966	241,882,966

## For the Years Ended December 31,

	2013(3)	2012(3)	2011(3)	2010(4)	2009(4)
(in thousands of U.S. dollars, except percentages)					
<b>Other Data:</b>					
Total Revenues					
Brazil	\$ 1,842,324	\$ 1,797,556	\$ 1,890,824	\$ 1,595,571	\$ 1,200,742
Caribbean division	830,447	754,730	663,981	260,617	244,774
NOLAD	407,772	384,041	355,265	305,017	240,333
SLAD(5)	952,767	861,067	747,579	856,913	979,627
<b>Total</b>	<b>4,033,310</b>	<b>3,797,394</b>	<b>3,657,649</b>	<b>3,018,118</b>	<b>2,665,476</b>
Operating Income					
Brazil	\$ 188,445	\$ 193,339	\$ 246,926	\$ 208,102	\$ 127,291
Caribbean division	37,837	40,692	32,475	11,189	10,448
NOLAD	(5,314)	(5,557)	(8,709)	(16,718)	(17,252)
SLAD(5)	84,324	74,824	62,094	66,288	108,261
Corporate and others and purchase price allocation	(76,770)	(66,658)	(82,033)	(64,304)	(21,939)
<b>Total</b>	<b>228,522</b>	<b>236,640</b>	<b>250,753</b>	<b>204,557</b>	<b>206,809</b>
Operating Margin(6)					
Brazil	10.2%	10.8%	13.1%	13.0%	10.6%
Caribbean division	4.6	5.4	4.9	4.3	4.3
NOLAD	(1.3)	(1.4)	(2.5)	(5.5)	(7.2)
SLAD(5)	8.9	8.7	8.3	7.7	11.1
<b>Total</b>	<b>5.7</b>	<b>6.2</b>	<b>6.9</b>	<b>6.8</b>	<b>7.8</b>
Adjusted EBITDA(7)					
Brazil	\$ 245,957	\$ 240,954	\$ 289,462	\$ 250,606	\$ 160,037
Caribbean division	67,180	69,109	53,754	23,556	21,167
NOLAD	27,397	26,738	19,551	15,400	3,918
SLAD(5)	105,495	93,756	77,214	83,998	129,889
Corporate and others	(101,562)	(89,996)	(100,193)	(74,446)	(48,628)
<b>Total</b>	<b>344,467</b>	<b>340,561</b>	<b>339,788</b>	<b>299,114</b>	<b>266,383</b>
Adjusted EBITDA Margin(8)					
Brazil	13.4%	13.4%	15.3%	15.7%	13.3%
Caribbean division	8.1	9.2	8.1	9.0	8.6
NOLAD	6.7	7.0	5.5	5.0	1.6
SLAD(5)	11.1	10.9	10.3	9.8	13.3
<b>Total</b>	<b>8.5</b>	<b>9.0</b>	<b>9.3</b>	<b>9.9</b>	<b>10.0</b>
<b>Other Financial Data:</b>					
Working capital(9)	\$ 7,295	\$ 23,224	\$ (678)	\$ (52,793)	\$ (2,799)
Capital expenditures(10)	313,786	300,482	325,852	176,173	101,166
Dividends declared per common share	\$ 0.24	\$ 0.24	\$ 0.24	\$ 0.17	\$ —
<b>Other Operating Data:</b>					
Systemwide comparable sales growth(11)(12)	11.2%	9.2%	13.7%	14.9%	5.5%
Brazil	6.6	5.2	9.3	17.5	2.7
Caribbean division	19.6	13.3	14.5	4.7	4.2
NOLAD	(0.9)	4.4	8.5	9.1	(1.7)
SLAD	20.8	19.9	30.6	16.1	12.2
<b>Systemwide average restaurant sales(12)(13)</b>	<b>\$ 2,611</b>	<b>\$ 2,603</b>	<b>\$ 2,648</b>	<b>\$ 2,288</b>	<b>\$ 2,147</b>
<b>Systemwide sales growth(12)(14)</b>	<b>6.2%</b>	<b>3.6%</b>	<b>21.1%</b>	<b>10.2%</b>	<b>0.9%</b>
Brazil	3.0	(4.6)	19.2	34.3	(2.4)
Caribbean division	10.3	14.2	22.4	3.8	4.6
NOLAD	4.7	5.9	14.9	19.2	(12.3)
SLAD	10.4	15.4	30.4	(20.2)	9.2

	As of December 31,				
	2013	2012	2011	2010	2009
<b>Number of systemwide restaurants</b>	<b>2,062</b>	<b>1,948</b>	<b>1,840</b>	<b>1,755</b>	<b>1,680</b>
Brazil	812	731	662	616	578
Caribbean division	365	353	351	142	145
NOLAD	507	503	484	476	456
SLAD	378	361	343	521	501
<b>Number of Company-operated restaurants</b>	<b>1,538</b>	<b>1,453</b>	<b>1,358</b>	<b>1,292</b>	<b>1,226</b>
Brazil	583	533	488	453	432
Caribbean division	270	259	249	91	93
NOLAD	344	335	314	310	289
SLAD	341	326	307	438	412
<b>Number of franchised restaurants</b>	<b>524</b>	<b>495</b>	<b>482</b>	<b>463</b>	<b>454</b>
Brazil	229	198	174	163	146
Caribbean division	95	94	102	51	52
NOLAD	163	168	170	166	167
SLAD	37	35	36	83	89

- (1) The balance sheet data as of December 31, 2010 and 2009 does not reflect the split-off of the Axionlog business, formerly known as Axis. See “Item 4. Information on the Company—B. Business Overview—Our Operations—Supply and Distribution.”
- (2) Data as of December 2010 and 2009 was adjusted to reflect the stock split approved on March 14, 2011. See Note 22 to our consolidated financial statements for details.
- (3) Segment information as of and for the years ended December 31, 2013, 2012 and 2011 is presented based on the segment structure prevailing as of and from January 1, 2013. See “Presentation of Financial and Other Information—Operating Data.” Segment Information for 2010 and 2009 has not been restated and is therefore not comparable to 2013, 2012 and 2011 information.
- (4) Segment information for 2010 and 2009 and has not been restated and is therefore not comparable to 2013, 2012 and 2011 information. See “Presentation of Financial and Other Information—Operating Data.”
- (5) Currency controls in Venezuela and related accounting changes have had a significant effect on our results of operations and impact the comparability of our results of operations in 2010 compared to 2009.
- (6) Operating margin is operating income divided by total revenues, expressed as a percentage.
- (7) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA, see “Presentation of Financial and Other Information—Other Financial Measures.”

Presented below is the reconciliation between net income and Adjusted EBITDA on a consolidated basis:

Consolidated Adjusted EBITDA Reconciliation	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
	(in thousands of U.S. dollars)				
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 53,854</b>	<b>\$ 114,332</b>	<b>\$ 115,529</b>	<b>\$ 106,021</b>	<b>\$ 80,022</b>
Plus (Less):					
Net interest expense	88,156	54,247	60,749	41,613	52,473
Loss from derivative instruments	4,141	891	9,237	32,809	39,935
Foreign currency exchange results	38,783	18,420	23,926	(3,237)	14,098
Other non-operating expenses (income), net	848	2,119	(3,562)	23,630	1,240
Income tax expense	42,722	46,375	44,603	3,450	18,709
Net income attributable to non-controlling interests	18	256	271	271	332
<b>Operating income</b>	<b>228,522</b>	<b>236,640</b>	<b>250,753</b>	<b>204,557</b>	<b>206,809</b>
Plus (Less):					
Items excluded from computation that affect operating income:					
Depreciation and amortization	114,860	92,328	68,971	60,585	54,169
Compensation expense related to the award right granted to our CEO	—	—	2,214	16,392	4,334

Consolidated Adjusted EBITDA Reconciliation	For the Years Ended December 31,				
	2013	2012	2011	2010	2009
Gains from sale of property and equipment	(10,326)	(3,328)	(7,123)	(5,299)	(8,465)
Write-offs of property and equipment	6,489	4,259	3,570	2,635	9,434
Impairment of long-lived assets	2,958	1,982	1,715	4,668	—
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	1,964	7,997	5,703	—	—
Cash bonus related to the initial public offering	—	—	1,382	—	—
Incremental compensation expense related to the Arcos Dorados B.V. long-term incentive plan	—	—	10,526	15,576	—
Impairment of goodwill	—	683	2,077	—	102
<b>Adjusted EBITDA</b>	<b>344,467</b>	<b>340,561</b>	<b>339,788</b>	<b>299,114</b>	<b>266,383</b>

- (8) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.
- (9) Working capital equals current assets minus current liabilities.
- (10) Includes property and equipment expenditures and purchase of restaurant businesses.
- (11) Systemwide comparable sales growth refers to the change in our restaurant sales in one period from a comparable period for restaurants that have been open for thirteen months or longer. Systemwide comparable sales growth is provided and analyzed on a constant currency basis, which means it is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from this trend analysis. We believe this constant currency measure provides a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency movements.
- (12) Systemwide comparable sales growth, systemwide average restaurant sales and systemwide sales growth are presented on a systemwide basis, which means they include sales by our Company-operated restaurants and our franchised restaurants. While sales by our franchisees are not recorded as revenues by us, we believe the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised revenues and are indicative of the financial health of our franchisee base.
- (13) Systemwide average restaurant sales is calculated by dividing our sales for the relevant period by the arithmetic mean of the number of our restaurants at the beginning and end of such period.
- (14) Systemwide sales growth refers to the change in sales by all of our restaurants, whether operated by us or by our franchisees, from one period to another.

#### Exchange Rates and Exchange Controls

In 2013, 81.6% of our total revenues were derived from our restaurants in Argentina, Brazil, Mexico, Puerto Rico and Venezuela. While we maintain our books and records in U.S. dollars, our revenues are conducted in the local currency of the territories in which we operate, and as such may be affected by changes in the local exchange rate to the U.S. dollar. The exchange rates discussed in this section have been obtained from each country's central bank or applicable ministry of finance. However, in most cases (except Venezuela), for consolidation purposes, we use a foreign currency to U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the aforementioned central banks and/or ministries of finance.

##### *Argentina*

Since 2001, Argentina has tightened restrictions on capital flows, imposed exchange controls, maintained an official U.S. dollar exchange rate and imposed transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments abroad. Exchange control restrictions impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

On January 6, 2002, the Argentine federal congress ended ten years of U.S. dollar-Argentine *peso* parity, eliminating the requirement that the Central Bank of Argentina maintain a certain level of reserves and granting the executive branch the power to set the exchange rate between the Argentine *peso* and foreign currencies and issue regulations related to the foreign exchange market. Since January 11, 2002, the Argentine *peso*/U.S. dollar exchange rate has floated freely.

Heightened demand for limited U.S. dollars caused the Argentine *peso* to trade well above the rate of one Argentine *peso* per one U.S. dollar that had been established previously. Since the economic crisis in Argentina that began in December 2001, the Argentine *peso*/U.S. dollar exchange rate has fluctuated considerably. In 2002, an executive order was enacted that established a single, free foreign exchange market that required all foreign exchange transactions to be carried out at a rate agreed upon between parties in accordance with the requirements of the Central Bank of Argentina.

For the last few years, the Argentine government has maintained a policy of intervention in the foreign exchange markets, conducting periodic transactions for the purchase or sale of U.S. dollars. We cannot assure you that the Argentine government will maintain its current policies with regard to the Argentine *peso* or that the Argentine *peso* will not further depreciate or appreciate significantly in the future.

The Argentine *peso* depreciated 9.9% against the U.S. dollar in 2009, 4.7% in 2010, 8.2% in 2011, 14.3% in 2012 and 32.6% in 2013. During January 2014, the Argentine *peso* depreciated against the U.S. dollar by approximately 23%, from 6.52 Argentine *pesos* per U.S. dollar as of December 31, 2013 to 8.02 Argentine *pesos* per U.S. dollar as of January 31, 2014. Had this devaluation occurred as of December 31, 2013, our reported net assets would have decreased by approximately \$13.5 million, increasing the “Accumulated other comprehensive losses” component of shareholders’ equity by \$15.7 million. We would have also recognized a foreign exchange gain of \$2.2 million.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Argentine *pesos* per U.S. dollar. The average rate is calculated by using the average of the Central Bank of Argentina’s reported exchange rates on each day during a monthly period and on the last day of each month during an annual or interim period. As of April 8, 2014 the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Argentina was ARS\$25 per U.S. dollar.

	<b>Period- End</b>	<b>Average for Period</b>	<b>Low</b>	<b>High</b>
	<b>ARS\$</b>	<b>(Argentine pesos per U.S. dollar) ARS\$</b>	<b>ARS\$</b>	<b>ARS\$</b>
<b>Year Ended December 31:</b>				
2009	3.797	3.729	3.450	3.855
2010	3.976	3.912	3.794	3.986
2011	4.303	4.130	3.972	4.304
2012	4.917	4.551	4.305	4.917
2013	6.518	5.479	4.923	6.518
<b>Quarter Ended:</b>				
March 31, 2014	8.010	7.969	6.543	8.023
<b>Month Ended:</b>				
October 31, 2013	5.911	5.848	5.800	5.911
November 30, 2013	6.136	6.015	5.922	6.136
December 31, 2013	6.518	6.319	6.155	6.518
January 31, 2014	8.018	7.097	6.543	8.023
February 28, 2014	7.878	7.857	7.764	8.018
March 31, 2014	8.010	7.931	7.866	8.010
April 30, 2014 (through April 25, 2014)	8.005	8.003	8.001	8.008

Note: For consolidation purposes, we use an Argentine *peso*/U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Argentina.

#### *Exchange Controls*

In January 2002, the Argentine government imposed a number of monetary and currency exchange control measures through Decree 1570/01, which included restrictions on the free disposition of funds deposited with banks and tight restrictions on transferring funds abroad without the Central Bank of Argentina’s prior authorization,

subject to specific exceptions for transfers related to foreign trade. As of September 2002, the Argentine government instituted restrictions on capital flows into Argentina, which mainly consisted of the mandatory settlement (i.e., transfer into Argentina and exchange for Argentine pesos) of the loan proceeds from foreign indebtedness of the non-financial private sector, and a prohibition against the transfer abroad of any funds until 180 days after their entry into the country.

In June 2005, the Argentine government issued Decree 616/05, which established additional restrictions over all capital flows that could result in future payment obligations of foreign currency by residents to non-residents. Pursuant to the decree, all private sector indebtedness of physical persons or corporations in Argentina are required to be agreed upon and repaid not prior to 365 days from the date of entry of the funds into Argentina, regardless of the form of repayment. The decree outlines several types of transactions that are exempt from its requirements, including foreign trade financings and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market.

In addition, the decree stipulates that all capital inflows within the private sector to the local exchange market due to foreign indebtedness of physical persons or corporations within Argentina (excluding foreign trade financings and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market), as well as all capital inflows of non-residents received by the local exchange market destined for local money holdings, all kinds of financial assets or liabilities of the financial and non-financial private sector (excluding foreign direct investment and primary offerings of debt securities issued pursuant to a public offering and listed on a self-regulated market) and investments in securities issued by the public sector that are acquired in secondary markets, must meet certain requirements described in section 4 of the decree, as outlined below:

- the funds may only be transferred outside the local exchange market after a 365-day period from the date of entry of the funds into Argentina;
- any amounts resulting from the exchange of the funds are to be credited to an account within the Argentine banking system;
- a non-transferable, non-interest-bearing deposit must be maintained for a term of 365 calendar days, in an amount equal to 30% of any inflow of funds to the local foreign exchange market; and
- the deposit shall be in U.S. dollars in any of the financial entities of Argentina and may not be used as collateral or guaranty for any credit transaction. Any breach to the provisions of Decree 616/05 is subject to criminal penalties.

In addition, on November 16, 2005, the Ministry of Economy and Production issued Resolution 637/05, providing that any inflow of funds to the local exchange market in connection with an initial offering of securities, bonds or certificates issued by a trustee under a trust, whether or not such securities, bonds or certificates are publicly offered and listed in a self-regulated market, shall comply with all requirements provided for in section 4 of Decree 616/05 whenever those requirements are applicable to the inflow of funds to the local exchange market in connection with the acquisition of any of the assets under the trust.

Regarding payment by local residents of services rendered to them, access to the local exchange market for payment of services rendered by non-residents is subject to filing with the intervening bank of documentation evidencing the nature of the service rendered, that it was indeed rendered by a non-resident to a local resident and the amounts due for such services which are to be transferred abroad. If the service rendered is not directly related to the activities of the local resident, an auditor's report must also be filed with the intervening bank, certifying that the service was in fact rendered and detailing the back-up information reviewed for such purpose. Furthermore, foreign exchange regulations currently in place provide that previous authorization by the Central Bank of Argentina is required for access to the local foreign exchange market for the payment of certain services, including (i) information and computer services; (ii) technical or professional business services; (iii) royalties, patents and trademarks; (iv) professional athlete services; (v) copyrights; (vi) cultural, personal or recreational services; (vii) payment of commercial warranties for the export of goods and services; (viii) commercial commissions; (ix) rights of exploitation of movies, videos and foreign audio recordings; and (x) services for technology transfer pursuant to Law No. 22,426; provided, however, the contracts related to such services generate payments or new debt (in the calendar year, at the foreign exchange local market concept code level and regarding the debtor) over U.S.\$100,000, and either (i) the beneficiary is a person (natural or legal entity) related to the local debtor, whether directly or

indirectly; or (ii) the beneficiary is a person (natural or legal entity) located in a tax haven jurisdiction; or (iii) when the payment abroad is performed in a tax haven jurisdiction. Additionally, depending on the nature of the service rendered, an affidavit may need to be filed with the Argentine tax authority (*Administración Federal de Ingresos Públicos*, or AFIP).

*Interest Payments.* Access to the local exchange market for paying interest is allowed if it is related to unpaid debts or settlement occurs simultaneously with the payment of capital. Foreign currency necessary to pay interest on foreign indebtedness may be purchased and transferred abroad:

- (a) up to 5 days in advance of the relevant interest payment date;
- (b) to pay interest accrued as from the date of settlement of the disbursed funds through the local foreign exchange market; or
- (c) to pay interest accrued during the period between the date of disbursement of the funds and the date of settlement of the disbursed funds through the local foreign exchange market; provided that the funds disbursed abroad were credited in correspondent accounts of entities authorized to settle such funds through the local exchange market, within 48 business hours as from the date of their disbursement.

In order to proceed with remittances abroad for debt interest payments of all types, the entities involved must first verify that the debtor has complied with the reporting requirements imposed under Communication “A” 3602 dated May 7, 2002 and under Communication “A” 4237 dated November 10, 2004 in case the lender is part of the debtor’s economic group, and meets all other requirements set forth in Communication “A” 5264.

*Principal Repayments.* Foreign currency necessary to pay principal on foreign indebtedness owed by the private non-financial sector may be acquired:

- (a) within 10 business days prior to the stated maturity of the applicable obligation; provided that the funds disbursed under such obligation have remained in Argentina for at least 365 days; or
- (b) within the term necessary for performing the payment obligations, when such payment obligations depend on the occurrence of specific conditions set forth in the related contracts, such as a cash flow excess clause or automatic cash reinvestment clause.

*Principal Prepayments.* The foreign currency required to prepay principal on foreign indebtedness may be acquired to make partial or full payments more than 10 business days prior to the stated maturity of the relevant obligation, provided that (i) the funds disbursed under the debt facility have remained in Argentina for at least 365 days; and (ii) either (y) the prepayment is financed totally with the disbursement of funds from outside Argentina with the purpose of carrying out capital contributions in a local company, or (z) the amount in foreign currency to be prepaid does not exceed the current value of the portion of the debt being prepaid, the prepayment is financed totally with a new cross-border loan granted by a foreign financial creditor and the terms and conditions of the new financing explicitly provide such prepayment as a condition to grant the new loan.

*Foreclosure of Local Guarantees.* Access to the local foreign exchange market for payment of foreign indebtedness is limited to the resident debtor. In such sense, any guarantor of any cross-border financing that is an Argentine resident shall not have access to the local foreign exchange market in order to make payments or transfer funds abroad pursuant to the guarantee, or may be subject to maximum thresholds for any such payment or transfer abroad. As of the date hereof, purchases of foreign currency without specific allocation (*atesoramiento*) by local residents who are legal persons are subject to prior authorization by the Central Bank of Argentina.

*Dividends.* Additionally, access to the local foreign exchange market is permitted for remittances abroad to pay earnings and dividends in so far as they arise from closed and fully audited balance sheets (Communication “A” 5264). Moreover, pursuant to AFIP General Resolution No. 3210 (2011), AFIP General Resolution No. 3212 (2011) and AFIP General Resolution No. 3421 (2012), a new system of restrictions on the purchase of U.S. dollars was imposed. Accordingly, all U.S. dollar purchases must be registered with AFIP, which requires the purchaser to state the use of the proceeds. Purchases of foreign currency by local residents who are legal persons, for the formation of off-shore assets, are subject to prior authorization by the Central Bank of Argentina. Under the new system, AFIP and the Central Bank of Argentina have direct access to the same data in order to monitor cash movements.

Notwithstanding the above, although the purchase of foreign currency to pay dividends abroad is legally permitted, in practice, the payment of dividends abroad is being delayed or denied as a result of factual restrictions by the Central Bank of Argentina. This limitation is part of several informal foreign exchange measures implemented by the Argentine government with the purpose of restricting the outflow of foreign currency in order to obtain a favorable balance between the inflows and outflows of foreign currency.

These exchange controls impact our ability to transfer funds abroad and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina.

**Brazil**

On March 4, 2005, the Brazilian Monetary Council issued Resolution No. 3,265, providing for several changes in Brazilian foreign exchange regulation, including the unification of the foreign exchange markets into a single exchange market; the easing of several rules for acquisition of foreign currency by Brazilian residents; and the extension of the term for converting foreign currency derived from Brazilian exports. On May 29, 2008, the Brazilian Monetary Council issued Resolution No. 3,568, which expressly revoked Resolution 3,265 but maintained many of the regulatory aspects concerning the monetary policies already set by the revoked resolution. Resolution No. 3,568 also included in the Brazilian Exchange Market the operations related to receipts, payments and transfers to and from abroad through the use of debit and credit cards, as well as the transactions related to international postal transfers of money, including postal vouchers, and international postal reimbursements.

Resolution 3,568 establishes that, without prejudice to the duty of identifying customers, operations of foreign currency purchase or sale up to \$3,000 or its equivalent in other currencies are not required to submit documentation relating to legal transactions underlying these foreign exchange operations. According to Resolution 3,568, the Central Bank of Brazil may define simplified forms to record operations of foreign currency purchases and sales of up to \$3,000 or its equivalent in other currencies.

The Brazilian Monetary Council may issue further regulations in relation to foreign exchange transactions, as well as on payments and transfers of Brazilian currency between Brazilian residents and non-residents (such transfers being commonly known as the international transfer of *reais*), including those made through the so-called non-resident accounts.

According to the Central Bank of Brazil, in 2009 and 2010, the Brazilian *real* appreciated 25.5% and 4.3%, respectively, in relation to the U.S. dollar; in 2011, 2012 and 2013, the Brazilian *real* depreciated 12.6%, 9.0% and 14.6%, respectively, in relation to the U.S. dollar.

Although the Central Bank of Brazil has intervened occasionally to control movements in the foreign exchange rates, the exchange market may continue to be volatile as a result of capital movements or other factors, and, therefore, the Brazilian *real* may substantially decline or appreciate in value in relation to the U.S. dollar in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end exchange rates for the purchase of U.S. dollars expressed in Brazilian *reais* per U.S. dollar as reported by the Central Bank of Brazil. As of April 25, 2014, the exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Brazil was R\$2.233 per U.S. dollar.

	<b>Period- End</b>	<b>Average for Period</b>	<b>Low</b>	<b>High</b>
	<b>R\$</b>	<b>(Brazilian reais per U.S. dollar) R\$</b>	<b>R\$</b>	<b>R\$</b>
<b>Year Ended December 31:</b>				
2009	1.741	1.994	1.702	2.422
2010	1.666	1.759	1.655	1.881
2011	1.876	1.675	1.535	1.902
2012	2.044	1.959	1.702	2.112
2013	2.343	2.160	1.953	2.446
<b>Quarter Ended:</b>				
March 31, 2014	2.263	2.341	2.260	2.440

	<b>Period- End</b>	<b>Average for Period</b>	<b>Low</b>	<b>High</b>
	<b>(Brazilian <i>reais</i> per U.S. dollar)</b>			
	<b>R\$</b>	<b>R\$</b>	<b>R\$</b>	<b>R\$</b>
<b>Month Ended:</b>				
October 31, 2013	2.203	2.189	2.161	2.212
November 30, 2013	2.325	2.295	2.243	2.336
December 31, 2013	2.343	2.345	2.310	2.382
January 31, 2014	2.426	2.382	2.334	2.440
February 28, 2014	2.333	2.383	2.333	2.424
March 31, 2014	2.263	2.326	2.260	2.365
April 30, 2014 (through April 25, 2014)	2.233	2.233	2.197	2.281

Note: For consolidation purposes, we use a Brazilian *reais*/U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Brazil.

#### *Mexico*

For the last few years, the Mexican government has maintained a policy of non-intervention in the foreign exchange markets, other than conducting periodic auctions for the purchase of U.S. dollars, and has not had in effect any exchange controls (although these controls have existed and have been in effect in the past). We cannot assure you that the Mexican government will maintain its current policies with regard to the Mexican *peso* or that the Mexican *peso* will not further depreciate or appreciate significantly in the future.

The following table sets forth, for the periods indicated, the high, low, average and period-end free-market exchange rate for the purchase of U.S. dollars, expressed in nominal Mexican *pesos* per U.S. dollar, as reported by the Central Bank of Mexico in the Federal Official Gazette. All amounts are stated in Mexican *pesos* per U.S. dollar. The annual and interim average rates reflect the average of month-end rates, and monthly average rates reflect the average of daily rates. As of April 25, 2014, the free-market exchange rate for the purchase of U.S. dollars as reported by the Central Bank of Mexico in the Federal Official Gazette as the rate of payment of obligations denominated in non-Mexican currency payable in Mexico was Ps.13.09 per U.S. dollar.

	<b>Period End</b>	<b>Average for Period</b>	<b>Low</b>	<b>High</b>
	<b>(Mexican <i>pesos</i> per U.S. dollar)</b>			
	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>	<b>Ps.</b>
<b>Year Ended December 31:</b>				
2009	13.07	13.50	12.60	15.37
2010	12.36	12.64	12.16	13.18
2011	13.98	12.43	11.50	14.24
2012	13.01	13.17	14.39	12.63
2013	13.08	12.82	11.98	13.44
<b>Quarter Ended:</b>				
March 31, 2014	13.05	13.22	12.99	13.49
<b>Month Ended:</b>				
October 31, 2013	12.89	13.02	12.77	13.27
November 30, 2013	13.08	13.06	12.72	13.44
December 31, 2013	13.08	13.00	12.86	13.24
January 31, 2014	13.37	13.22	12.98	13.49
February 28, 2014	13.29	13.28	13.19	13.39
March 31, 2014	13.05	13.20	13.05	13.32
April 30, 2013 (through April 25, 2014)	13.09	13.07	12.96	13.13

For consolidation purposes, we use a Mexican *peso*/U.S. dollar exchange rate provided by Bloomberg that differs slightly from that reported by the Central Bank of Mexico.

## Venezuela

The exchange control regime in force in Venezuela since 2003 provided that all foreign currency export proceeds had to be sold to the Central Bank of Venezuela at the established exchange rate. In addition, all foreign currency entering the country had to be sold to the Central Bank of Venezuela. During that period, if the acquisition of foreign currency by a private sector entity had to be approved by the *Comisión de Administración de Divisas*, or CADIVI, the entity had to prove, among other things, that its social security contributions and tax payments were up to date.

These approvals became more difficult to obtain over time, which led to the development of a bond-based exchange process in effect until May 2010, under which *bolívar fuerte*-denominated bonds were purchased in Venezuela and then were immediately exchanged outside Venezuela for bonds denominated in U.S. dollars at a specified, and less favorable, parallel market exchange rate.

Historically, we had not been able to access the official exchange rate for royalty payments and had instead entered into bond-based exchange transactions to make our royalty payments, honor other foreign debts and pay intercompany loans.

On January 8, 2010, the Venezuelan government announced the devaluation of the *bolívar fuerte* and the creation of a two-tiered official exchange rate system. The official exchange rate moved from 2.15 *bolívares fuertes* per U.S. dollar to 2.60 *bolívares fuertes* per U.S. dollar for essential goods and to 4.30 *bolívares fuertes* per U.S. dollar for non-essential goods.

On May 14, 2010, the Central Bank of Venezuela increased its control of the bond-based exchange process and, as a result, bond-based exchanges may solely be conducted by the Central Bank of Venezuela. Consequently, the market for exchanging bonds in Venezuela ended, limiting companies' ability to obtain foreign currency other than through foreign currency trades approved by and conducted through CADIVI or the Central Bank of Venezuela.

On June 9, 2010, the Venezuelan government, through the Central Bank of Venezuela, implemented a regulated market for trading with foreign currency, known as the System for Transactions with Securities in Foreign Currency (*Sistema de Transacciones con Títulos en Moneda Extranjera*), or SITME. Pursuant to this system, companies without access to CADIVI can access SITME to convert a maximum cash equivalent of up to \$50,000 per day or \$350,000 per month of foreign currency at an exchange rate based on the range of prices for the purchase and sale of bonds published daily by the Central Bank of Venezuela.

On December 30, 2010, the Venezuelan government announced the elimination of the official exchange rate for essential goods. Effective January 1, 2011, each U.S. dollar was valued at 4.2893 *bolívares fuertes* for purchases and 4.3000 *bolívares fuertes* for sales. In addition, the exchange rate was set at 4.3000 *bolívares fuertes* per U.S. dollar for the payment of external public debt.

On February 8, 2013, the Venezuelan government, through Foreign Exchange Agreement No. 14, established the devaluation of the official exchange rate from 4.30 to 6.30 *bolívares fuertes* per U.S. dollar, effective as of February 9, 2013. This exchange rate also applied to the purchase of foreign currency: (i) for the payment of principal, interest, guarantees and other types of collateral related to private debt assumed with foreign creditors, (ii) to settle obligations derived from the use of patents, trademarks, licenses and franchising, and (iii) for the payment of technology imports and technical assistance agreements.

In addition, on February 8, 2013, the Venezuelan government, through Decree No. 9381, created a committee called the Superior Office for the Optimization of the Exchange Rate System (*Organo Superior para la Optimización del Sistema Cambiario*), or the Committee, which has the authority to design, plan and execute foreign exchange policies for the purpose of balancing foreign currency flow in the Venezuelan economy. The Committee's decisions are taken in consensus with the Central Bank of Venezuela and the Venezuelan Ministry of Planning and Finance.

Following the change in the official exchange rate, on February 13, 2013, the Central Bank of Venezuela, through an official announcement published in the Venezuelan Official Gazette number 40,109, provided notice that as of February 9, 2013, no sales would be processed and no purchase orders would be granted through SITME. Venezuelan authorized institutions continued with the operative process required for the payment of negotiated foreign currency balances already assigned through SITME until February 8, 2013.

On March 18, 2013, the Venezuelan government announced a new complementary foreign exchange system called the Supplementary System for the Administration of Foreign Currency (*Sistema Complementario de Adquisición de Divisas*), or SICAD. This new mechanism led to the definitive suspension of SITME operations.

The SICAD mechanism is an auction that is controlled by the Venezuelan government. For each auction the government indicates which sectors of the economy or products are allowed to participate. The highest bidder is not necessarily the winner of an auction, and even when a bid is accepted the winner typically is not awarded the entire amount requested. When invited to participate, an entity must submit documentation that evidences a qualifying U.S. dollar liability related to a prospective import transaction. By definition, liabilities related to past import transactions are not eligible to be settled through SICAD. If an entity's bid is accepted, the Central Bank of Venezuela collects *bolívares fuertes* from the entity and remits the U.S. dollars directly to the vendor. The publication of the exchange rates of SICAD auctions started in December 2013 as required by the amended related regulation. The rate published for the last two weeks of 2013 was 11.3 *bolívares fuertes* per U.S. dollar.

On January 23, 2014, effective on January 24, 2014, the government of Venezuela announced the creation of a new institution governing exchange rate control called the National Center of Foreign Trade (*Centro Nacional de Comercio Exterior*), or CENCOEX, which will gradually take over all the attributes and responsibilities of CADIVI. Based on announcements made by the Venezuelan government, there would only be access to U.S. dollars at a rate of 6.30 *bolívares fuertes* per U.S. dollar for the food industry and other industries deemed a priority, which as of today have not been fully defined. Imports of other products could be included in SICAD auctions depending on the related industry. On the other hand, Exchange Agreement N°25 issued on January 23, 2014, establishes that payments related to foreign investments and royalties, among others, will be made at the SICAD exchange rate. However, there are still uncertainties about the liquidity of the SICAD program and our access to U.S. dollars through this mechanism. As of the date of this annual report, the most recent transactions executed through SICAD auctions have been at an exchange rate ranging from 10.0 to 11.3 *bolívares fuertes* per U.S. dollar.

Therefore, as of the date of this annual report, the exchange rate applicable to the aforementioned items is 10.0 Venezuelan *bolívares fuertes* per U.S. dollar (as published by the Central Bank of Venezuela during the last auction held through the SICAD mechanism). As established under Exchange Agreement N° 26 enacted in February 2014, the SICAD auctions will now be administered by CENCOEX and not by the Central Bank of Venezuela.

In February 2014, a new Exchange Regime Act was enacted to introduce flexibility into the exchange control system by creating the Alternative System for the Administration of Foreign Currency (*Sistema Cambiario Alternativo de Divisas*), or SICAD II. The Exchange Regime Act became effective as of February 19, 2014. According to the Act, the Central Bank of Venezuela no longer has exclusive control over buying and selling foreign currency.

According to the new law, three trading systems will exist: (i) a similar mechanism to the one administered by CADIVI, but administered by CENCOEX; (ii) SICAD; and (iii) SICAD II, where PDVSA (*Petróleos de Venezuela*), the Central Bank of Venezuela and private entities may participate in the acquisition and sale of foreign currency. The Exchange Regime Act of 2014 substitutes the Act Against Illicit Foreign Exchange. In addition, the new Exchange Regime Act establishes that CENCOEX will take over the functions previously performed by CADIVI and as a result fully replace CADIVI.

SICAD II is regulated through the recently approved Exchange Agreement N° 27 of March 2014, and is expected to serve as an additional source for U.S. dollars, albeit at a higher exchange rate than under SICAD. According to top ranking Venezuelan government officials, SICAD II will function on free market principles with foreign currency offered either by PDVSA, the Central Bank of Venezuela or the private sector. The objective of this additional mechanism is to relieve pressure caused by the overvaluation of the Venezuelan *bolívar fuerte* and narrow the gap between the official and unofficial exchange rates for U.S. dollars.

As a result of the foregoing, the acquisition of foreign currency at the official exchange rate by Venezuelan companies to honor foreign debt, pay dividends or otherwise move capital out of Venezuela is subject to the approval of CENCOEX and to the availability of foreign currency within the SICAD and SICAD II mechanisms.

The following table sets forth, for the periods indicated, the exchange rates set by the Ministry of Finance and the Central Bank of Venezuela for the purchase and sale of U.S. dollars and the payment of external public debt in U.S. dollars, in each case expressed in nominal Venezuelan *bolívares fuertes* per U.S. dollar.

	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	<i>(Venezuelan bolívares fuertes per U.S. dollar)</i>		
	<u>Bs.F</u>	<u>Bs.F</u>	<u>Bs.F</u>
January 1, 2009 through January 7, 2010	2.1446	2.1500	2.1500

	<u>Essential Goods</u>	<u>Non-essential Goods</u>
	<i>(Venezuelan bolívares fuertes per U.S. dollar)</i>	
	<u>Bs.F</u>	<u>Bs.F</u>
January 8, 2010 through December 31, 2010	2.60	4.30

	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	<i>(Venezuelan bolívares fuertes per U.S. dollar)</i>		
	<u>Bs.F</u>	<u>Bs.F</u>	<u>Bs.F</u>
January 1, 2011 through February 8, 2013	4.2893	4.3000	4.3000

	<u>Purchase</u>	<u>Sale</u>	<u>Payment of External Public Debt</u>
	<i>(Venezuelan bolívares fuertes per U.S. dollar)</i>		
	<u>Bs.F</u>	<u>Bs.F</u>	<u>Bs.F</u>
February 9, 2013 through April 25, 2014	6.2842	6.3000	6.3000

The following tables sets forth, for the periods indicated, the exchange rates resulting from the SICAD and SICAD II mechanisms administered by the Central Bank of Venezuela for the purchase and sale of U.S. dollars, in each case expressed in nominal Venezuelan *bolívares fuertes* per U.S. dollar.

#### SICAD I

<u>Effective</u>	<u>Auction No.</u>	<u>Exchange Rate (Venezuelan bolívares fuertes per U.S. dollar)</u>
December 23, 2013 through January 14, 2014	13-2013 and 14-2013	11.30
January 15 through February 16, 2014	15-2014	11.36
February 17 through February 23, 2014	01-2014	11.70
February 24 through March 5, 2014	02-2014	11.80
March 6 through March 16, 2014	03-2014	11.00
March 17 through March 23, 2014	04-2014	10.90
March 24 through March 30, 2014	05-2014	10.80
March 31 through April 4, 2014	06-2014	10.70
April 7 through April 25, 2014	07-2014 and 08-2014	10.00

#### SICAD II

<u>Dates of Auction</u>	<u>Period-End</u>	<u>Average for Period</u>	<u>Low</u>	<u>High</u>
<i>(Venezuelan bolívares fuertes per U.S. dollar)</i>				
	<u>Bs.F</u>	<u>Bs.F</u>	<u>Bs.F</u>	<u>Bs.F</u>
March 24 through March 28, 2014	50.86	51.47	50.86	51.86
March 31 through April 4, 2014	49.04	49.24	49.04	49.81
April 7 through April 11, 2014	49.02	49.08	49.02	49.13
April 14 through April 16, 2014	49.32	49.19	49.05	49.32
April 21 through April 25, 2014	49.86	49.59	49.39	49.86

**B. Capitalization and Indebtedness**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds**

Not applicable.

**D. Risk Factors**

*Our business, financial condition and results of operations could be materially and adversely affected if any of the risks described below occur. As a result, the market price of our class A shares could decline, and you could lose all or part of your investment. This annual report also contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements.” Our actual results could differ materially and adversely from those anticipated in these forward-looking statements as a result of certain factors, including the risks facing our company or investments in Latin America and the Caribbean described below and elsewhere in this annual report.*

**Certain Factors Relating to Our Business**

***Our rights to operate and franchise McDonald’s-branded restaurants are dependent on the MFAs, the expiration of which would adversely affect our business, results of operations, financial condition and prospects.***

Our rights to operate and franchise McDonald’s-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald’s in the MFAs through 2027. The initial term of the franchise for French Guiana, Guadeloupe and Martinique expires in 2017, which we may extend for an additional 10-year term at our sole discretion. As a result, our ability to continue operating in our current capacity following the initial term of the MFAs is dependent on the renewal of our contractual relationship with McDonald’s.

McDonald’s has the right, in its reasonable business judgment based on our satisfaction of certain criteria set forth in the MFA, to grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years after the expiration of the initial term of the MFAs upon such terms as McDonald’s may determine. Pursuant to the MFAs, McDonald’s will determine whether to grant us the option to renew between August 2020 and August 2024. If McDonald’s grants us the option to renew and we elect to exercise the option, then we and McDonald’s will amend the MFAs to reflect the terms of such renewal option, as appropriate. We cannot assure you that McDonald’s will grant us an option to extend the term of the MFAs or that the terms of any renewal option will be acceptable to us, will be similar to those contained in the MFAs or that the terms will not be less favorable to us than those contained in the MFAs.

If McDonald’s elects not to grant us the renewal option or we elect not to exercise the renewal option, we will have a three-year period in which to solicit offers for our business, which offers would be subject to McDonald’s approval. Upon the expiration of the MFAs, McDonald’s has the option to acquire all of our non-public shares and all of the equity interests of our wholly owned subsidiary Arcos Dourados Comercio de Alimentos Ltda., the master franchisee of McDonald’s for Brazil, at their fair market value.

In the event McDonald’s does not exercise its option to acquire LatAm, LLC and Arcos Dourados Comercio de Alimentos Ltda., the MFAs would expire and we would be required to cease operating McDonald’s-branded restaurants, identifying our business with McDonald’s and using any of McDonald’s intellectual property. Although we would retain our real estate and infrastructure, the MFAs prohibit us from engaging in certain competitive businesses, including Burger King, Subway, KFC or any other quick-service restaurant, or QSR, business, or duplicating the McDonald’s system at another restaurant or business during the two-year period following the expiration of the MFAs. As the McDonald’s brand and our relationship with McDonald’s are among our primary competitive strengths, the expiration of the MFAs for any of the reasons described above would materially and adversely affect our business, results of operations, financial condition and prospects.

***Our business depends on our relationship with McDonald's and changes in this relationship may adversely affect our business, results of operations and financial condition.***

Our rights to operate and franchise McDonald's-branded restaurants in the Territories, and therefore our ability to conduct our business, derive exclusively from the rights granted to us by McDonald's in the MFAs. As a result, our revenues are dependent on the continued existence of our contractual relationship with McDonald's.

Pursuant to the MFAs, McDonald's has the ability to exercise substantial influence over the conduct of our business. For example, under the MFAs, we are not permitted to operate any other QSR chains, we must comply with McDonald's high quality standards, we must own and operate at least 50% of all McDonald's-branded restaurants in the Territories, we must maintain certain guarantees in favor of McDonald's, including a standby letter of credit (or other similar financial guarantee acceptable to McDonald's) in an amount of \$80.0 million, to secure our payment obligations under the MFAs and related credit documents, we cannot incur debt above certain financial ratios, we cannot transfer the equity interests of our subsidiaries, any significant portion of their assets or any of the real estate properties we own without McDonald's consent, and McDonald's has the right to approve the appointment of our chief executive officer and chief operating officer. In addition, the MFAs require us to reinvest a significant amount of money, including through reimagining our existing restaurants, opening new restaurants and advertising, which plans McDonald's has the right to approve. We are required under the MFAs to open 250 restaurants and to spend \$180 million from 2014 through 2016 to satisfy our reinvestment commitments. In addition, we estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million depending on, among other factors, the type and location of the restaurants we open. We cannot assure you that we will have available the funds necessary to finance these commitments, and their satisfaction may require us to incur additional indebtedness, which could adversely affect our financial condition. Moreover, we may not be able to obtain additional indebtedness on favorable terms, or at all. Failure to comply with these commitments could constitute a material breach of the MFAs and may lead to a termination by McDonald's of the MFAs.

Notwithstanding the foregoing, McDonald's has no obligation to fund our operations. In addition, McDonald's does not guarantee any of our financial obligations, including trade payables or outstanding indebtedness, and has no obligation to do so.

If the terms of the MFAs excessively restrict our ability to operate our business or if we are unable to satisfy our restaurant opening and reinvestment commitments under the MFAs, our business, results of operations and financial condition would be materially and adversely affected.

***McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value.***

Pursuant to the MFAs, McDonald's has the right to acquire our non-public shares or our interests in one or more Territories upon the occurrence of certain events, including the death or permanent incapacity of our controlling shareholder or a material breach of the MFAs. In the event McDonald's were to exercise its right to acquire all of our non-public shares, McDonald's would become our controlling shareholder.

McDonald's has the option to acquire all, but not less than all, of our non-public shares at 100% of their fair market value during the twelve-month period following the eighteenth-month anniversary of the death or permanent incapacity of Mr. Staton, our Chairman, CEO and controlling shareholder. In addition, if there is a material breach that relates to one or more Territories in which there are at least 100 restaurants in operation, McDonald's has the right either to acquire all of our non-public shares or our interests in our subsidiaries in such Territory or Territories. By contrast, if the initial material breach of the MFAs affects or is attributable to any of the Territories in which there are less than 100 restaurants in operation, McDonald's only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory. For example, since we have more than 100 restaurants in Mexico, if a Mexican subsidiary were to materially breach the MFA, McDonald's would have the right either to acquire our entire business throughout Latin America and the Caribbean or just our Mexican operations, whereas upon a similar breach by our Ecuadorean subsidiary, McDonald's would only have the right to acquire our interests in our operations in Ecuador.

McDonald's was granted a perfected security interest in the equity interests of LatAm, LLC, Arcos Dourados Comercio de Alimentos Ltda. and certain of their subsidiaries to protect this right. In the event this right is exercised as a result of a material breach of the MFAs, the amount to be paid by McDonald's would be equal to 80% of the fair market value of the acquired equity interests. If McDonald's exercises its right to acquire our interests in one or more Territories as a result of a material breach, our business, results of operations and financial condition would be materially and adversely affected.

***We have experienced rapid growth in recent years. The failure to successfully manage this or any future growth may adversely affect our results of operations.***

Our business has grown significantly in recent years, largely due to the opening of new restaurants in existing and new markets within the Territories, and also from an increase in comparable store sales. Our total number of restaurant locations has increased from 1,569 at the date of the Acquisition to 2,062 as of December 31, 2013.

Our growth is, to a certain extent, dependent on new restaurant openings. There are many obstacles to opening new restaurants, including determining the availability of desirable locations, securing reliable suppliers, hiring and training new personnel and negotiating acceptable lease terms, and, in times of adverse economic conditions, franchisees may be more reluctant to provide the investment required to open new restaurants and may have difficulty obtaining sufficient financing. In addition, our growth in comparable store sales is dependent on continued economic growth in the countries in which we operate as well as our ability to continue to predict and satisfy changing consumer preferences. It is therefore possible that the future growth of our business may be less than currently expected.

We plan our capital expenditures on an annual basis, taking into account historical information, regional economic trends, restaurant opening and reimagining plans, site availability and the investment requirements of the MFAs in order to maximize our returns on invested capital. The success of our investment plan may, however, be harmed by factors outside our control, such as changes in macroeconomic conditions, changes in demand and construction difficulties that could jeopardize our investment returns and our future results and financial condition.

***We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations.***

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. We use McDonald's centralized supply chain management model, which relies on approved third-party suppliers and distributors for goods, and we generally use several suppliers to satisfy our needs for goods. This system encompasses selecting and developing suppliers of core products—beef, chicken, buns, produce, cheese, dairy mixes, beverages and toppings—who are able to comply with McDonald's high quality standards, and establishing sustainable relationships with these suppliers. McDonald's standards include cleanliness, product consistency, timeliness, following internationally recognized manufacturing practices, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up.

Our 25 largest suppliers account for approximately 80% of our purchases. Very few of our suppliers have entered into written contracts with us as we only have oral agreements with a vast majority of them. Our supplier approval process is thorough and lengthy in order to ensure compliance with McDonald's high quality standards. We therefore tend to develop strong relationships with approved suppliers and, given our importance to them, have found that oral agreements with them are generally sufficient to ensure a reliable supply of quality products. While we source our supplies from many approved suppliers in Latin America and the Caribbean, thereby reducing our dependence on any one supplier, the informal nature of the majority of our relationships with suppliers means that we may not be assured of long-term or reliable supplies of products from those suppliers.

In addition, certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. In light of these restrictions, as well as the MFAs' requirement to purchase certain core supplies from approved suppliers, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders.

If our suppliers fail to provide us with products in a timely manner due to unanticipated demand, production or distribution problems, financial distress or shortages, if our suppliers decide to terminate their relationship with us or

if McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards and we are obligated to terminate our relationship with such supplier, we may have difficulty finding appropriate or compliant replacement suppliers. As a result, we may face inventory shortages that could negatively affect our operations.

***Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements.***

As of December 31, 2013, 25.4% of our restaurants were franchised. Under our franchise agreements, we receive monthly payments which are, in most cases, the greater of a fixed rent or a certain percentage of the franchisee's gross sales. Franchisees are independent operators over whom we exercise control through the franchise agreements, by owning or leasing the real estate upon which their restaurants are located and through our operating manual that specifies items such as menu choices, permitted advertising, equipment, food handling procedures, product quality and approved suppliers. Our operating results depend to a certain extent on the restaurant profitability and financial viability of our franchisees. The concurrent failure by a significant number of franchisees to meet their financial obligations to us could jeopardize our ability to meet our obligations.

In addition, we are liable for our franchisees' monthly payment of a continuing franchise fee to McDonald's, which represents a percentage of those franchised restaurants' gross sales. To the extent that our franchisees fail to pay this fee in full, we are responsible for any shortfall. As such, the concurrent failure by a significant number of franchisees to pay their continuing franchise fees could have a material adverse effect on our results of operations and financial condition.

***We do not have full operational control over the businesses of our franchisees.***

We are dependent on franchisees to maintain McDonald's quality, service and cleanliness standards, and their failure to do so could materially affect the McDonald's brand and harm our future growth. Although we exercise significant control over franchisees through the franchise agreements, franchisees have some flexibility in their operations, including the ability to set prices for our products in their restaurants, hire employees and select certain service providers. In addition, it is possible that some franchisees may not operate their restaurants in accordance with our quality, service and cleanliness, health or product standards. Although we take corrective measures if franchisees fail to maintain McDonald's quality, service and cleanliness standards, we may not be able to identify and rectify problems with sufficient speed and, as a result, our image and operating results may be negatively affected.

***Ownership and leasing of a broad portfolio of real estate exposes us to potential losses and liabilities.***

As of December 31, 2013, we owned the land for 511 of our 2,062 restaurants and the buildings for all but 12 of our restaurants. The value of these assets could decrease or rental costs could increase due to changes in local demographics, the investment climate and increases in taxes.

The majority of our restaurant locations, or those operated by our franchisees, are subject to long-term leases. We may not be able to renew leases on acceptable terms or at all, in which case we would have to find new locations to lease or be forced to close the restaurants. If we are able to negotiate a new lease at an existing location, we may be subject to a rent increase. In addition, current restaurant locations may become unattractive due to changes in neighborhood demographics or economic conditions, which may result in reduced sales at these locations.

***The success of our business is dependent on the effectiveness of our marketing strategy.***

Market awareness is essential to our continued growth and financial success. Pursuant to the MFAs, we create, develop and coordinate marketing plans and promotional activities throughout the Territories, and franchisees contribute a percentage of their gross sales to our marketing plan. In addition, we are required under the MFAs to spend at least 5% of our sales on advertising and promotional activities. Pursuant to the MFAs, McDonald's has the right to review and approve our marketing plans in advance and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We also participate in global and regional marketing activities undertaken by McDonald's and pay McDonald's up to 0.2% of our sales in order to fund such activities.

If our advertising programs are not effective, or if our competitors begin spending significantly more on advertising than we do, we may be unable to attract new customers or existing customers may not return to our restaurants and our operating results may be negatively affected.

***We use non-committed lines of credit to partially finance our working capital needs.***

We use non-committed lines of credit to partially finance our working capital needs. Given the nature of these lines of credit, they could be withdrawn and no longer be available to us, or their terms, including the interest rate, could change to make the terms no longer acceptable to us. The availability of these lines of credit depends on the level of liquidity in financial markets, which can vary based on events outside of our control, including financial or credit crises. Any inability to draw upon our non-committed lines of credit could have an adverse effect on our working capital, financial condition and results of operations.

***Covenants and events of default in the agreements governing our outstanding indebtedness could limit our ability to undertake certain types of transactions and adversely affect our liquidity.***

As of December 31, 2013, we had \$785.0 million in total outstanding indebtedness, consisting of \$7.5 million in short-term debt, \$775.9 million in long-term debt and \$1.6 million related to the fair market value of our outstanding derivative instruments. The agreements governing our outstanding indebtedness contain covenants and events of default that may limit our financial flexibility and ability to undertake certain types of transactions. For instance, we are subject to negative covenants that restrict some of our activities, including restrictions on:

- creating liens;
- entering into sale and lease-back transactions; and
- consolidating, merging or transferring assets.

If we fail to satisfy the covenants set forth in these agreements or another event of default occurs under the agreements, our outstanding indebtedness under the agreements could become immediately due and payable. If our outstanding indebtedness becomes immediately due and payable and we do not have sufficient cash on hand to pay all amounts due, we could be required to sell assets, to refinance all or a portion of our indebtedness or to obtain additional financing. Refinancing may not be possible and additional financing may not be available on commercially acceptable terms, or at all.

***Our inability to attract and retain qualified personnel may affect our growth and results of operations.***

We have a strong management team with broad experience in product development, supply chain management, operations, finance, marketing and training. Our significant growth places substantial demands on our management team, and our continued growth could increase those demands. In addition, pursuant to the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and chief operating officer. Our ability to manage future growth will depend on the adequacy of our resources and our ability to continue to identify, attract and retain qualified personnel. Failure to do so could have a material adverse effect on our business, financial condition and results of operations.

Also, the success of our operations depends in part on our ability to attract and retain qualified regional and restaurant managers and general staff. If we are unable to recruit and retain our employees, or fail to motivate them to provide quality food and service, our image, operations and growth could be adversely affected.

***The resignation, termination, permanent incapacity or death of our CEO could adversely affect our business, results of operations, financial condition and prospects.***

Due to Mr. Staton's unique experience and leadership capabilities, it would be difficult to find a suitable successor for him if he were to cease serving as our CEO and Chairman for any reason. In addition, pursuant to the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer. If we and McDonald's have not agreed upon a successor CEO after six months, McDonald's may designate a temporary CEO in its sole discretion pending our submission of information relating to a further candidate and McDonald's approval of that candidate. In the event of Mr. Staton's death or permanent incapacity, McDonald's has the right to acquire all of our non-public shares during the twelve-month period beginning on the eighteenth-month anniversary of his death or incapacity. A delay in finding a suitable successor CEO could adversely affect our business, results of operations, financial condition and prospects.

***Labor shortages or increased labor costs could harm our results of operations.***

Our operations depend in part on our ability to attract and retain qualified restaurant managers and crew. While the turnover rate varies significantly among categories of employees, due to the nature of our business we traditionally experience a high rate of turnover among our crew and we may not be able to replace departing crew with equally qualified or motivated staff.

As of December 31, 2013, we had 96,815 employees. Controlling labor costs is critical to our results of operations, and we closely monitor those costs. Some of our employees are paid minimum wages; any increases in minimum wages or changes to labor regulations in the Territories could increase our labor costs. For example, a law enacted in November 2010 in Argentina requires companies to pay overtime to all employees (except directors and managers) working on weekends, and a proposed bill in Argentina would require companies to distribute 10 percent of their profits to employees. In January 2014, Venezuela announced a 10% increase in the minimum wage. These or similar regulations, if adopted, may have an adverse impact on our results of operations. Additionally, in 2012 we decided to transition all of our employees in Brazil to a fixed hourly schedule. Under the new schedule, employees work between 180 and 220 hours per month, with proportional wages based on the number of hours set forth in the employment contract. In 2013, pursuant to the Pernambuco Labor Court ruling, we began the transition to a fixed hourly schedule according to the timeframe agreed to in the ruling. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation.” Competition for employees could also cause us to pay higher wages.

***A failure by McDonald’s to protect its intellectual property rights, including its brand image, could harm our results of operations.***

The profitability of our business depends in part on consumers’ perception of the strength of the McDonald’s brand. Under the terms of the MFAs, we are required to assist McDonald’s with protecting its intellectual property rights in the Territories. Nevertheless, any failure by McDonald’s to protect its proprietary rights in the Territories or elsewhere could harm its brand image, which could affect our competitive position and our results of operations.

Under the MFAs, we may use, and grant rights to franchisees to use, McDonald’s intellectual property in connection with the development, operation, promotion, marketing and management of our restaurants. McDonald’s has reserved the right to use, or grant licenses to use, its intellectual property in Latin America and the Caribbean for all other purposes, including to sell, promote or license the sale of products using its intellectual property. If we or McDonald’s fail to identify unauthorized filings of McDonald’s trademarks and imitations thereof, and we or McDonald’s do not adequately protect McDonald’s trademarks and copyrights, the infringement of McDonald’s intellectual property rights by others may cause harm to McDonald’s brand image and decrease our sales.

***Any tax increase or change in tax legislation may adversely affect our results of operations.***

Since we conduct our business in many countries in Latin America and the Caribbean, we are subject to the application of multiple tax laws and multinational tax conventions. Our effective tax rate therefore depends on these tax laws and multinational tax conventions, as well as on the effectiveness of our tax planning abilities. Our income tax position and effective tax rate is subject to uncertainty as our income tax position for each year depends on the profitability of Company-operated restaurants and on the profitability of franchised restaurants operated by our franchisees in tax jurisdictions that levy a broad range of income tax rates. It is also dependent on changes in the valuation of deferred tax assets and liabilities, the impact of various accounting rules, changes to these rules and tax laws and examinations by various tax authorities. If our actual tax rate differs significantly from our estimated tax rate, this could have a material impact on our financial condition. In addition, any increase in the rates of taxes, such as income taxes, excise taxes, value added taxes, import and export duties, and tariff barriers or enhanced economic protectionism could negatively affect our business. Fiscal measures that target either QSRs or any of our products could also be taken.

We cannot assure you that any governmental authority in any country in which we operate will not increase taxes or impose new taxes on our operations or products in the future.

***Negative resolution of disputes with taxing authorities in any of the jurisdictions in which we operate may negatively affect our business and results of operations.***

We and our predecessor company have in the past been engaged in tax disputes with Venezuelan tax authorities that culminated in temporary closures of our restaurants in Venezuela in 2005 and 2008. On October 10, 2008, government tax officials closed all of our 115 restaurants for a period of 48 hours because they believed our record of purchases was not properly organized in chronological order. However, no finding was made that we had paid taxes improperly nor were any fines imposed on us as a result. Subsequent closures or disagreements with Venezuelan tax authorities could materially and adversely affect our results of operations and financial condition.

We are engaged in several disputes and are currently party to a number of tax proceedings with Brazilian tax authorities and liability for certain of these proceedings was retained by McDonald's as part of the Acquisition. We cannot assure you, however, that we will not be involved in similar disputes or proceedings in the future in the Territories, in which case we may be solely liable for the defense thereof and any resulting liability. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings."

***Litigation and other pressure tactics could expose our business to financial and reputational risk.***

Given that we conduct our business in many countries, we may be subject to multi-jurisdictional private and governmental lawsuits, including but not limited to lawsuits relating to labor and employment practices, taxes, trade and business practices, franchising, intellectual property, consumer, real property, landlord tenant, environmental, advertising, nutrition and antitrust matters. In the past, QSR chains have been subject to class-action lawsuits claiming that their food products and promotional strategies have contributed to the obesity of some customers. We cannot guarantee that we will not be subject to these types of lawsuits in the future. We may also be the target of pressure tactics such as strikes, boycotts and negative publicity from government officials, suppliers, distributors, employees, special interest groups and customers that may negatively affect our reputation.

***Information technology system failures or interruptions or breaches of our network security may interrupt our operations, subject us to increased operating costs and expose us to litigation.***

We rely heavily on our computer systems and network infrastructure across our operations including, but not limited to, point-of-sale processing at our restaurants. As of the date of this annual report, we have not experienced any information security problems. However, despite our implementation of security measures and controls that provide reasonable assurance regarding our security posture, there remains the risk that our technology systems are vulnerable to damage, disability or failures due to physical theft, fire, power loss, telecommunications failure or other catastrophic events, as well as from internal and external security breaches, denial of service attacks, viruses, worms and other disruptive problems caused by hackers. If our technology systems were to fail, and we were unable to recover in a timely way, we could experience an interruption in our operations which could have a material adverse effect on our financial condition and results of operations.

**Certain Factors Relating to Our Industry**

***The food services industry is intensely competitive and we may not be able to continue to compete successfully.***

Although competitive conditions in the QSR industry vary in each of the countries in which we conduct our operations, we compete with many well-established restaurant companies on price, brand image, quality, sales promotions, new product development and restaurant locations. Since the restaurant industry has few barriers to entry, our competitors are diverse and range from national and international restaurant chains to individual, local restaurant operators. Our largest competitors include Burger King, Yum! Brands (which operates KFC restaurants and Pizza Hut and Pizza Hut Express restaurants) and Subway. In Brazil, we also compete with Habib's, a Brazilian QSR chain that focuses on Middle Eastern food, and Bob's, a primarily Brazilian QSR chain that focuses on hamburger product offerings. We also face strong competition from street vendors of limited product offerings, including hamburgers, hot dogs, pizzas and other local food items. We expect competition to increase as our competitors continue to expand their operations, introduce new products and aggressively market their brands.

If any of our competitors offers products that are better priced or more appealing to the tastes of consumers, increases its number of restaurants, obtains more desirable restaurant locations, provides more attractive financial incentives to management personnel, franchisees or hourly employees or has more effective marketing initiatives than we do in any of the markets in which we operate, this could have a material adverse effect on our results of operations.

***Increases in commodity prices or other operating costs could harm our operating results.***

Food and paper costs represented 33.5% of our total revenues in 2013, and we import approximately 30% of our food and paper raw materials (excluding toys) and 100% of our Happy Meal toys. We rely on, among other commodities, beef, chicken, produce, dairy mixes, beverages and toppings. The cost of food and supplies depends on several factors, including global supply and demand, new product offerings, weather conditions, fluctuations in energy costs and tax incentives, all of which makes us susceptible to substantial price and currency fluctuations and other increased operating costs. Due to the competitive nature of the restaurant industry, we may be unable to pass increased operating costs on to our customers, which could have an adverse effect on our results of operations.

***Demand for our products may decrease due to changes in consumer preferences or other factors.***

Our competitive position depends on our continued ability to offer items that have a strong appeal to consumers. If consumer dining preferences change due to dietary inclinations and our consumers begin to seek out alternative restaurant options, our financial results might be adversely affected. In addition, negative publicity surrounding our products could also materially affect our business and results of operations.

Recently, along with several of our competitors, we have introduced and expect to continue to introduce new product offerings to appeal to consumers who seek products that are lower in calories and fat content. Our success in responding to consumer demands depends in part on our ability to anticipate consumer preferences and introduce new items to address these preferences in a timely fashion.

***Our business activity may be negatively affected by disruptions, catastrophic events or health pandemics.***

Unpredictable events beyond our control, including war, terrorist activities, political and social unrest and natural disasters, could disrupt our operations and those of our franchisees, suppliers or customers, have a negative effect on consumer spending or result in political or economic instability. These events could reduce demand for our products or make it difficult to ensure the regular supply of products through our distribution chain.

In addition, incidents of health pandemics, food-borne illnesses or food tampering could reduce sales in our restaurants. Widespread illnesses such as avian influenza, the H1N1 influenza virus, e-coli, bovine spongiform encephalopathy (or “mad cow” disease), hepatitis A or salmonella could cause customers to avoid meat or fish products. For example, the H1N1 influenza virus outbreak in Argentina and Mexico in 2009 significantly impacted our sales in those countries. Furthermore, our reliance on third-party food suppliers and distributors increases the risk of food-borne illness incidents being caused by third-party food suppliers and distributors who operate outside of our control and/or multiple locations being affected rather than a single restaurant. Media reports of health pandemics or food-borne illnesses found in the general public or in any QSR could dramatically affect restaurant sales in one or several countries in which we operate, or could force us to temporarily close an undetermined number of restaurants. As a restaurant company, we depend on consumer confidence in the quality and safety of our food. Any illness or death related to food that we serve could substantially harm our operations. While we maintain extremely high standards for the quality of our food products and dedicate substantial resources to ensure that these standards are met, the spread of these illnesses is often beyond our control and we cannot assure you that new illnesses resistant to any precautions we may take will not develop in the future.

In addition, our industry has long been subject to the threat of food tampering by suppliers, employees or customers, such as the addition of foreign objects to the food that we sell. Reports, whether true or not, of injuries caused by food tampering have in the past negatively affected the reputations of QSR chains and could affect us in the future. Instances of food tampering, even those occurring solely at competitor restaurants could, by causing negative publicity about the restaurant industry, adversely affect our sales on a local, regional, national or systemwide basis. A decrease in customer traffic as a result of public health concerns or negative publicity could materially affect our business, results of operations and financial condition.

***Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children's meals may harm McDonald's brand image and our results of operations.***

A significant portion of our business depends on our ability to make our product offerings appealing to families with children. Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru, Uruguay and Venezuela are considering imposing restrictions on the ways in which we market our products, including proposals restricting our ability to advertise directly to children through the use of toys and to sell toys in conjunction with food.

In June 2012, Chile passed a law banning the inclusion of toys in children's meals, and recently the Chilean regulatory authorities issued regulations expanding the scope of the law to include processed foods but exclude food that is served or consumed in the restaurant. The ban in Chile also restricts advertisements to children under the age of 12. While it is difficult to predict whether the Chilean authorities will extend the restrictions to the actual food that is served and consumed in the restaurant, we currently do not expect these Chilean regulations will have a material impact on our consolidated results.

Similar to the recently enacted law in Chile, Peru passed a law in 2013 restricting our ability to advertise our food to children under the age of 16 and banning the inclusion of toys in children's meals. However, the law will not be enforced until the Peruvian regulatory authorities issue regulations to determine the scope of the law. While it is difficult to predict how the Peruvian authorities will enforce or interpret this law, we currently do not expect that the law will have a material impact on our consolidated results.

In Brazil, the Federal Prosecutor's Office filed suit in 2009 seeking to enjoin various QSRs, including us, from selling toys. The Lower Federal Court in São Paulo ruled that the lawsuit was without merit. The Prosecutor's Office filed an appeal against this decision, which will be adjudicated by the Regional Federal Court in São Paulo. As of the date of this annual report, this appeal is still pending and the outcome remains uncertain. In addition, the number of proposed laws seeking to restrict the sale of toys with meals increased significantly in Brazil at the federal, state and municipal levels. In April 2013, a consumer protection agency in Brazil fined us \$1.6 million for a 2010 advertising campaign relating to our offering of meals with toys from the motion picture *Avatar*. We filed a lawsuit seeking to annul the fine. The Lower Civil Court granted an injunction, suspending the fine. The consumer protection agency subsequently appealed and the Appellate Court in São Paulo upheld the decision. As of the date of this annual report, this lawsuit is still pending and the outcome remains uncertain. Although similar fines relating to our current and previous advertising campaigns involving the sale of toys may be possible in the future, as of the date of this annual report, we are unaware of any other such fines.

Certain jurisdictions in the United States are also considering curtailing or have curtailed food retailers' ability to sell meals to children including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Territories, may have a negative impact on our results of operations. In general, regulatory developments that adversely impact our ability to promote and advertise our business and communicate effectively with our target customers, including restrictions on the use of licensed characters, may have a negative impact on our results of operations.

***Environmental laws and regulations may affect our business.***

We are subject to various environmental laws and regulations. These laws and regulations govern, among other things, discharges of pollutants into the air and water and the presence, handling, release and disposal of and exposure to, hazardous substances. These laws and regulations provide for significant fines and penalties for noncompliance. Third parties may also assert personal injury, property damage or other claims against owners or operators of properties associated with release of, or actual or alleged exposure to, hazardous substances at, on or from our properties.

Liability from environmental conditions relating to prior, existing or future restaurants or restaurant sites, including franchised restaurant sites, may have a material adverse effect on us. Moreover, the adoption of new or more stringent environmental laws or regulations could result in a material environmental liability to us.

***We may be adversely affected by legal actions, claims or damaging publicity with respect to our products.***

We could be adversely affected by legal actions and claims brought by consumers or regulatory authorities in relation to the quality of our products and eventual health problems or other consequences caused by our products or by any of their ingredients. We could also be affected by legal actions and claims brought against us for products

made in a jurisdiction outside the jurisdictions where we are operating. An array of legal actions, claims or damaging publicity may affect our reputation as well as have a material adverse effect on our revenues and businesses.

Similarly, adverse publicity about us or our brand regarding health concerns, legal or regulatory proceedings, perceptions of the QSR category, management or suppliers whether or not deserved, could jeopardize our reputation. In recent years the use of social media as a complaint mechanism has increased substantially. Negative posts or comments about us on any social media forum could harm our reputation. Damage to our reputation or loss of consumer confidence in our products for any of these reasons could adversely affect our business, results of operations, cash flows and financial condition, as well as require resources to rebuild our reputation.

#### **Certain Factors Relating to Latin America and the Caribbean**

*Our business is subject to the risks generally associated with international business operations.*

We engage in business activities throughout Latin America and the Caribbean. In 2013, 81.6% of our revenues were derived from Brazil, Argentina, Mexico, Puerto Rico and Venezuela. As a result, our business is and will continue to be subject to the risks generally associated with international business operations, including:

- governmental regulations applicable to food services operations;
- changes in social, political and economic conditions;
- transportation delays;
- power and other utility shutdowns or shortages;
- limitations on foreign investment;
- restrictions on currency convertibility and volatility of foreign exchange markets;
- inflation;
- import-export quotas and restrictions on importation;
- changes in local labor conditions;
- changes in tax and other laws and regulations;
- expropriation and nationalization of our assets in a particular jurisdiction; and
- restrictions on repatriation of dividends or profits.

Some of the Territories have been subject to social and political instability in the past, and interruptions in operations could occur in the future. Our business, financial condition and results of operations could be adversely affected by any of the foregoing factors.

For example, we have been and continue to be impacted by developments in Venezuela, including the significant devaluations of the Venezuelan *bolívar fuerte* that occurred in 2010 and in February 2013 and the announcements made in January 2014 relating to the foreign currency exchange regime. The political and economic conditions in Venezuela remain unstable, with the economy being considered hyperinflationary under U.S. GAAP since 2010. Going forward, we cannot predict with any certainty whether additional government actions, including in the form of further currency devaluations, continued worsening import authorization controls, foreign exchange, price or profit controls, expropriation or other forms of government takeovers, will occur. The continuation or deterioration of the challenging political and economic conditions in Venezuela could have further adverse impacts on our business, results of operations and financial condition.

***Changes in governmental policies in the Territories could adversely affect our business, results of operations, financial condition and prospects.***

Governments throughout Latin America and the Caribbean have exercised, and continue to exercise, significant influence over the economies of their respective countries. Accordingly, the governmental actions, political developments, regulatory and legal changes or administrative practices in the Territories concerning the economy in general and the food services industry in particular could have a significant impact on us. We cannot assure you that changes in the governmental policies of the Territories will not adversely affect our business, results of operations, financial condition and prospects.

***An economic downturn in Latin America and the Caribbean could have a significant impact on our operating results.***

The success of our business is dependent on discretionary consumer spending, which is influenced by general economic conditions, consumer confidence and the availability of discretionary income. Any prolonged economic downturn could result in a decline in discretionary consumer spending. This may reduce the number of consumers who are willing and able to dine in our restaurants, or consumers may make more value-driven and price-sensitive purchasing choices, eschewing our core menu items for our entry level food options. We may also be unable to increase prices of our menu items, which may negatively affect our financial condition.

In addition, a prolonged economic downturn may lead to higher interest rates, significant changes in the rate of inflation or an inability to access capital on acceptable terms. Our suppliers could experience cash flow problems, credit defaults or other financial hardships. If our franchisees cannot adequately access the financial resources required to open new restaurants, this could have a material effect on our growth strategy.

***Inflation and government measures to curb inflation may adversely affect the economies in the countries where we operate, our business and results of operations.***

Many of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In particular, Venezuela has been considered hyperinflationary under U.S. GAAP since 2010. Although inflation rates in many of the countries in which we operate have been relatively low in the recent past, we cannot assure you that this trend will continue. The measures taken by the governments of these countries to control inflation have often included maintaining a tight monetary policy with high interest rates, thereby restricting the availability of credit and retarding economic growth. Inflation, measures to combat inflation and public speculation about possible additional actions have also contributed materially to economic uncertainty in many of these countries and to heightened volatility in their securities markets. Periods of higher inflation may also slow the growth rate of local economies, that could lead to reduced demand for our core products and decreased sales. Inflation is also likely to increase some of our costs and expenses, which we may not be able to fully pass on to our customers, which could adversely affect our operating margins and operating income.

***Exchange rate fluctuations against the U.S. dollar in the countries in which we operate could negatively affect our results of operations.***

We are exposed to exchange rate risk in relation to the United States dollar. While substantially all of our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports, as well as some of our capital expenditures, are denominated in U.S. dollars. As a result, any decrease in the value of the local currencies of the countries in which we operate as compared to the U.S. dollar will increase our costs. In addition, 60.4% of our outstanding long-term debt was denominated in U.S. dollars as of December 31, 2013. Although we maintain a hedging strategy to attempt to mitigate some of our exchange rate risk, our hedging strategy may not be successful or may not fully offset our losses relating to exchange rate fluctuations.

As a result, fluctuations in the value of the U.S. dollar with respect to the various currencies of the countries in which we operate or in U.S. dollar interest rates could adversely impact on our net income, results of operations and financial condition.

***Price controls in certain countries have affected and may continue to affect our results of operations.***

Certain countries in which we conduct operations have imposed price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. This places downward pressure on the prices at which our products are sold and may limit the growth of our revenue. We cannot assure you that the negative effects of the previously imposed price controls will not continue into the future, or that new controls will not be imposed. Our inability to control the prices of our products could have an adverse effect on our results of operations.

For example, in November 2013, Venezuela passed the Fair Price Act seeking to lower high inflation by controlling prices and costs in the chain of production. The Fair Price Act generally sets forth a profit cap of 30% on the cost structure of goods and services, thus reducing management's ability to freely determine final prices. In January 2014, Venezuelan authorities inspected our operations in Venezuela and required us to reduce our prices for different menu items by amounts ranging from 7% to 10%.

In November 2013, the Venezuelan government established a transitional protection regime for tenants of property used for commercial, industrial or production activities, which regulates the leasing relations and stipulates that the price of the monthly rent may not exceed an amount equal to 250 *bolívaes fuertes* per square meter. Considering the decrease in revenues from franchised restaurants would be higher than the decrease in rental expense related to Company-operated restaurants, this new regulation is expected to negatively impact our operating results. See "Item 4. Information on the Company—B. Business Overview—Regulation."

***We could be subject to expropriation or nationalization of our assets and government interference with our business in certain countries in which we operate.***

We face a risk of expropriation or nationalization of our assets and government interference with our business in several of the countries in which we do business. These risks are particularly acute in Venezuela. The current Venezuelan government has promoted a model of increased state participation in the economy through welfare programs, exchange and price controls and the promotion of state-owned companies. In addition, in November 2013, the Venezuelan legislature passed a law which authorizes the President to issue regulations of any nature that the President, in his own discretion, deems necessary to control any situation of national interest to Venezuela. We can provide no assurance that Company-operated or franchised restaurants will not be threatened with expropriation and that our operations will not be transformed into state-owned enterprises. In addition, the Venezuelan government may pass laws, rules or regulations which may directly or indirectly interfere with our ability to operate our business in Venezuela which could result in a material breach of the MFAs, in particular if we are unable to comply with McDonalds' operations system and standards. A material breach of the MFAs would trigger McDonald's option to acquire our non-public shares or our interests in Venezuela. See "—Certain Factors Relating to Our Business—McDonald's has the right to acquire all or portions of our business upon the occurrence of certain events and, in the case of a material breach of the MFAs, may acquire our non-public shares or our interests in one or more Territories at 80% of their fair market value."

***We are subject to significant foreign currency exchange controls and depreciation in certain countries in which we operate.***

Certain Latin American economies have experienced shortages in foreign currency reserves and their respective governments have adopted restrictions on the ability to transfer funds out of the country and convert local currencies into U.S. dollars. This may increase our costs and limit our ability to convert local currency into U.S. dollars and transfer funds out of certain countries, including for the purchase of dollar-denominated inputs, the payment of dividends or the payment of interest or principal on our outstanding debt. In the event that any of our subsidiaries are unable to transfer funds to us due to currency restrictions, we are responsible for any resulting shortfall.

In 2013, our operating subsidiaries in Venezuela represented 19.2% of our operating income. Exchange rates and controls currently in place in Venezuela are described under "Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls—Venezuela." There are uncertainties regarding the liquidity of the exchange systems and our ability to access U.S. dollars through the mechanisms currently in place in Venezuela. In addition, there are also uncertainties regarding the impact successive foreign exchange controls could have on the Venezuelan economy and the complementary regulations the Venezuelan government could issue in the near future. As a result, there can be no assurance that such measures will not impair the ability of our Venezuelan operating subsidiaries to

convert local currency into U.S. dollars, which could result in foreign currency exchange losses that could have a material adverse effect on our results of operations.

In 2013, our subsidiaries in Argentina represented 32.3% of our operating income. Since 2001, Argentina has tightened restrictions on capital flows and imposed exchange controls. Exchange control restrictions impact our ability to transfer funds outside of Argentina and may prevent or delay payments that our Argentine subsidiaries are required to make outside Argentina. In particular, regulations issued by the Central Bank of Argentina currently in place do not grant non-debtors, such as any Argentine subsidiary guarantor, access to the foreign exchange market for the purpose of transferring currency outside Argentina in order to make payments under any subsidiary guarantee granted by it.

The recent devaluation of the Argentine *peso* in January 2014 has had a negative impact on the ability of Argentine businesses and the national and provincial governments to honor their foreign currency denominated debt, has led to higher inflation levels and, significantly reduced real wages, and has had a negative impact on businesses whose success is dependent on domestic market demand and supplies payable in foreign currency.

We are subject to exchange control regulations in Argentina which may restrict our ability to convert local currencies into foreign currencies and carry out other foreign exchange transactions. For example, since 2001, Argentina has imposed exchange controls and transfer restrictions substantially limiting the ability of companies to retain foreign currency or make payments outside Argentina. Since 2011, the Argentine government has implemented certain additional measures that control and restrict the ability of companies and individuals to exchange Argentine *pesos* for foreign currencies and carry out other foreign exchange transactions. Those measures include, among other things, the requirement to obtain the prior approval from the Argentine tax authority to carry out any foreign currency transaction (for example and without limitation, for the payment of non-Argentine goods and services, payment of principal and interest on foreign debt and payment of dividends to parties outside of Argentina), which approval process could delay, and eventually restrict, our ability to exchange Argentine *pesos* for other currencies, such as U.S. dollars. Further, restrictions also currently apply to the acquisition of any foreign currency for holding as cash within Argentina.

In July 2012, the Central Bank of Argentina indefinitely suspended local residents' ability to access the local foreign exchange market to purchase funds without specific allocation (*atesoramiento*). Purchases of foreign currency by local residents who are legal persons without specific allocation are also subject to prior authorization by the Central Bank of Argentina.

Communication "A" 5237 issued by the Central Bank of Argentina set forth new rules regarding the repatriation of foreign direct investments. Communication "A" 5245 and AFIP General Resolution No. 3210 require all banks and foreign exchange houses to register every purchase of foreign currency, whether by individual or a legal entity, through an online system administered by AFIP, the Argentine tax authority. Purchases of foreign currency by local residents for the formation of off-shore assets require prior authorization from AFIP. If such a transaction fails to clear, the purchaser will not be able to complete the transaction and may make a claim at the AFIP's offices to obtain authorization to complete the transaction. The Argentine government may tighten exchange controls or transfer restrictions in the future to prevent capital flight, counter a significant depreciation of the Argentine *peso* or address other unforeseen circumstances.

There can be no assurance that the Central Bank of Venezuela, the Central Bank of Argentina or other government agencies will not increase the existing controls or restrictions, establish more severe restrictions on currency exchange, payments to foreign creditors or providers, dividend payments to foreign shareholders or require prior authorization for such purposes. As a result, if we are further prohibited from transferring funds out of Venezuela and/or Argentina, or if we become subject to similar restrictions in other countries in which we operate, our results of operations and financial condition could be materially adversely affected.

***If we fail to comply with or become subject to more onerous government regulations, our business could be adversely affected.***

We are subject to various federal, state and municipal laws and regulations in the countries in which we operate, including those related to the food services industry, health and safety standards, importation of goods and services, marketing and promotional activities, nutritional labeling, zoning and land use, environmental standards and consumer protection. We strive to abide by and maintain compliance with these laws and regulations. The

imposition of new laws or regulations, including potential trade barriers, may increase our operating costs or impose restrictions on our operations, which could have an adverse impact on our financial condition.

For example, Argentine regulations require us to seek permission from the Argentine authorities in order to import goods and to file a statement with the Argentine authorities prior to rendering services to, or receiving services from, foreign residents if the services are valued above a threshold amount. These regulations may prevent or delay the receipt of goods or services that we require for our operations, or increase the costs associated with obtaining those goods and services, and therefore have an adverse impact on our business, results of operations or financial condition.

Regulations governing the food services industry have become more restrictive. We cannot assure you that new and stricter standards will not be adopted or become applicable to us, or that stricter interpretations of existing laws and regulations will not occur. Any of these events may require us to spend additional funds to gain compliance with the new rules, if possible, and therefore increase our cost of operation.

#### **Certain Factors Relating to Our Class A Shares**

***Mr. Staton, our Chairman and CEO, controls all matters submitted to a shareholder vote, which will limit your ability to influence corporate activities and may adversely affect the market price of our class A shares.***

Mr. Staton, our Chairman and CEO, owns or controls common stock representing 40.0% and 76.3%, respectively, of our economic and voting interests. As a result, Mr. Staton is and will be able to strongly influence or effectively control the election of our directors, determine the outcome of substantially all actions requiring shareholder approval and shape our corporate and management policies. The MFAs' requirement that Mr. Staton at all times hold at least 51% of our voting interests likely will have the effect of preventing a change in control of us and discouraging others from making tender offers for our shares, which could prevent shareholders from receiving a premium for their shares. Moreover, this concentration of share ownership may make it difficult for shareholders to replace management and may adversely affect the trading price for our class A shares because investors often perceive disadvantages in owning shares in companies with controlling shareholders. This concentration of control could be disadvantageous to other shareholders with interests different from those of Mr. Staton and the trading price of our class A shares could be adversely affected. See "Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders" for a more detailed description of our share ownership.

Furthermore, the MFAs contemplate instances where McDonald's could be entitled to purchase the shares of Arcos Dorados Holdings Inc. held by Mr. Staton. However, our publicly-held class A shares will not be similarly subject to acquisition by McDonald's.

***Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our class A shares to decline.***

Sales of substantial amounts of our class A shares in the public market, or the perception that these sales may occur, could cause the market price of our Class A shares to decline. This could also impair our ability to raise additional capital through the sale of our equity securities. Under our articles of association, we are authorized to issue up to 420,000,000 class A shares, of which 129,867,426 class A shares were outstanding as of December 31, 2013. We cannot predict the size of future issuances of our shares or the effect, if any, that future sales and issuances of shares would have on the market price of our class A shares.

***As a foreign private issuer, we are permitted to, and we will, rely on exemptions from certain NYSE corporate governance standards applicable to U.S. issuers, including the requirement that a majority of an issuer's directors consist of independent directors. This may afford less protection to holders of our Class A shares.***

Section 303A of the NYSE Listed Company Manual requires listed companies to have, among other things, a majority of their board members be independent, and to have independent director oversight of executive compensation, nomination of directors and corporate governance matters. As a foreign private issuer, however, we are permitted to, and we will, follow home country practice in lieu of the above requirements. British Virgin Islands law, the law of our country of incorporation, does not require a majority of our board to consist of independent directors or the implementation of a nominating and corporate governance committee, and our board may thus not include, or include fewer, independent directors than would be required if we were subject to these NYSE requirements. Since a majority of our board of directors may not consist of independent directors as long as we rely

on the foreign private issuer exemption to these NYSE requirements, our board's approach may, therefore, be different from that of a board with a majority of independent directors, and as a result, the management oversight of our Company may be more limited than if we were subject to these NYSE requirements.

#### **Certain Risks Relating to Investing in a British Virgin Islands Company**

***We are a British Virgin Islands company and it may be difficult for you to obtain or enforce judgments against us or our executive officers and directors in the United States.***

We are incorporated under the laws of the British Virgin Islands. Most of our assets are located outside the United States. Furthermore, most of our directors and officers reside outside the United States, and most of their assets are located outside the United States. As a result, you may find it difficult to effect service of process within the United States upon these persons or to enforce outside the United States judgments obtained against us or these persons in U.S. courts, including judgments in actions predicated upon the civil liability provisions of the U.S. federal securities laws. Likewise, it may also be difficult for you to enforce in U.S. courts judgments obtained against us or these persons in courts located in jurisdictions outside the United States, including actions predicated upon the civil liability provisions of the U.S. federal securities laws. It may also be difficult for an investor to bring an action in a British Virgin Islands court predicated upon the civil liability provisions of the U.S. federal securities laws against us or these persons.

As there is no treaty in force on the reciprocal recognition and enforcement of judgments in civil and commercial matters between the United States and the British Virgin Islands, courts in the British Virgin Islands will not automatically recognize and enforce a final judgment rendered by a U.S. court.

Any final and conclusive monetary judgment obtained against us in U.S. courts, for a definite sum, may be treated by the courts of the British Virgin Islands as a cause of action in itself so that no retrial of the issue would be necessary, provided that in respect of the U.S. judgment:

- the U.S. court issuing the judgment had jurisdiction in the matter and we either submitted to such jurisdiction or were resident or carrying on business within such jurisdiction and were duly served with process;
- the judgment given by the U.S. court was not in respect of penalties, taxes, fines or similar fiscal or revenue obligations of ours;
- in obtaining judgment there was no fraud on the part of the person in whose favor judgment was given or on the part of the court;
- recognition or enforcement of the judgment in the British Virgin Islands would not be contrary to public policy; and
- the proceedings pursuant to which judgment were obtained were not contrary to public policy.

Under our articles of association, we indemnify and hold our directors harmless against all claims and suits brought against them, subject to limited exceptions.

***You may have more difficulty protecting your interests than you would as a shareholder of a U.S. corporation.***

Our affairs are governed by the provisions of our memorandum of association and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law. The rights of our shareholders and the responsibilities of our directors and officers under the British Virgin Islands law are different from those applicable to a corporation incorporated in the United States. There may be less publicly available information about us than is regularly published by or about U.S. issuers. Also, the British Virgin Islands regulations governing the securities of British Virgin Islands companies may not be as extensive as those in effect in the United States, and the British Virgin Islands law and regulations in respect of corporate governance matters may not be as protective of minority shareholders as state corporation laws in the United States. Therefore, you may have more difficulty protecting your interests in connection with actions taken by our directors and officers or our principal shareholders than you would as a shareholder of a corporation incorporated in the United States.

*You may not be able to participate in future equity offerings, and you may not receive any value for rights that we may grant.*

Under our memorandum and articles of association, existing shareholders are entitled to preemptive subscription rights in the event of capital increases. However, our articles of association also provide that such preemptive subscription rights do not apply to certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC.

#### **ITEM 4. INFORMATION ON THE COMPANY**

##### **A. History and Development of the Company**

###### **Overview**

We were incorporated as Arcos Dorados Holdings Inc. on December 9, 2010 under the laws of the British Virgin Islands as a direct, wholly-owned subsidiary of Arcos Dorados Limited, the prior holding company for the Arcos Dorados business. On December 13, 2010, Arcos Dorados Limited effected a downstream merger into and with us, with us as the surviving entity. Following the merger, we replaced Arcos Dorados Limited in the corporate structure and replicated its governance structure.

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act. Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges.

Our principal executive offices are located at Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB). Our telephone number at this address is +54 (11) 4711-2000. Our registered office in the British Virgin Islands is Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

###### **Important Events**

###### *The Acquisition*

McDonald's Corporation has a longstanding history in Latin America and the Caribbean, dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its presence across the region as consumer markets and opportunities arose, opening its first stores in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We commenced operations on August 3, 2007, as a result of the Acquisition of McDonald's LatAm business. Woods Staton, our Chairman, CEO and controlling shareholder, was the joint venture partner of McDonald's Corporation in Argentina for over 20 years prior to the Acquisition and also served as President of McDonald's South Latin America division from 2004 until the Acquisition. Our senior management team is comprised mostly of executives who had previously worked in McDonald's LatAm business or with Mr. Staton.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010 and June 3, 2011, entered into by us, our wholly owned subsidiary Arcos Dorados Cooperatieve U.A., Arcos Dorados B.V. (or these two entities together with us collectively, the Owner Entities), LatAm, LLC, or the Master Franchisee, certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008. See "Item 10. Additional Information—C. Material Contracts—The MFAs."

### ***The Axionlog Split-off***

We used to own and operate some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). Axionlog operated in Argentina, Chile, Colombia, Mexico and Venezuela, and its main third-party customers were Sodexho, Eurest, Sadia, WalMart, Carrefour, Subway and Dairy Queen. We effected a split-off of Axionlog to our existing shareholders in March 2011. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of \$15.4 million and an equity contribution that was made to the Axionlog holding company amounting to \$29.8 million. The split-off of Axionlog did not have a material effect on our results of operations or financial condition. Following the split-off, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates).

In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog continues to provide us with distribution services in Argentina, Chile, Colombia, Mexico and Venezuela. On November 9, 2011, we entered into a revolving loan agreement with Axionlog B.V. (formerly known as Axis Distribution B.V.), a holding company of the Axionlog business, pursuant to which we agreed to lend Axionlog the total sum of \$12.0 million at an interest rate of LIBOR plus 6%. This revolving loan facility will mature on November 7, 2016. During 2013 and 2012, Axionlog B.V. borrowed \$2.0 million and \$7.0 million, respectively, from us in connection with this revolving loan facility. See Note 25 to our consolidated financial statements for details of related party balances and transactions with Axionlog.

### **Capital Expenditures and Divestitures**

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimagining or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan. In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan.

As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250 new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open.

As a result of our previous reinvestment and reopening plans, property and equipment expenditures were \$313.5 million, \$294.5 million and \$319.9 million in 2013, 2012 and 2011, respectively. In 2013, we opened 130 restaurants, reimaged 38 existing restaurants and opened 20 McCafé locations and 321 Dessert Centers (see "—B. Business Overview—Our Operations—McCafé Locations and Dessert Centers"). In 2012, we opened 130 restaurants, reimaged 57 existing restaurants and opened 33 McCafé locations and 249 Dessert Centers. In 2011, we opened 101 restaurants, reimaged 122 existing restaurants and opened 40 McCafé locations and 155 Dessert Centers. In 2013, 2012 and 2011, we closed 16, 22 and 16 restaurants, respectively.

In addition, outflows related to purchases of restaurant businesses totaled \$0.3 million, \$6.0 million and \$6.0 million in 2013, 2012 and 2011, respectively.

Proceeds from the sale of property and equipment and sales of restaurant businesses totaled \$14.2 million, \$6.6 million and \$10.7 million in 2013, 2012 and 2011, respectively.

Capital expenditures for 2014 are expected to be approximately \$200 million, considering approximately 90 gross restaurant openings.

**B. Business Overview****Overview**

We are the world's largest McDonald's franchisee in terms of systemwide sales and number of restaurants, according to McDonald's, representing 5.9% of McDonald's global sales in 2013. We have the exclusive right to own, operate and grant franchises of McDonald's restaurants in 20 countries and territories in Latin America and the Caribbean, including Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curaçao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas, and Venezuela, which we refer to as the Territories. As of December 31, 2013, we operated or franchised 2,062 McDonald's-branded restaurants, which represented 7.2% of McDonald's total franchised restaurants worldwide. In 2013 and 2012, we accrued \$188.9 million and \$180.5 million, respectively, in royalties to McDonald's (not including royalties on behalf of our franchisees).

We operate in the QSR sub-segment of the fast food segment of the Latin American and Caribbean food service industry. In Latin America and the Caribbean, the fast food segment has benefited from the region's increasing modernization, as people in more densely populated areas adopt lifestyles that increasingly seek convenience, speed and value.

We commenced operations on August 3, 2007, as a result of the Acquisition. We operate McDonald's-branded restaurants under two different operating formats, Company-operated restaurants and franchised restaurants. As of December 31, 2013, of our 2,062 McDonald's-branded restaurants in the Territories, 1,538 (or 74.6%) were Company-operated restaurants and 524 (or 25.4%) were franchised restaurants. We generate revenues primarily from two sources: sales by Company-operated restaurants and revenues from franchised restaurants that primarily consist of rental income, which is generally based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. We own the land for 511 of our restaurants (totaling approximately 1.1 million square meters) and the buildings for all but 12 of our restaurants.

Our business has grown significantly since the Acquisition: we have increased our presence in existing and new markets in the Territories by opening a net total of 493 restaurants (592 total restaurants opened, including 438 Company-operated and 154 franchised, while closing only 99), 218 McCafé locations and 1,262 Dessert Centers (see "—Our Operations—McCafé Locations and Dessert Centers").

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; NOLAD, consisting of Costa Rica, Mexico and Panama; and SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay.

As of December 31, 2013, 39.4% of our restaurants were located in Brazil, 18.3% in SLAD, 24.6% in NOLAD and 17.7% in the Caribbean division. We believe our diversified market presence reduces our dependence on any one market and helps stabilize the impact of individual countries' economic cycles on our revenues. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

See "Item 5. Operating and Financial Review and Prospects—A. Operating Results—Segment Presentation" for a description of changes we have made in the structure of our geographical divisions effective January 1, 2013.

The following table presents certain operating results and data by operating segment:

	As of and for the Years Ended December 31,				
	2013(1)	2012(1)	2011(1)	2010(2)	2009(2)
	(in thousands of U.S. dollars, except percentages)				
<b>Total Revenues</b>					
Brazil	\$ 1,842,324	\$ 1,797,556	\$ 1,890,824	\$ 1,595,571	\$ 1,200,742
Caribbean division	830,447	754,730	663,981	260,617	244,774
NOLAD	407,772	384,041	355,265	305,017	240,333
SLAD(3)	952,767	861,067	747,579	856,913	979,627
<b>Total</b>	<b>4,033,310</b>	<b>3,797,394</b>	<b>3,657,649</b>	<b>3,018,118</b>	<b>2,665,476</b>

	As of and for the Years Ended December 31,				
	2013(1)	2012(1)	2011(1)	2010(2)	2009(2)
	(in thousands of U.S. dollars, except percentages)				
<b>Adjusted EBITA(4)</b>					
Brazil	\$ 245,957	\$ 240,954	\$ 289,462	\$ 250,606	\$ 160,037
Caribbean division	67,180	69,109	53,754	23,556	21,167
NOLAD	27,397	26,738	19,551	15,400	3,918
SLAD(3)	105,495	93,756	77,214	83,998	129,889
Corporate and others	(101,562)	(89,996)	(100,193)	(74,446)	(48,628)
<b>Total</b>	<b>344,467</b>	<b>340,561</b>	<b>339,788</b>	<b>299,114</b>	<b>266,383</b>
<b>Adjusted EBITDA Margin(5)</b>					
Brazil	13.4%	13.4%	15.3%	15.7%	13.3%
Caribbean division	8.1	9.2	8.1	9.0	8.6
NOLAD	6.7	7.0	5.5	5.0	1.6
SLAD(3)	11.1	10.9	10.3	9.8	13.3
<b>Total</b>	<b>8.5</b>	<b>9.0</b>	<b>9.3</b>	<b>9.9</b>	<b>10.0</b>
<b>Systemwide comparable sales growth(6)(7)</b>	<b>11.2%</b>	<b>9.2%</b>	<b>13.7%</b>	<b>14.9%</b>	<b>5.5%</b>
Brazil	6.6	5.2	9.3	17.5	2.7
Caribbean division	19.6	13.3	14.5	4.7	4.2
NOLAD	(0.9)	4.4	8.5	9.1	(1.7)
SLAD	20.8	19.9	30.6	16.1	12.2

- (1) Segment information as of and for the years ended December 31, 2013, 2012 and 2011 is presented based on the segment structure prevailing as of and from January 1, 2013. See “Presentation of Financial and Other Information—Operating Data.” Segment Information for 2010 and 2009 has not been restated and is therefore not comparable to 2013, 2012 and 2011 information.
- (2) Segment information for 2010 and 2009 has not been restated and is therefore not comparable to 2013, 2012 and 2011 information. See “Presentation of Financial and Other Information—Operating Data.”
- (3) Currency controls in Venezuela and related accounting changes have had a significant effect on our results of operations and impact the comparability of our results of operations in 2010 compared to 2009.
- (4) Adjusted EBITDA is a measure of our performance that is reviewed by our management. Adjusted EBITDA does not have a standardized meaning and, accordingly, our definition of Adjusted EBITDA may not be comparable to Adjusted EBITDA as used by other companies. Total Adjusted EBITDA is a non-GAAP measure. For our definition of Adjusted EBITDA and a reconciliation thereof, see “Presentation of Financial and Other Information—Other Financial Measures” and “Item 3. Key Information—A. Selected Financial Data.”
- (5) Adjusted EBITDA margin is Adjusted EBITDA divided by total revenues, expressed as a percentage.
- (6) Systemwide comparable sales growth refers to the change in our restaurant sales in one period from a comparable period for restaurants that have been open for thirteen months or longer. Systemwide comparable sales growth is provided and analyzed on a constant currency basis, which means it is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from this trend analysis. We believe this constant currency measure provides a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency movements.
- (7) Systemwide comparable sales growth is presented on a systemwide basis, which means it includes sales by our Company-operated restaurants and our franchised restaurants. While sales by our franchisees are not recorded as revenues by us, we believe the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised revenues and are indicative of the financial health of our franchisee base.

## Our Operations

### Company-Operated and Franchised Restaurants

We operate our McDonald’s-branded restaurants under two basic structures: (i) Company-operated restaurants operated by us and (ii) franchised restaurants operated by franchisees. Under both operating alternatives the real estate location may either be owned or leased by us.

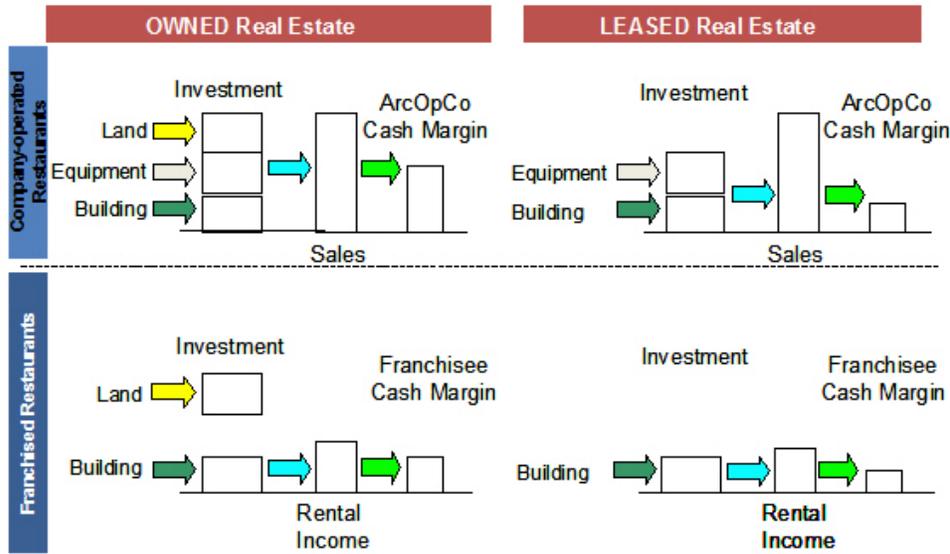
We own, fully manage and operate Company-operated restaurants and retain any operating profits generated by such restaurants, after paying operating expenses and the franchise and other fees owed to McDonald’s under the MFAs. In Company-operated restaurants, we assume the capital expenditures for the building and equipment of the restaurant and, if we own the real estate location, for the land as well.

In contrast to Company-operated restaurants, franchised restaurants are operated and managed by the franchisee with technical and operational support from us as master franchisee, including training programs, operations manuals, access to our supply and distribution network and marketing assistance. Under our conventional franchise

arrangements, franchisees provide a portion of the capital required by initially investing in the equipment, signs, seating and decor of their restaurants, and by reinvesting in the business over time. We are required by the MFAs to own the real estate or to secure long-term leases for franchised restaurant sites. We subsequently lease or sublease the property to franchisees. This arrangement allows for long-term occupancy of the property and assists in the alignment of our franchisees’ interests with our own.

In exchange for the lease and services, franchisees pay a monthly rent to us, generally based on the greater of a fixed rent or a certain percentage of gross sales. In addition to this monthly rent, we collect the monthly continuing franchise fee, which generally is 5% of the U.S. dollar equivalent of the restaurant’s gross sales, and pay these fees to McDonald’s pursuant to the MFAs. However, if a franchisee fails to pay its monthly continuing franchise fee, we remain liable for payment in full of these fees to McDonald’s. Pursuant to the MFAs, franchisees pay an initial franchise fee in connection with the opening of a new franchised restaurant and a transfer fee upon transfer of a franchised restaurant, both of which are subsequently shared by McDonald’s and us. See “Item 10. Additional Information—C. Material Contracts—The MFAs—Franchise Fees.”

The chart below illustrates the economics for Company-operated restaurants and franchised restaurants in the case of owned and leased real estate:



Source: Arcos Dorados

In addition, we are the majority stakeholder in several joint ventures that collectively own 28 restaurants in Argentina, Chile and Colombia. We have also granted developmental licenses to 12 restaurants. Pursuant to the developmental licenses, the developmental licensees own or lease the land and building on which the restaurants are located and pay a franchise fee to us in addition to the continuing franchise fee due to McDonald’s. All of our joint ventures and developmental licenses were in existence at the time of the Acquisition.

**Restaurant Categories**

We classify our restaurants into one of four categories: (i) freestanding, (ii) food court, (iii) in-store and (iv) mall stores. Freestanding restaurants are the largest type of restaurant, have ample indoor seating and include a drive-thru area and parking lot. Food court restaurants are located in malls and consist primarily of a front counter and kitchen and do not have their own seating area. In-store restaurants are part of a larger building, but they do not have a drive-thru area or a parking lot. Mall stores are located in malls like food court restaurants, but have their own seating areas. As of December 31, 2013, 951 (or 46.1%) of our restaurants were freestanding, 475 (or 23.0%) were food courts, 301 (or 14.6%) were in-stores and 335 (or 16.3%) were mall stores. These percentages vary by country, and may shift as opportunities in malls and more densely populated areas become available in some of the Territories.

Below are examples of each type of our restaurant categories:



**Freestanding**



**In-store**



**Mall Store**



**Food Court**

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Source: Arcos Dorados

Returns on investment in each type of restaurant vary significantly due to the different capital expenditures required and their different sales potential; mall stores generally provide the highest return on investment while freestanding restaurants generally provide the lowest. Moreover, returns vary significantly on a country by country basis.

***Reimaging***

An important component of our development plan is the reimaging of existing restaurants. As of December 31, 2013, we had completed the reimaging of 513 of the 1,569 restaurants we purchased in the Acquisition, an increase of 38 restaurants as compared to December 31, 2012. Our restaurants that have undergone reimaging during the past three years have experienced an additional increase in sales per restaurant over the comparable sales growth experienced by restaurants which have not been reimaged in the same period. Both we and McDonald's are committed to maintaining an image for our restaurants that creates a contemporary dining experience. Over the last few years, we have invested substantially in the reimaging of our restaurants, and we, pursuant to the MFAs, have committed to a significant reimaging plan. See "Item 10. Additional Information—C. Material Contracts." Many of the reimaging projects include the addition of McCafé locations to the restaurant.

Objectives of the reimaging include elevating the customer's perception of McDonald's and creating a more sophisticated and highly aspirational environment. We have developed systemwide guidelines for the interior and exterior design of reimaged restaurants. When carrying out a reimaging project, we minimize the impact on the operations and sales of the restaurants by keeping the restaurants open and operating during the renovations and working in specific areas of the location at particular times.

Below are images of the exterior of a few of our restaurants that have benefited from reimagining:



Source: Arcos Dorados

### ***McCafé Locations and Dessert Centers***

Our brand extension efforts focus on the development of additional McCafé locations and Dessert Centers. McCafé locations are stylish, separate areas within restaurants where customers can purchase a variety of customizable beverages, including lattes, cappuccinos, mochas, hot and iced premium coffees and hot chocolate. McCafé locations have been very successful in creating a different customer experience, optimizing the use of our restaurants at all hours of operation and providing a higher profit margin than our regular restaurant operations. We believe the primary benefit of McCafé locations is that they attract new customers by increasing the variety of our product offerings and improving our image.

With an average return on investment from McCafé locations of 22.2% in 2013, the McCafé concept is well-suited for restaurants in large-scale shopping centers and commercial areas. McCafé locations have been a key factor in adding value to our customers' experience and represented 9.1% of the total transactions and 5.7% of total sales of the restaurants in which they were located in 2013. As of December 31, 2013, there were 348 McCafé locations in the Territories, of which 12.6% were operated by franchisees. Argentina and Brazil, with 90 and 91 locations, respectively, have the greatest number of McCafé locations. The first McCafé in Latin America was opened in Argentina in 1999. Pursuant to the MFAs we have the right to add McCafé locations to the premises of our restaurants.

Below are images of the interior of two of our McCafé locations:



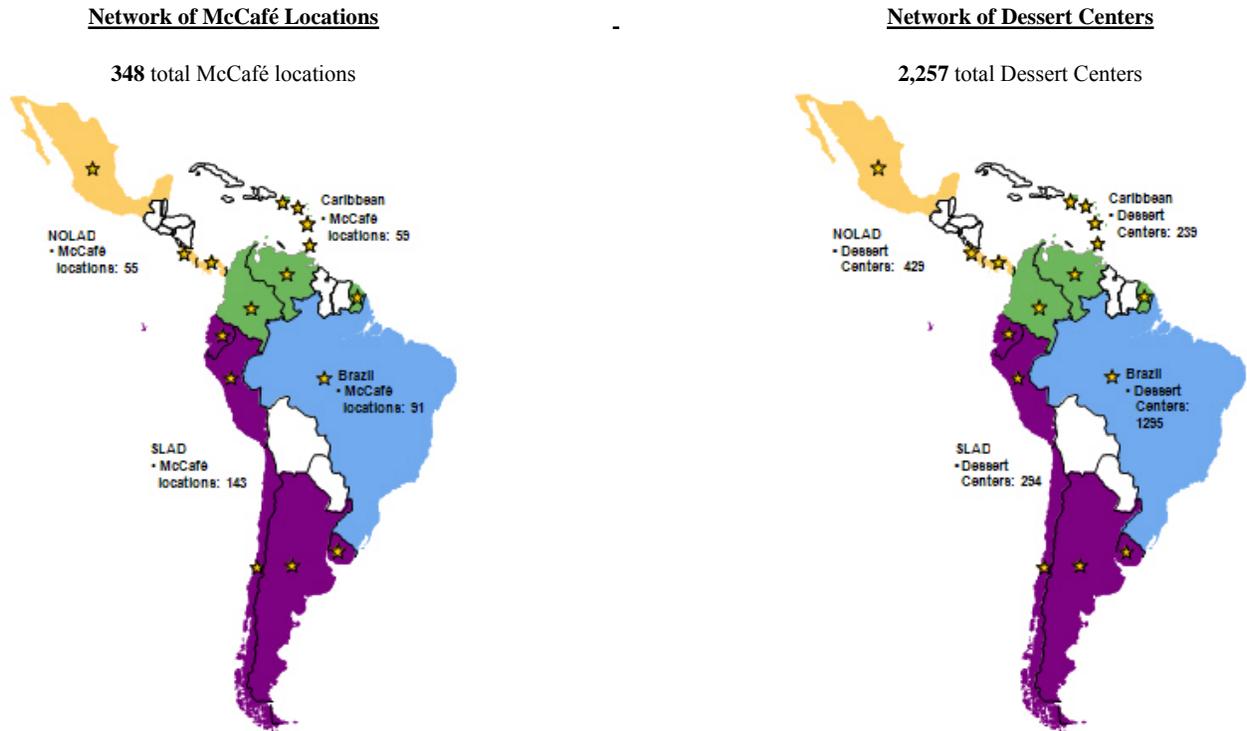
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*Source:* Arcos Dorados

In addition to McCafé locations, Dessert Centers have been a very successful brand extension. Dessert Centers operate separately from existing restaurants, but depend on them for supplies and operational support. For example, a mall store restaurant can provide support for several Dessert Centers located in different locations throughout the same mall. Our Dessert Centers are conveniently located to attract customers, thereby serving as important transaction generators and providing an effective method of extending our brand presence to non-traditional areas. At Dessert Centers, customers can purchase a variety of dessert items, including the McFlurry and soft-serve ice cream. Dessert Centers require low capital expenditures and provide returns on investment and operating margins that are significantly higher than our regular restaurant operations. As such, we believe they are an important driver in increasing our market penetration.

Dessert Centers represented 27.7% of our transactions and 8.5% of our total sales in 2013 and, with a return on investment of 116.3% in 2013, provide a low-risk investment alternative. As of December 31, 2013 there were 2,257 Dessert Centers in the Territories. Dessert Centers are highly successful in Brazil, where we have 1,295 locations. The first Dessert Center was created in Brazil in 1979. Due to a change in methodology in 2011, Dessert Center figures for 2013, 2012 and 2011 are not directly comparable to figures for 2010 and 2009.

The following maps sets forth our McCafé locations and Dessert Centers in each of the Territories as of December 31, 2013:



Source: Arcos Dorados

**The McDonald's Brand**

Interbrand, a brand consulting firm, ranked McDonald's among the top ten global brands in 2013. In addition, we believe that in Latin America and the Caribbean, the McDonald's brand benefits from an aspirational cachet as a "destination" restaurant with a reputation for safe, fresh and good-tasting food in an attractive setting. McDonald's strong brand equity stems from the dedicated execution of its brand promise and its ability to associate with the local community where it operates. McDonald's sets the standard in the restaurant industry worldwide for brand stewardship and marketing leadership.

**Product Offerings**

A crucial part of delivering the brand to clients depends on our product offerings, or more specifically, our menu strategy and management. The key objective of our menu strategy is the development and offering of quality food choices that attract customers to our restaurants on a regular basis. The elements we utilize to achieve this goal include offering McDonald's core menu, our product innovation initiatives and our focus on food safety.

Our menus feature three tiers of products: affordable entry-level options, such as our Big Pleasures, Small Prices or *Combo del Día* (Daily Extra Value Meal) offerings, core menu options, such as the Big Mac, Happy Meal and Quarter Pounder, and premium options, such as Big Tasty or Angus premium hamburgers and chicken sandwiches and low-calorie or low-sodium products that are marketed through common platforms rather than as individual items. These platforms can be based on the type of products, such as beef, chicken, salads or desserts, or on the type of customer targeted, such as the children's menu. We have offered a new menu with fewer calories and less sugar and sodium in the majority of our Territories since 2011. In 2013 we also began offering fresh fruits and vegetables with all of our Happy Meals in all of the Territories, except Venezuela and Puerto Rico (only offering fruits).

Our core menu is the most important element of our menu strategy and includes well-recognized food choices that have global customer acceptance and are what customers repeatedly order at McDonald's-branded restaurants worldwide.

### ***Product Development***

We have been very innovative in our product development in Latin America and the Caribbean. In key countries, our understanding of the local market has enabled us to successfully introduce new items to appeal to local tastes and to provide our customers with additional food options. Our chicken-based offerings and Angus burgers with innovative flavors such as Tabasco, Dijon and Sweet Chili are examples of our product development efforts, through which we introduce new products every few months. Also, we carefully monitor the sales of our products and are able to quickly modify them if necessary. For instance, although we always offer the McFlurry dessert product, we include in this product platform a promotional topping that is offered for a limited period of time, followed by a new promotional topping to maintain the sales momentum.

In 2006, McDonald's global innovation team introduced a new food preparation platform called the Bridge Operating Platform, or BOP, which combines product innovation with operational efficiency throughout our restaurants. This platform is a significant system enhancement, and it allows for customization of products without compromising the restaurants' ability to handle a large influx of customers at peak periods. The BOP has now been implemented in all large Latin American and Caribbean markets. In 2011 we began the rollout of Made For You, or MFY, a new kitchen operating platform that we believe will allow for improved product quality, higher labor productivity and reduced food waste. As of December 31, 2013, we had implemented MFY in almost all of our Company-operated restaurants in Argentina, Aruba, Brazil, Curaçao, Mexico, Puerto Rico, Trinidad and Tobago and the U.S. Virgin Islands. During 2014 we plan to implement MFY in Costa Rica, Panama and eight restaurants in Uruguay.

We work closely with McDonald's to develop new product offerings and McDonald's considers our recommendations regarding regional tastes and preferences and works with us to accommodate such tastes and preferences. We continue to benefit from McDonald's product development efforts following the Acquisition and have access to a library of products developed globally for the McDonald's system. In addition, we continue to benefit from the Hamburger Universities in the United States and Brazil and the food studio located in Brazil that aims to develop locally relevant products for the region. The Hamburger Universities and the food studio models have been McDonald's main global source of people and product development. The Hamburger Universities provide restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of the business, like restaurant and people management, sales and accounting, while emphasizing consistent restaurant operations procedures, service, quality and cleanliness. The food studios across the globe have been responsible for some of McDonald's most innovative food concepts and play a crucial role in developing new menu options that cater to the local tastes.

### ***Product and Pricing Strategy***

Value perceptions change significantly between markets and even between areas within a single market. In order to adjust pricing to meet customers' expectations in each market, we have developed local expertise aimed at understanding the dynamics of the local marketplace and the characteristics of their customers. We also examine trends in the pricing of raw materials, packaging, product related operating costs as well as individual item sales volumes to fully understand profitability by item. These insights feed into the local markets' menu and pricing strategy as well as the marketing plan that is disseminated to both Company-operated and franchised restaurants. Restaurants may then adjust pricing and/or item offerings as they choose in an attempt to optimize sales, profitability and local preferences. This cycle is part of an overall revenue management philosophy and is part of our business management practices utilized throughout the region.

### ***Advertisement & Promotion***

We believe that sales in the QSR sub-segment can be significantly affected by the frequency and quality of our advertising and promotional programs. In particular, we benefit from the strength of McDonald's global resources, including its global alliances with some of the largest multinational conglomerates and sponsorship of sporting

events such as the Olympic Games and the World Cup and participation in various movie promotions, which provides us with important advertising and promotion opportunities.

We promote the McDonald's brand and our products by advertising in all of the Territories. We create, develop and coordinate marketing plans and promotional activities throughout the Territories; however, pursuant to the MFAs, McDonald's reserves the right to review and approve any advertising materials and related promotional activities and may request that we cease using the materials or promotional activities at any time if McDonald's determines that they are detrimental to its brand image. We are required under the MFAs to spend at least 5% of our gross sales, and our franchisees generally are required to pay us 5% of their gross sales for the portion of advertising expenditures related to their restaurants, on advertisement and promotion activities. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage to drive sales. The advertisement and promotion program is formulated based on the amount of advertisement and promotion support needed for each strategic platform for the year. During 2013, our key strategic platforms included menu relevance, convenience, strengthening the kids and family experience and price segmentation for margin optimization. In terms of menu relevance, we introduced promotional products such as Chicken McBites in many of our key markets, as well as premium Angus burgers and chicken wraps. In terms of convenience, we increased the efficiency of some of our restaurants by including more McCafé locations, combined beverage systems that serve fruit-based smoothies, coffee-based frappés and specialty coffees, and Dessert Centers and developing locally relevant menu items, such as breakfast choices and bone-in-chicken product offerings in Peru. In terms of pricing, we understand that our customers seek great-tasting food at affordable prices and that their perception of value while at the restaurant is a significant factor in determining overall satisfaction and frequency of visits. Our Big Pleasures, Small Prices and our *Combo del Día* programs in Latin America and the Caribbean, which are based on best practices and experience in the United States and Europe, have been successful in addressing a broad range of value expectations in our restaurants. We continue leveraging these platforms to increase penetration and grow market share.

To support our product offerings, we sponsor regionally popular sporting events, such as the preliminary round for the FIFA World Cup 2014 in South America, and leverage global marketing initiatives led by McDonald's, such as sponsorship of major sporting events and participation in various movie promotions. We believe these branding events provide a cost-effective manner to increase our market recognition.

To promote increased traffic in our restaurants, we execute unique promotions such as the Monopoly game in some of our key markets.

Through the execution of these initiatives, we work to enhance the McDonald's experience for customers throughout the Territories, increase our sales and customer counts. We aim to position ourselves as a "forever young" brand by delivering a youthfully energetic, distinctly casual, personally engaging and delightful dining/brand experience.

### ***Regional Operations***

The Company is divided into four geographical divisions: Brazil, the Caribbean division, NOLAD and SLAD. Except for Brazil, the divisions are subsequently divided into sub-groups comprised of individual Territories. The presidents of the divisions report directly to our chief operating officer.

The following map sets forth the number of our restaurants in each of our operating divisions as of December 31, 2013:



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Source: Arcos Dorados

We remain close to customers by managing operations at the local level, including implementing recruiting centers, conducting marketing campaigns and promotions, monitoring consumer perception and managing menu offerings. We conduct administrative and strategic activities at either the divisional level or at our headquarters, as appropriate. We provide services such as accounts payable, accounts receivable and payroll through our centralized shared service center located in Buenos Aires, Argentina. In addition, we have designed standardized crew recruiting manuals and have implemented an online communication platform for crew and managers. These centralized operations help us maintain consistent procedures, quality control and brand management across all of our markets.

Set forth below is a summary of our restaurant portfolio as of December 31, 2013. Due to the reorganization of our segments effective January 1, 2013, the segment information below is not directly comparable to the segment information presented in our annual report on Form 20-F for prior years. See “Presentation of Financial and Other Information—Operating Data.”

Portfolio by Division	Ownership					Store Type						Building/ Land(1)	
	Company-Operated	Joint Venture	Franchised	Developmental License	Total	Freestanding	Food Court	In-Store	Mall Store	Dessert Centers	McCafé Locations	Owned	Leased
Brazil	583	—	229	—	812	330	254	85	143	1,295	91	117	695
Caribbean													
Division	259	11	94	1	365	240	25	44	56	239	59	130	234
NOLAD	344	—	152	11	507	268	131	55	53	429	55	167	329
SLAD	324	17	37	—	378	113	65	117	83	294	143	97	281
<b>Total</b>	<b>1,510</b>	<b>28</b>	<b>512</b>	<b>12</b>	<b>2,062</b>	<b>951</b>	<b>475</b>	<b>301</b>	<b>335</b>	<b>2,257</b>	<b>348</b>	<b>511</b>	<b>1,539</b>

(1) Developmental licenses and mobile stores are not included in these figures.

#### Brazil

Brazil is our largest division in terms of restaurants, with 812 restaurants as of December 31, 2013 and \$1,842.2 million in revenues in 2013, representing 39.4% and 45.7% of our total restaurants and revenues, respectively. Our operations in Brazil are based in Sao Paulo and McDonald's has been present in Brazil since opening its first restaurant in Rio de Janeiro in 1979.

#### Caribbean Division

The Caribbean division includes eleven territories with 365 restaurants as of December 31, 2013 and \$830,447 million in revenues in 2013, representing 17.7% and 20.6% of our total restaurants and revenues, respectively. Its primary market is Venezuela. McDonald's has been present in Venezuela since opening its first restaurant in Caracas in 1985. Venezuela represents 38.1% of the Caribbean division's restaurants and 50.0% of the Caribbean division's revenues. Venezuela is our fourth-largest market in terms of restaurants.

#### NOLAD

NOLAD includes three countries with 507 restaurants as of December 31, 2013 and \$407,772 million in revenues in 2013, representing 24.6% and 10.1% of our total restaurants and revenues, respectively. Its primary market is Mexico, where the division's management is based. McDonald's has been present in Mexico since opening its first restaurant in Mexico City in 1985. Mexico represents 78.1% of NOLAD's restaurants and 54.2% of NOLAD's revenues, and Mexico is our second-largest market in terms of restaurants.

Our operations in Mexico differ from those in our other Territories (with the exception of Venezuela) in that the percentage of franchised restaurants is significantly higher than our systemwide average because some of McDonald's previous joint venture partners were converted into franchisees immediately prior to the Acquisition. Since the Acquisition, we have been adjusting our business model in Mexico as several factors had significantly eroded that market's profitability and, as a result, we have acquired 79 franchised restaurants. As of December 31, 2013, 36.1% of our restaurants in Mexico were franchised, while 24.4% of our restaurants overall were franchised.

#### SLAD

SLAD includes five countries with 378 restaurants as of December 31, 2013 and \$952.8 million in revenues in 2013, representing 18.3% and 23.6% of our total restaurants and revenues, respectively. Its primary market is Argentina, where the division's management is based. McDonald's has been present in Argentina since opening its first restaurant in Buenos Aires in 1986. As of December 31, 2013, Argentina represented 57.9% of SLAD's restaurants and 69.3% of SLAD's revenues in 2013. Argentina is our third-largest market in terms of restaurants.

### *Seasonality*

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

### *Supply and Distribution*

Supply chain management is an important element of our success and a crucial factor in optimizing our profitability. Currently, we have an integrated and centralized supply chain management system that focuses on (i) the highest possible quality and food safety, (ii) competitive market pricing that is predictable and sustainable over time, and (iii) leveraging of local, regional and global sourcing strategies to obtain a competitive advantage. This system consists of the selection and development of suppliers that are able to comply with McDonald's high quality standards and the establishment of the appropriate type of relationships with these suppliers. These standards, which are based on the highest industry standards like International Organization for Standardization, or ISO, standards, British Retail Consortium, or BRC, standards and others, include cleanliness, product consistency and timeliness, meeting or exceeding all local food regulations and compliance with our Hazard Analysis Critical Control Plan, or HACCP, a systematic approach to food safety that emphasizes protection within the processing facility, rather than detection, through analysis, inspection and follow-up. Due to our supply chain management and high quality standards, we believe our products have a competitive advantage because they have many attributes that make them appealing to our customers. For instance, our McNuggets are made of 100% white meat; our frying oil is 100% free of trans fatty acids; the dairy mix for our sundaes and the McFlurry undergo aseptic processes to rid them of bacteria; our vegetables are washed and sanitized; and our hamburger patties are made with 100% beef and do not contain additives.

Pursuant to the MFAs, we purchase core products and services, such as beef, chicken, buns, produce, cheese, dairy mixes and toppings, from approved suppliers and distributors who satisfy the above requirements. If McDonald's determines that any product or service offered by an approved supplier is not in compliance with its standards, it may terminate the supplier's approved status. Beyond the purchase of core products and services, we have no restrictions on which suppliers or distributors we may use. We have largely continued the supply relationships that McDonald's had established prior to the Acquisition, and we develop relationships with new suppliers in accordance with McDonald's Supplier Quality Management System, or SQMS.

Since the process to become an approved supplier is lengthy, expensive and requires proof of compliance with McDonald's high quality standards, we have found that oral agreements with our approved suppliers generally are sufficient to ensure a reliable supply of quality food products, and we have developed long-term relationships with many of our suppliers. In addition, we enter into written agreements with most of our suppliers regarding the cost of such goods, which can be based on pricing protocols, formula costing, benchmarking or open bidding, as appropriate. Our 25 largest suppliers account for approximately 80% of our supplies, and no single supplier or group of related suppliers account for more than 12% of our total food and paper costs. Among our main suppliers are JBS S.A., McCain Foods Limited, Coca-Cola Company and Fresh Start Bakeries, Inc.

Our integrated supply chain management optimizes value as we work with suppliers to develop pricing protocols, inventory, planning and product quality. As of December 31, 2013, approximately 30% of the food and paper products used in our restaurants were imported, primarily from countries within Latin America, while the remaining amount were locally sourced. This percentage varies among the Territories; for example, 18% of the products consumed in Mexico are imported, while 20% and 90% of the products consumed in Brazil and the Caribbean division, respectively, are imported. This includes the toys distributed in our restaurants, which are imported from China. Certain supplies, such as beef, must often be locally sourced due to restrictions on their importation. Combined with the MFAs' requirement to purchase certain core supplies from approved suppliers, although we maintain contingency plans to back up restaurant supplies, we may not be able to quickly find alternate or additional supplies in the event a supplier is unable to meet our orders. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—We depend on oral agreements with third-party suppliers and distributors for the provision of products that are necessary for our operations." The suppliers send all of their products to distribution centers that are in charge of transportation, warehousing, financial administration, demand and inventory planning and customer service. The distribution centers interact directly with our Company-operated and franchised restaurants.

Until March 16, 2011 we owned and operated some of the distribution centers in the Territories, which operations and related properties we refer to as Axionlog (formerly known as Axis). See “Item 4. Information on the Company—A. History and Development of the Company—Important Events—The Axionlog Split-off.” In 2011, we entered into a master commercial agreement with Axionlog on arm’s-length terms pursuant to which Axionlog continues to provide us with distribution services in Argentina, Chile, Colombia, Mexico and Venezuela. For additional information about our transactions with Axionlog, see “Item 7. Major Shareholders and Related Party Transactions—B. Related Party Transactions—Axionlog Split-off.”

### ***Supply Chain Management and Quality Assurance***

All products that we sell meet McDonald’s specifications, including new products and promotions. We work with our supplies to implement key standards testing at each stage of our supply chain, including raw materials, processing and distribution. With respect to raw materials, we verify that produce suppliers undergo verification audits. All protein suppliers also undergo Animal Welfare Policy, “mad cow” disease and HACCP audits. At the processing stage, we implement a supplier quality management system that encourages continuous improvement in each key product category. We conduct seminars annually with all key suppliers on topics such as standards calibration, product sensory evaluation and best practices and all suppliers are audited annually by a third party for compliance with McDonalds’s SQMS. We measure compliance through visits to processing plants, supplier summits, regularly scheduled audits and sensory testing that is achieved through a combination of product, equipment and operational procedures. At the distribution stage, we have implemented the Distribution Quality Management Program, which includes a shelf-life management system, strict temperature controls for receiving and storage of food products, a sophisticated stock recovery program and a quality inspection program.

Our quality testing extends to restaurant operations, where we conduct restaurant improvement and food safety verification processes that allow us to track the implementation of changes in restaurant operations, new products, procedures and equipment. We participate in the restaurant operations improvement process designed by McDonald’s, under which Company-operated and franchised restaurants are visited at least three times in any 21-month cycle to identify system opportunities to continuously improve our operations. Visits are conducted by our operations consultants, who assess restaurants based on food quality, service and cleanliness. We also participate in the worldwide mystery shopper program designed by McDonald’s, where all restaurants are visited twice a month by a third-party vendor who provides us with feedback from a customer perspective. This feedback, called customer satisfaction opportunity reports, is sent to a centralized monitoring system that evaluates key operations indicators. Our multidisciplinary teams, which include members of our Supply Chain and Marketing and Operations teams, work to improve quality and efficiency at the restaurant level throughout the Territories.

### **Our Competition**

We compete with international, national, regional and local retailers of food products. We compete on the basis of price, convenience, service, menu variety and product quality. Our competition in the broadest perspective includes restaurants, quick-service eating establishments, pizza parlors, coffee shops, street vendors, convenience food stores, delicatessens and supermarkets.

### **Our Customers**

We aim to provide our customers with safe, fresh and good-tasting food at a good value and a favorable dining experience in the family friendly environment demanded by our target demographic of young adults and families with children. Based on data from the United Nations Economic Commission for Latin America and the Caribbean, the Territories represented a market of approximately 616.6 million people in 2013—equivalent to the combined population of the United States, Germany, France, the United Kingdom and Italy—of which approximately 28% are under 14 years old and 46% are under 25 years old. As a business focused on young adults in the 14 to 35 age range and families with children, our operations have benefited, and we expect to continue to benefit, from our Territories’ population size, age profile when compared to more developed markets and improving socio-economic conditions. In addition, our McCafé brand extension has successfully targeted a more adult customer base.

Despite variations in economic development throughout the Territories, including reduced GDP expected for Brazil, continued foreign currency exchange controls in Venezuela and Argentina and the general political instability in Venezuela, Latin America and the Caribbean in general have presented very compelling growth prospects given their improving macroeconomic conditions, expanding buying power of the consumer sector in

general and the rapidly growing QSR markets in particular. In addition, improvements in macroeconomic conditions in the Territories have led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, and we believe we are well-placed to capitalize on these trends. In Brazil alone, distribution of national income significantly improved between 2003 and 2012. In 2003, 60% of population accounted for 17% of the total national income, while in 2012 60% of the population accounted for 21.2% of the total national income, according to the Economic Commission for Latin America and the Caribbean. According to the same source, the percentage of the Brazilian population living in poverty decreased from 38.7% in 2003 to 18.6% in 2012.

Despite ongoing risks generally associated with international business operations, the confluence of favorable factors throughout many of the Territories, including growth in our target demographic markets, offer an opportunity of profitable growth and the ability to serve an ever-increasing number of customers.

## Regulation

We are subject to various multi-jurisdictional federal, regional and local laws in the countries in which we operate affecting the operation of our business, as are our franchisees and suppliers. Each restaurant is subject to licensing and regulation by a number of governmental authorities, which include zoning, health, safety, sanitation, tax, operating, building and fire agencies in the jurisdiction in which the restaurant is located. Difficulties in obtaining, or the failure to obtain, required licenses or approvals can delay or prevent the opening of a new restaurant in a particular area. Restaurant operations are also subject to federal and local laws governing matters such as wages, working conditions and overtime. We are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment.

Substantive laws that regulate the franchisor/franchisee relationship presently exist in several of the countries in which we operate, including Brazil. These laws often limit, among other things, the duration and scope of non-competition provisions, the ability of a franchisor to terminate or refuse to renew a franchise and the ability of a franchisor to designate sources of supply and regulate franchise sales communications.

Certain countries in which we conduct operations have imposed price controls that restrict our ability, and the ability of our franchisees, to adjust the prices of our products. For example, in November 2013, Venezuela passed the Fair Price Act seeking to lower high inflation by controlling prices and costs in the chain of production. The Fair Price Act generally sets forth a profit cap of 30% on the cost structure of goods and services, thus reducing management's ability to freely determine final prices. According to regulations passed under the Fair Price Act, to determine a final and fair price, management must observe and consider all the costs of production, including (i) acquisition costs of raw materials, the determination of which shall comply with existing regulations on transfer pricing (i.e., price, freight, primary storage, non-recoverable taxes and other costs directly attributable to the acquisition of raw materials), (ii) labor costs, and (iii) indirect costs of production.

The Fair Price Act empowers the National Agency for the Defense of Socio-economic Rights to implement provisions and regulations on "fair pricing" and to oversee and audit businesses in Venezuela. Breaches of the Fair Price Act could result in criminal charges against merchants or business people. In January 2014, Venezuelan authorities inspected our operations in Venezuela and required us to reduce our prices for different menu items by amounts ranging from 7% to 10%. In a similar attempt to control and reduce inflation, the Venezuelan government established a transitional protection regime for tenants of property used for commercial, industrial or production activities, which regulates the leasing relations and stipulates that the price of the monthly rent may not exceed an amount equal to 250 *bolívars fuertes* per square meter. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—Price controls in certain countries have affected and may continue to affect our results of operations."

We are also subject to the labor laws applicable in the countries in which we operate. The adoption of new or more stringent labor laws or regulations could result in a material liability to us. For example, a law enacted in November 2010 in Argentina requires companies to pay overtime to all employees (except directors and managers) working on weekends, and a proposed bill in Argentina would require companies to distribute 10 percent of their profits to employees. Additionally, in January 2014, Venezuela announced a 10% increase in the minimum wage, resulting in a new minimum wage of 3,270 *bolívars fuertes*. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Labor shortages or increased labor costs could harm our results of operations." New interpretations or unexpected applications of existing labor laws or regulations may also affect our

business practices or results of operations. In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) regarding alleged noncompliance with certain labor laws. Several of these cases have already been resolved successfully, either by a judicial decision or a cash settlement. The remaining retained cases are pending a final decision. See “Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Retained Lawsuits and Contingent Liabilities.”

In addition, we may become subject to legislation or regulation seeking to regulate high-fat and/or high-sodium foods, particularly in Argentina, Brazil, Chile, Puerto Rico and Venezuela. Moreover, restrictions on advertising by food retailers and QSRs have been proposed or adopted in Argentina, Brazil, Chile, Colombia, Mexico, Peru, Uruguay and Venezuela, including proposals to restrict our ability to sell toys in conjunction with food. Certain jurisdictions in the United States are considering curtailing or have curtailed McDonald’s ability to sell children’s meals including free toys if these meals do not meet certain nutritional criteria. Similar restrictions, if imposed in the Latin American countries where we do business, may have a negative impact on our results of operations. We will comply with any laws or regulations that may be enacted, and we can provide no assurance of the effect that any possible future laws and regulations will have on our operating results. See “Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Industry—Restrictions on promotions and advertisements directed at families with children and regulations regarding the nutritional content of children’s meals may harm McDonald’s brand image and our results of operations.”

#### **Environmental Issues**

To the best of our knowledge, there are currently no international, federal, state or local environmental laws, rules or regulations that we expect will materially affect our results of operations or our position with respect to our competitors. However, we can provide no assurance of the effect that any possible future environmental laws will have on our operating results.

#### **Insurance**

We maintain insurance policies in accordance with the requirements of the MFAs and as appropriate beyond those requirements, to the extent we believe additional coverage is necessary. Our insurance policies include commercial general liability, workers compensation, “all risk” property and business interruption insurance, among others. See “Item 10. Additional Information—C. Material Contracts—The MFAs—Insurance.”

#### **Charitable Activities and Social Initiatives**

The McDonald’s brand is enhanced through McDonald’s and our social responsibility initiatives, which include a wide range of programs focused on positively impacting our employees, customers and the communities in which we operate. The following discussion summarizes some of our principal programs and contributions:

##### ***Employment Experience***

We are an important employer in Latin America and the Caribbean and are creating new economic opportunities for Latin America’s next generation. With more than 96,000 employees as of December 31, 2013, we are one of the largest employers in Latin America. For many of our employees, we are their first employer, providing formal jobs that include benefits, medical coverage, training and flexibility. We provide a strong foundation and teach them valuable customer service and leadership skills that can be applied to a wide range of career paths in the future.

We have been recognized by many independent organizations for being a “great place to work.” In 2013, the Great Place to Work Institute ranked us sixth among the top 25 best multinational employers in Latin America, and we led the “*Súper Empresas*” (Super Companies) ranking by the *Expansión/CNN* magazine. The table below shows the good employer recognitions that we received in 2013:

Country	Award	Ranking
Argentina	“Best Companies to Work for” in Argentina	9th
Argentina	“Work and Life Balance” Certification	—
Brazil	“Best Companies to Work for” in Brazil	6th
Colombia	“Best Companies to Work for” in Colombia	13th
Costa Rica	“Best Companies to Work for” in Costa Rica	12th
Costa Rica and Panama	“Work and Life Balance” Certification	—
Chile	“Best Companies to Work for” in Chile	16th
Ecuador	“Best Companies to Work for” in Ecuador	10th
Mexico	“Best Companies to Work for” in Mexico	5th
Panama	“Best Companies to Work for” in Panama	5th
Peru	“Best Companies to Work for” in Peru	9th
Uruguay	“Best Companies to Work for” in Uruguay	5th
Venezuela	“Best Companies to Work for” in Venezuela	13th

We pride ourselves on principles such as integrity, trust, honesty, hospitality and the importance of team work. To that end, we offer extensive training and continuing education opportunities for crew and corporate employees, and provide a collegial work environment that fosters teamwork and advancement. Each year, we dedicate resources to training and development in our restaurants, Regional Training Centers and McDonald’s University in order to provide our employees with the tools necessary to advance within our Company and help positively impact business results.

In April 2012, we became one of the first companies to join the New Employment Opportunities (NEO) Program. Developed by the Inter-American Development Bank and the International Youth Foundation, the program helps to increase the employability of the region’s youth. We strengthened that commitment in December 2013 as part of the Clinton Global Initiative.

### *Community*

The wellbeing of the communities where we operate is of considerable importance to us. One of our major charitable causes is the Ronald McDonald House Charities, which is dedicated to creating, finding and supporting programs that directly improve the health and well-being of children, including by combating pediatric cancer, one of the leading causes of death for children in Latin America.

As of December 31, 2013, there were 41 Ronald McDonald House Charities programs in 14 countries in Latin America and the Caribbean, including 19 Ronald McDonald Houses, 21 Ronald McDonald Family Rooms, which provide “a home away from home” to children undergoing serious medical treatment in hospitals and their families, and one Ronald McDonald Care Mobile, which was built to deliver pediatric care services to remote locations.

One of our biggest charitable events is McHappy Day, when McDonald’s restaurants across Latin America raise money for various children’s causes, including the Ronald McDonald House Charities foundation, by donating the proceeds generated from the sales of Big Macs on that day. McHappy Day has grown from being a “marketing” campaign to becoming a community-wide effort. In 2013, McHappy Day was celebrated in all of the Territories, involving more than 35,000 community volunteers and our franchisees and suppliers. In 2013, our McHappy Day activities raised over \$13.7 million. McHappy Day has become one of the most important campaigns, supporting children in Latin America and is the biggest source of revenue for the Ronald McDonald House Charities foundation.

### *Nutrition and Well-being*

As part of our commitment to offering nutritious and quality products to our customers, we are dedicated to actively promoting a balanced lifestyle. This includes providing reliable, accessible information to guide educated nutritional decisions. We were the first restaurant chain in Latin America to provide full nutritional and calorie information about our menu on our websites in every country, as well as giving consumers within the restaurants full printed nutritional information on every tray liner. In November 2013, we became the first restaurant chain in Latin America to show calorie information on our menu displays so that customers can see calorie information at their point of purchase.

From a safety and quality perspective, we only use products that have passed strict quality and hygiene controls throughout the production chain, inside our restaurants and up to the moment they are served to our customers. These products are sourced from our approved supplier network for all McDonald's restaurants.

We participate in several educational, sports and well-being programs throughout Latin America and the Caribbean, promoting our brand and encouraging our employees and customers to participate. One such event is the McDonald's 5K Women's Run (*Las Mujeres Corremos*), a regional race held annually since 2010 that brought together nearly 70,000 women in 2013, running in 19 cities and 15 countries in Latin America.

### ***Environmental Responsibility***

We are committed to the continuous improvement of our environmental sustainability efforts, including frequently assessing our strengths and areas of improvement. While we have made many positive strides, we are looking to benchmark our efforts with sustainability reviews for 2013 in Brazil, Argentina and Colombia, which will help us set direct and measurable goals that we will be working toward in the years ahead.

We strive to be an environmental steward dedicated to conserving natural resources and minimizing waste. We monitor and implement operational measures focused on reducing water consumption, energy utilization and waste production at our restaurants. We execute paper and waste recycling campaigns at our restaurants, whenever possible. We are also exploring ways to recycle cooking oil from our restaurants, including an innovative program in Brazil that would power our delivery trucks with our recycled cooking oil.

We survey our key suppliers in Latin America and the Caribbean to ensure their operations meet the highest standards possible and partner with them on reducing our impact on the environment. This includes implementing and sharing best practices throughout the supply chain around sustainable sourcing, transportation, resource use, residue disposal and energy consumption, among other matters.

Protecting the Amazon—one of Latin America's greatest environmental treasures—is a top priority. One hundred percent of our suppliers have committed to ending procurement of any goods from the Amazon. In October 2011, McDonald's signed a global moratorium against harvesting soy from the Amazon region and has maintained this commitment during 2012 and 2013.

As of December 31, 2013, we had five ecological restaurants and one LEED-certified corporate university, which are more environmentally responsible and resource-efficient buildings throughout their life-cycle. In December 2008, we opened the first ecological restaurant in Latin America in Bertioga on the coast of São Paulo, Brazil. This restaurant received Leadership in Energy & Environmental Design, or LEED, certification, in September 2009, becoming the first McDonald's restaurant in Latin America to be so certified. In August 2009, we opened our second ecological restaurant in Lindora, Costa Rica, which was the first of its kind in Central America. In August 2010, we opened our third ecological restaurant in Pilar, Argentina. In July 2011, we re-inaugurated the McDonald's at Parque Hundido, in Mexico DF as our fourth ecological restaurant. This restaurant was awarded LEED certification by the US Green Building Council. In January 2013, we opened the fifth ecological restaurant in Guaynabo, Puerto Rico. In November 2013, it was awarded LEED certification by the US Green Building Council and verified by the Green Building Certification Institute.

The McDonald's University in São Paulo, Brazil was remodeled and reopened in April 2011 as an ecological, LEED-certified building. This McDonald's University, one of seven such units in the world, is the corporate training center for employees from all over Latin America and the Caribbean.

The know-how accumulated in the construction of these ecological buildings is being used for the development of new McDonald's restaurants and the reimagining of certain existing ones in the Territories.

### ***Sustainable Supply Chain***

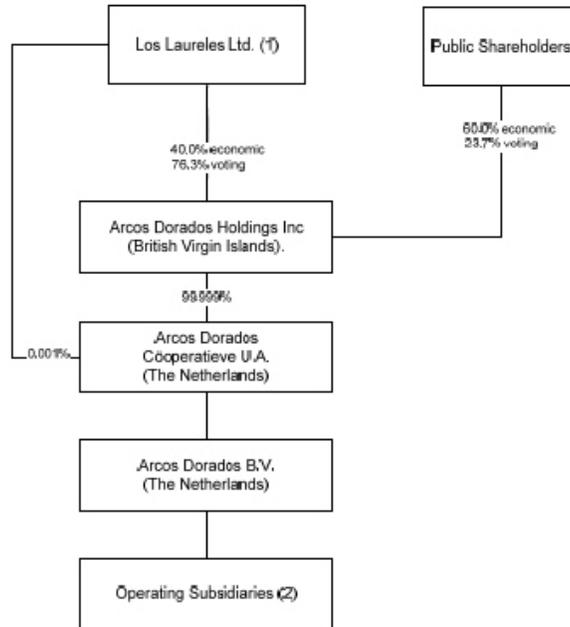
Our deep relationship with our suppliers is an important strategic asset. We work with more than 500 suppliers across Latin America who serve as strategic partners. Many of our suppliers have worked with McDonald's since it first entered the Latin American market in the 1970s. All suppliers are evaluated for and must comply with global McDonald's standards on core products such as beef, chicken, cheese, bread, beverages and others. This ensures a consistent customer experience throughout Latin America.

We hope to further strengthen our supply chain by developing local initiatives that meet our demand for goods while promoting the well-being and success of the farmers and suppliers we rely on. For example, we spearheaded a local community farming pilot program with the Qorichacra lettuce growing venture in Cusco, launched together with the Syngenta Foundation. The learnings from Qorichacra have encouraged us to develop more local farming initiatives to supply our lettuce and tomatoes locally in a few cities in Brazil, Puerto Rico and Argentina. Our hope is that more such initiatives will flourish with our leadership as a provider of training, quality control and standards, and as a significant local buyer of lettuce and tomato. As another example, in Brazil we work with suppliers to educate local farmers about sustainable agriculture. To date, 26 farms have been created and/or expanded to produce lettuce, tomatoes and other produce for McDonald’s restaurants in the region. This enables us to source produce from sustainable farms, while also contributing to the local economy through the creation of jobs.

**C. Organizational Structure**

We conduct substantially all our business through our indirect, wholly-owned Dutch subsidiary Arcos Dorados B.V. Our controlling shareholder is Los Laureles Ltd., a British Virgin Islands company, which is beneficially owned by Mr. Staton, our Chairman and CEO. Under the MFAs, Los Laureles Ltd. is required to hold at all times at least 51% of our voting interests, which is accomplished through its ownership of 100% of the class B shares of Arcos Dorados Holdings Inc., each having five votes per share. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.” Arcos Dorados B.V. owns all the equity interests of LatAm, LLC, the master franchisee, and owns, directly or indirectly, all the equity interests of the subsidiaries operating our restaurants in the Territories.

The following chart shows our corporate structure as of March 31, 2014.



(1) Includes class A shares and class B shares beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. is beneficially owned by Mr. Staton. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.” Mr. Staton directly owns 0.001% of the shares of Arcos Dorados Coöperatieve U.A.

(2) Includes operating subsidiaries held directly and, in some cases, indirectly through certain intermediate subsidiaries.

Other than as described above, all of our significant subsidiaries are wholly owned by us, except Arcos Dorados Argentina S.A., of which Mr. Staton owns 0.003%.

## D. Property, Plants and Equipment

### *Property Operations*

Our long-standing presence in Latin America and the Caribbean has allowed us to build a significant property portfolio with hard-to-replicate locations in key markets across the region that enhance our customers' experience and ultimately support our brand and market position. As of December 31, 2013, we owned the land for 511 of our 2,062 restaurants (totaling approximately 1.1 million square meters). We owned the buildings for all but 12 of our stand-alone restaurants, all of which are under developmental licenses, whereby the licensees own or lease the land and buildings on which the restaurants are located. We lease the remaining real estate property where we operate. Accordingly, we are able to charge rent on the real estate that we own and lease to our franchisees. The rental payments generally are based on the greater of a flat fee or a percentage of sales reported by franchised restaurants. When we lease land, we match the term of our sublease to the term of the franchise. We may charge a higher rent to franchisees than that which we pay on our leases, therefore deriving additional rental income.

The selection, construction and maintenance of restaurant locations and other related real estate assets, which is a key element of our performance, is determined based on an evaluation of expected returns on investment and the most efficient allocation of our capital expenditures. In addition to our restaurant property, we own our corporate headquarters in Buenos Aires, Argentina, corporate offices, real estate in Venezuela, a manufacturing and logistics center in Sao Paulo, Brazil, and training centers in Sao Paulo, Brazil and Buenos Aires, Argentina.

### ITEM 4A. UNRESOLVED STAFF COMMENTS

None.

### ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

#### A. Operating Results

*The following discussion of our financial condition and results of operations should be read in conjunction with the audited consolidated financial statements as of December 31, 2013 and 2012 and for the years ended December 31, 2013, 2012 and 2011, and the notes thereto, included elsewhere in this annual report, as well as the information presented under "Presentation of Financial and Other Information" and "Item 3. Key Information—A. Selected Financial Data."*

*The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Item 3. Key Information—D. Risk Factors."*

#### Segment Presentation

We divide our operations into four geographical divisions: Brazil; the Caribbean division, consisting of Aruba, Colombia, Curaçao, French Guiana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division, or NOLAD, consisting of Costa Rica, Mexico and Panama; and the South Latin America division, or SLAD, consisting of Argentina, Chile, Ecuador, Peru and Uruguay. As of December 31, 2013, 39.4% of our restaurants were located in Brazil, 18.3% in SLAD, 24.6% in NOLAD and 17.7% in the Caribbean division. We focus on our customers by managing operations at the local level, including marketing campaigns and special offers, menu management and monitoring customer satisfaction, while leveraging our size by conducting administrative and strategic functions at the divisional or corporate level, as appropriate.

We are required to report information about operating segments in our financial statements in accordance with ASC Topic 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. We have determined that our reportable segments are those that are based on our method of internal reporting, and we manage our business and operations through our four geographical divisions (Brazil, the Caribbean division, NOLAD and SLAD). The accounting policies of the segments are the same as those for the Company on a consolidated basis.

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of SLAD, became part of the Caribbean division with headquarters located in Colombia. In accordance with ASC 280 Segment Reporting, we began reporting the results of the revised structure of our geographical divisions on our segment financial reporting in the first quarter of fiscal year 2013.

All of the segment information in our annual report on Form 20-F for the year ended December 31, 2012 was presented in accordance with the structure prevailing prior to January 1, 2013. Therefore, for purposes of this annual report, we have also adjusted the segment information in this annual report as of and for the years ended December 31, 2012 and 2011 based on the structure prevailing as of the date of this annual report. We have not adjusted the segment information in this annual report as of and for the years ended December 31, 2010 and 2009. Therefore, the segment information as of and for the years ended December 31, 2013, 2012 and 2011 presented in this annual report is not directly comparable to the segment information as of and for the years ended December 31, 2010 and 2009 that is presented in this annual report and the segment information in our consolidated financial statements at December 31, 2012 and 2011 and for the years ended December 31, 2012, 2011 and 2010 included in our annual report on Form 20-F for the year ended December 31, 2012.

## Principal Income Statement Line Items

### *Revenues*

We generate revenues primarily from two sources: sales by Company-operated restaurants and revenue from franchised restaurants, which primarily consists of rental income, typically based on the greater of a flat fee or a percentage of sales reported by our franchised restaurants. This rent, along with occupancy and operating rights, is stipulated in our franchise agreements. These agreements typically have a 20-year term but may be shorter if necessary to mirror the term of the real estate lease. In both 2013 and 2012, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.7% and 4.3% of our total revenues, respectively. In 2011, sales by Company-operated restaurants and revenues from franchised restaurants represented 95.8% and 4.2% of our total revenues, respectively.

### *Operating Costs & Expenses*

Our sales are heavily influenced by brand advertising, menu selection and initiatives to improve restaurant operations. Sales are also affected by the timing of restaurant openings and closures. We do not record sales from our franchised restaurants as revenues.

Company-operated restaurants incur four types of operating costs and expenses:

- food and paper costs, which represent the costs of the products that we sell to customers in Company-operated restaurants;
- payroll and employee benefit costs, which represent the wages paid to Company-operated restaurant managers and crew, as well as the costs of benefits and training, and which tend to increase as we increase sales;
- occupancy and other operating expenses, which represent all other direct costs of our Company-operated restaurants, including advertising and promotional expenses, the costs of outside rent, which are generally tied to sales and therefore increase as we increase our sales, outside services, such as security and cash collection, building and leasehold improvement depreciation, depreciation on equipment, repairs and maintenance, insurance, restaurant operating supplies and utilities; and
- royalty fees, representing the continuing franchise fees we pay to McDonald's pursuant to the MFAs, which are determined as a percentage of gross product sales.

Franchised restaurant occupancy expenses include, as applicable, the costs of depreciating and maintaining the land and buildings upon which franchised restaurants are situated or the cost of leasing that property. A significant portion of our leases establish that rent payments are based on the greater of a flat fee or a specified percentage of the restaurant's sales.

We promote the McDonald's brand and our products by advertising in all of the Territories. Pursuant to the MFAs, we are required to spend at least 5% of our sales on advertisement and promotion activities annually. These activities are guided by our overall marketing plan, which identifies the key strategic platforms that we leverage to drive sales. Our franchisees are generally required to pay us 5% of their sales to cover advertising expenditures related to their restaurants. We account for these payments as a deduction to our advertising expenses. As a result, our advertising expenses only reflect the expenditures related to Company-operated restaurants. Advertising expenses are recorded within the "Occupancy and other operating expenses" line item in our consolidated income statement. The only exception to this policy is in Mexico, where both we and our franchisees contribute funds to a cooperative that is responsible for advertisement and promotion activities for Mexico.

General and administrative expenses include the costs of overhead, including salaries and facilities, travel expenses, depreciation of office equipment, situated buildings and vehicles, amortization of intangible assets, occupancy costs, professional services and the cost of field management for Company-operated and franchised restaurants, among others.

Other operating expenses, net, include gains and losses on asset acquisitions and dispositions, impairment charges, rental income and depreciation expenses of excess properties, results from distribution centers (until March 16, 2011), the equity awards granted to our CEO until 2011, accrual for contingencies, write-off of inventory, recovery of taxes and other miscellaneous items.

#### ***Other Line Items***

Net interest expense primarily includes interest expense on our short-term and long-term debt as well as the amortization of deferred financing costs. Loss from derivative instruments relates to the negative change in the fair market value of certain of our derivatives not designated as hedging instruments, which are used to help mitigate some of our foreign currency exchange rate risk.

Foreign currency exchange results relate to the impact of remeasuring monetary assets and liabilities denominated in currencies other than our functional currencies. See "—Foreign Currency Translation."

Other non-operating income (expenses), net primarily include certain results related to tax credits, charitable donations not related to our operations, asset taxes we are required to pay in certain countries and other non-operating charges.

Income tax expense includes both current and deferred income taxes. Current income taxes represents the amount accrued during the period to be paid to the tax authorities while deferred income taxes represent the earnings impact of the change in deferred tax assets and liabilities that are recognized in our balance sheet for future income tax consequences.

Net income attributable to non-controlling interests relate to the participation of non-controlling interests in the net income of certain subsidiaries that collectively owned 28 restaurants at December 31, 2013 (27 restaurants at December 31, 2012).

#### **Impact of Inflation and Changing Prices**

Some of the countries in which we operate have experienced, or are currently experiencing, high rates of inflation. In general, we believe that, over time, we have demonstrated the ability to manage inflationary environments effectively. During 2013, our revenues were favorably impacted by our pricing strategy in many of these inflationary environments, as we have been able to increase average check to keep pace with inflation.

The Venezuelan market is also subject to price controls, which limits our ability, without pre-approval from the government, to increase prices to offset the impact of continuing high inflation on our operating costs. As part of the January 2014 announcements, the Venezuelan government also issued a new regulation, establishing a maximum profit margin for companies and maximum prices for certain goods and services. At this time, it is unclear how these new regulations might affect our operations in Venezuela going forward. We continue to closely monitor developments in this dynamic environment.

## **Key Business Measures**

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. In addition, we use Adjusted EBITDA to facilitate operating performance comparisons from period to period. See “Presentation of Financial and Other Information—Other Financial Measures” and “Item 3. Key Information—A. Selected Financial Data.” Systemwide results are driven primarily by our Company-operated restaurants, as 74.6% of our systemwide restaurants are Company-operated as of December 31, 2013. Systemwide data represents measures for both Company-operated and franchised restaurants. While sales by franchisees are not recorded as revenues by us, management believes the information is important in understanding our financial performance because these sales are the basis on which we calculate and record franchised restaurant revenues and are indicative of the financial health of our franchisee base. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

### ***Comparable Sales***

Comparable sales is a key performance indicator used within the retail industry and is indicative of the success of our initiatives as well as local economic, competitive and consumer trends. Comparable sales are driven by changes in traffic and average check, which is affected by changes in pricing and product mix. Increases or decreases in comparable sales represent the percent change in sales from the prior year for all restaurants in operation for at least thirteen months, including those temporarily closed. Some of the reasons restaurants may close temporarily include reimagining or remodeling, rebuilding, road construction and natural disasters. With respect to restaurants where there are changes in ownership, primarily changes from being franchised restaurants to becoming Company-operated restaurants, all previous months’ sales are reclassified according to the new ownership category when reporting comparable sales. As a result, there will be discrepancies between the sales figures used to calculate comparable sales and our results of operations. We report on a calendar basis, and therefore the comparability of the same month, quarter and year with the corresponding period of the prior year is impacted by the mix of days. The number of weekdays, weekend days and timing of holidays in a period can impact comparable sales positively or negatively. We refer to these impacts as calendar shift/trading day adjustments. These impacts vary geographically due to consumer spending patterns and have the greatest effect on monthly comparable sales while annual impacts are typically minimal.

We calculate and analyze comparable sales and average check in our divisions and systemwide on a constant currency basis, which means they are calculated using the same exchange rate in the applicable division or systemwide, as applicable, over the periods under comparison to remove the effects of currency fluctuations from the analysis. We believe these constant currency measures provide a more meaningful analysis of our business by identifying the underlying business trend, without distortion from the effect of foreign currency fluctuations.

Company-operated comparable sales growth refers to comparable sales growth for Company-operated restaurants and franchised comparable sales growth refers to comparable sales growth for franchised restaurants. We believe comparable sales growth is a key indicator of our performance, as influenced by our strategic initiatives and those of our competitors.

### ***Average Restaurant Sales***

Average restaurant sales, or ARS, is an important measure of the financial performance of our systemwide restaurants and changes in the overall direction and trends of sales. ARS is calculated by dividing the sales for the relevant period by the arithmetic mean of the number of restaurants at the beginning and end of such period. ARS is influenced mostly by comparable sales performance and restaurant openings and closures. As ARS is provided in nominal terms, it is affected by movements in foreign currency exchange rates.

### ***Sales Growth***

Sales growth refers to the change in sales by all restaurants, whether operated by us or by franchisees, from one period to another. We present sales growth both in nominal terms and on a constant currency basis, which means the latter is calculated using the same exchange rate over the periods under comparison to remove the effects of currency fluctuations from the analysis.

## Foreign Currency Translation

The financial statements of our foreign operating subsidiaries are translated in accordance with guidance in ASC Topic 830, Foreign Currency Matters. See Note 3 to our consolidated financial statements. Except for our Venezuelan operations, the functional currencies of our foreign operating subsidiaries are the local currencies of the countries in which we conduct our operations. Therefore, the assets and liabilities of these subsidiaries are translated into U.S. dollars at the exchange rates as of the balance sheet date, and revenues and expenses are translated at the average exchange rates prevailing during the period. Translation adjustments are included in the “Accumulated other comprehensive loss” component of shareholders’ equity. We record foreign currency exchange results related to monetary assets and liabilities denominated in currencies other than our functional currencies in our consolidated income statement.

Effective January 1, 2010, Venezuela is considered to be highly inflationary. Under U.S. GAAP, an economy is considered to be highly inflationary when its three-year cumulative rate of inflation meets or exceeds 100%. Under the highly inflationary basis of accounting, the financial statements of our Venezuelan subsidiaries are remeasured as if their functional currency were our reporting currency (U.S. dollars), with remeasurement gains and losses recognized in earnings, rather than in the cumulative translation adjustment component of other comprehensive loss within shareholders’ equity.

### *Venezuelan Exchange Rate Used for Financial Reporting*

We conduct business in Venezuela where currency restrictions exist, limiting our ability to immediately access U.S. dollars through repatriations at the government’s official exchange rate. Our access to these funds remains available for use within this jurisdiction in Venezuelan *bolívares fuertes* and is not restricted. The official exchange rate is established by the Central Bank of Venezuela and the Venezuelan Ministry of Finance, and the acquisition of foreign currency by Venezuelan companies, including for payments of foreign debt or dividends, is subject to a registration and approval process with the relevant Venezuelan authorities. Since these restrictions are in place, we have not been able to access the official exchange rate to pay royalties or dividends.

Exchange rates and controls currently in place in Venezuela are described under “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls—Venezuela.” During fiscal years 2011 and 2012, we used the SITME exchange rate of 5.30 *bolívares fuertes* per U.S. dollar for purposes of remeasuring transactions and balances denominated in local currency. As a result of the devaluation of the official exchange rate and the elimination of SITME, on February 8, 2013 we began using the new official exchange rate of 6.30 *bolívares fuertes* per U.S. dollar for financial reporting purposes, recognizing a foreign currency exchange loss of \$15.4 million in the first quarter of 2013 as a result of the exchange rate change.

During 2013, the Venezuelan government continued to issue new regulations, changing the foreign exchange regime that was previously in effect. One of these regulatory changes led to the creation of SICAD, a complementary foreign exchange system. Based on certain factors, including the limited number of SICAD auctions, our limited access to the SICAD exchange, the restrictions placed on eligible participants and transactions, the amount of U.S. dollars available for purchase through the auctions process, and the historical lack of official information about the resulting SICAD rate, we concluded that it would not be appropriate to use rates from the SICAD exchange system for financial reporting purposes at December 31, 2013.

We will reassess the exchange rate used for remeasurement purposes at the date of our financial statements for the first quarter of 2014 based on any new available information, including the changes introduced to the SICAD program. Should we conclude that the SICAD rate is the most appropriate rate, we would record a foreign exchange loss in our income statement related to the remeasurement of the net monetary asset position held in *bolívares fuertes*. At December 31, 2013, using the official exchange rate of 6.30 *bolívares fuertes* per U.S. dollar, our net monetary asset position was \$24.0 million (including \$44.2 million of cash and cash equivalents). See Notes 21 and 27 to our consolidated financial statements for more details.

Revenues and operating income of our Venezuelan operations were \$415,932 and \$43,939, respectively, for fiscal year 2013; \$349,570 and \$45,164, respectively, for fiscal year 2012; and \$278,639 and \$31,789, respectively, for fiscal year 2011.

### ***Recent Exchange Rate Depreciation in Argentina***

During January 2014, the Argentine *peso* depreciated against the U.S. dollar by approximately 23%, from 6.52 *pesos* per U.S. dollar as of December 31, 2013 to 8.02 *pesos* per U.S. dollar as of January 31, 2014. Had this devaluation occurred as of December 31, 2013, our reported net assets would have decreased by approximately \$13.5 million, impacting the “Accumulated other comprehensive losses” component of shareholders’ equity in the amount of approximately \$15.7 million and causing a foreign exchange gain of approximately \$2.2 million.

### **Factors Affecting Comparability of Results**

#### ***Seasonality***

Our sales and revenues are generally greater in the second half of the year than in the first half. Although the impact on our results of operations is relatively small, this impact is due to increased consumption of our products during the winter and summer holiday seasons, affecting July and December, respectively.

### **Critical Accounting Policies and Estimates**

This management’s discussion and analysis of financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us 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, we evaluate our estimates and judgments based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results may differ from these estimates under varying assumptions or conditions.

We consider an accounting estimate to be critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on our financial condition or operating performance is material.

We believe that of our significant accounting policies, the following encompass a higher degree of judgment and/or complexity.

#### ***Depreciation of Property and Equipment***

Accounting for property and equipment involves the use of estimates for determining the useful lives of the assets over which they are to be depreciated. We believe that the estimates we make to determine an asset’s useful life are critical accounting estimates because they require our management to make estimates about technological evolution and competitive uses of assets. We depreciate property and equipment on a straight-line basis over their useful lives based on management’s estimates of the period over which these assets will generate revenue (not to exceed the lease term plus renewal options for leased property). The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. We periodically review these lives relative to physical factors, economic considerations 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 recognition of increased depreciation and amortization expense or write-offs in future periods. No significant changes to useful lives have been recorded in the past. A significant change in the facts and circumstances that we relied upon in making our estimates may have a material impact on our operating results and financial condition.

#### ***Impairment of Long-Lived Assets and Goodwill***

We review long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. We review goodwill for impairment annually in the fourth quarter. In assessing the recoverability of our long-lived assets and goodwill, we consider changes in economic conditions and make assumptions regarding, among other factors, estimated future cash flows by market and by

restaurant, discount rates by country and the fair value of the assets. Estimates of future cash flows are highly subjective judgments based on our experience and knowledge of our 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.

In the fourth quarter of 2013, 2012 and 2011, we assessed all markets for impairment indicators. As a result of these assessments, we performed impairment testing of our long-lived assets in Mexico, Puerto Rico and Peru in each fiscal year, as well as in Colombia in fiscal year 2013 and in Aruba, Curaçao and the U.S. Virgin Islands of St. Croix and St. Thomas in fiscal years 2013 and 2012 considering the recent operating losses we incurred in these markets (indicator of potential impairment). As a result of these analyses, no impairments were recorded for our operations in Colombia in fiscal year 2013, in Aruba, Curaçao or the U.S. Virgin Islands of St. Croix and St. Thomas in fiscal years 2013 and 2012 nor in Peru in fiscal year 2011 since the estimates of undiscounted future cash flows for each restaurant in these markets or the fair market value exceeded its carrying value. However, we did record impairment charges associated with certain restaurants in Mexico, Puerto Rico and Peru (the latter only in 2013 and 2012) with undiscounted future cash flows insufficient to recover their carrying value. The impairment charges were measured by the excess of the carrying amount of each restaurant over its fair value. The impairment charges totaled \$3.0 million, \$2.0 million and \$1.7 million in 2013, 2012, and 2011, respectively.

In the fourth quarter of each year, we also performed impairment testing of our goodwill. As a result of these analyses, in 2012 and 2011 we recorded impairment charges of the full amount of goodwill that had been generated in the acquisition of restaurants in Puerto Rico and the U.S. Virgin Island of St. Croix, respectively, amounting to \$0.7 million in 2012 and \$2.1 million in 2011. No impairments of goodwill were recognized during fiscal year 2013.

If our estimates or underlying assumptions change in the future, we may be required to record additional impairment charges.

#### ***Share-Based Compensation***

We have share-based compensation plans outstanding pursuant to which we granted liability awards to certain employees under a long-term incentive plan. The accrued liability is remeasured at the end of each reporting period until settlement. Effective December 31, 2010, we changed the method of measuring our liability awards from the intrinsic value method to a fair value method using the Black-Scholes model. At December 31, 2010, we considered the estimated initial public offering price per class A share (\$16.50) in determining the fair value of the awards because in 2011 our Board of Directors decided that on a going forward basis the fair value would be based on that price instead of the formulas that had previously been used to value such awards. Beginning on April 14, 2011, the date of our initial public offering, we have considered the quoted market price per class A share in determining the fair value of the awards.

Accounting for our share-based compensation plans involves the use of estimates for determining: (a) the number of units that will vest based on the estimated completion of the requisite service period, and (b) the assumptions required by the closed-form pricing model (expected volatility, dividend yield, risk-free interest rate and expected term). All of these assumptions significantly impact the estimated fair value of the awards. We use historical data and estimates to determine these assumptions, and if these assumptions and/or the stock price change significantly in the future, our operating results and financial condition could be significantly impacted. See Note 16 to our consolidated financial statements.

In March 2011, we adopted our Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to our class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011.

We made the annual grants for 2011 to certain of our executive officers and other employees on April 14, 2011, the first trading day of our class A shares on the NYSE. The grants included 231,455 restricted share units and 833,388 stock options that will vest as follows: 40% on the second anniversary of the date of grant and 20% on each

of the following three anniversaries. In addition, on April 14, 2011, we granted special awards to certain of our executive officers and other employees in connection with our initial public offering. The special grant included 782,137 restricted share units and 1,046,459 stock options that will vest one-third on each of the second, third and fourth anniversaries of the grant date. With respect to all of the grants made on April 14, 2011, each stock option represents the right to acquire one class A share at a strike price of \$21.20 (the closing price on the date of grant), while each restricted share unit represents the right to receive one class A share, when vested.

On May 10, 2012, we made the grant of awards corresponding to fiscal year 2012 under the 2011 Plan. We granted to certain of our executive officers and other employees 211,169 restricted share units and 584,587 stock options. Both types of awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.35 (the closing price on the date of grant), while each restricted share unit represents the right to receive one class A share when vested.

On May 10, 2013, we made the grant of awards corresponding to fiscal year 2013 under the 2011 Plan. We granted to certain of our executive officers and other employees 213,600 restricted share units and 431,726 stock options. Both types of awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.31 (the closing price on the date of grant), while each restricted share unit represents the right to receive one class A share when vested.

Restricted share units are measured at the grant-date fair value of our class A shares as if these shares were vested and issued on the grant date. Stock options are accounted for at their grant-date fair value. Fair value of stock options is calculated using the Black-Scholes option pricing model. This calculation is affected by our stock price as well as assumptions regarding a number of highly complex and subjective variables (expected volatility, dividend yield, risk-free interest rate and expected term). See Note 16 to our consolidated financial statements.

#### ***Accounting for Income Taxes***

We record a valuation allowance to reduce the carrying value of deferred tax assets if it is more likely than not that some portion or all of our deferred assets will not be realized. Our valuation allowance as of December 31, 2013, 2012 and 2011 amounted to \$270.1 million, \$236.6 million and \$223.8 million, respectively. We have considered future taxable income and ongoing prudent and feasible tax strategies in assessing the need for the valuation allowance. This assessment is carried out on the basis of internal projections, which are updated to reflect our most recent operating trends, such as expiration date for tax loss carryforwards. Because of the imprecision inherent in any forward-looking data, the further into the future our estimates cover, the less objectively verifiable they become. Therefore, we apply judgment to define the period of time to include projected future income to support the future realization of the tax benefit of an existing deductible temporary difference or carryforward and whether there is sufficient evidence to support the projections at a more-likely-than-not level for this period of time. Determining whether a valuation allowance for deferred tax assets is necessary often requires an extensive analysis of positive (e.g., a history of accurately projecting income) and negative evidence (e.g., historic operating losses) regarding realization of the deferred tax assets and inherent in that, an assessment of the likelihood of sufficient future taxable income. In 2013, we recognized a loss amounting to \$39.6 million related to tax loss carryforwards for which realization is not expected to occur. During 2012 and 2011, we recognized a gain for the change in the valuation allowance amounting to \$7.7 million and \$21.0 million, respectively, due to improvements in projected taxable income and a relative increase of positive evidence as compared to negative evidence due to the reversal of trends of historic operating losses in some markets. If these estimates and assumptions change in the future, we may be required to adjust the valuation allowance. This could result in a charge to, or an increase in, income in the period this determination is made.

#### ***Provision for Contingencies***

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. Accounting for contingencies involves the use of estimates for determining the probability of each contingency and the estimated amount to settle the obligation, including related costs. We accrue liabilities when it is probable that future costs will be incurred and the costs can be reasonably estimated. The accruals are based on all the information available at the issuance date of the financial statements, including our estimates of the outcomes of these matters and our lawyers' experience in contesting,

litigating and settling similar matters. If we are unable to reliably measure the obligation, no provision is recorded and information is then presented in the notes to our consolidated financial statements. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. Because of the inherent uncertainties in this estimation, actual expenditures may be different from the originally estimated amount recognized.

## Results of Operations

We have based the following discussion on our consolidated financial statements. You should read it along with these financial statements, and it is qualified in its entirety by reference to them.

In a number of places in this annual report, in order to analyze changes in our business from period to period, we present our results of operations and financial condition on a constant currency basis, which isolates the effects of foreign exchange rates on our results of operations and financial condition. In particular, we have isolated the effects of appreciation and depreciation of local currencies in the Territories against the U.S. dollar because we believe that doing so is useful in understanding the development of our business. For these purposes, we eliminate the effect of movements in the exchange rates by converting the balances for both periods being compared from their local currencies to the U.S. dollar using the same exchange rate.

### Year Ended December 31, 2013 Compared to Year Ended December 31, 2012

Set forth below are our results of operations for the years ended December 31, 2013 and 2012.

	<b>For the Years Ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2013</b>	<b>2012</b>	
	<b>(in thousands of U.S. dollars)</b>		
Sales by Company-operated restaurants	\$ 3,859,883	\$ 3,634,371	6.2%
Revenues from franchised restaurants	173,427	163,023	6.4
<b>Total revenues</b>	<b>4,033,310</b>	<b>3,797,394</b>	<b>6.2</b>
Company-operated restaurant expenses:			
Food and paper	(1,350,515)	(1,269,146)	6.4
Payroll and employee benefits	(814,112)	(753,120)	8.1
Occupancy and other operating expenses	(1,055,188)	(984,004)	7.2
Royalty fees	(188,885)	(180,547)	4.6
Franchised restaurants – occupancy expenses	(63,273)	(56,057)	12.9
General and administrative expenses	(317,745)	(314,619)	1.0
Other operating expenses, net	(15,070)	(3,261)	362.1
<b>Total operating costs and expenses</b>	<b>(3,804,788)</b>	<b>(3,560,754)</b>	<b>6.9</b>
<b>Operating income</b>	<b>228,522</b>	<b>236,640</b>	<b>(3.4)</b>
Net interest expense	(88,156)	(54,247)	62.5
Loss from derivative instruments	(4,141)	(891)	364.8
Foreign currency exchange results	(38,783)	(18,420)	110.5
Other non-operating expenses, net	(848)	(2,119)	(60.0)
<b>Income before income taxes</b>	<b>96,594</b>	<b>160,963</b>	<b>(40.0)</b>
Income tax expense	(42,722)	(46,375)	(7.9)
<b>Net income</b>	<b>53,872</b>	<b>114,588</b>	<b>(53.0)</b>
Less: Net income attributable to non-controlling interests	(18)	(256)	(93.0)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 53,854</b>	<b>\$ 114,332</b>	<b>(52.9)</b>

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2013 and 2012.

<b>Systemwide Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Systemwide restaurants at beginning of period	1,948	1,840
Restaurant openings	130	130

<b>Systemwide Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Restaurant closings	(16)	(22)
Systemwide restaurants at end of period	2,062	1,948

<b>Company-operated Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Company-operated restaurants at beginning of period	1,453	1,358
Restaurant openings	95	99
Restaurant closings	(8)	(16)
Net conversions of franchised restaurants to Company-operated restaurants	(2)	12
Company-operated restaurants at end of period	1,538	1,453

<b>Franchised Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Franchised restaurants at beginning of period	495	482
Restaurant openings	35	31
Restaurant closings	(8)	(6)
Net conversions of franchised restaurants to Company-operated restaurants	2	(12)
Franchised restaurants at end of period	524	495

**Key Business Measures**

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

*Comparable Sales*

	<b>For the Year Ended December 31, 2013</b>
<b>Arcos Dorados</b>	
Systemwide comparable sales growth	11.2%
Company-operated comparable sales growth	10.8
Franchised comparable sales growth	12.3
<b>Systemwide Comparable Sales Growth by Division</b>	
Brazil	6.6%
Caribbean division	19.6
NOLAD	(0.9)
SLAD	20.8
<b>Company-operated Comparable Sales Growth by Division</b>	
Brazil	6.6%
Caribbean division	16.3
NOLAD	(0.9)
SLAD	20.1

**For the Year  
Ended  
December 31,  
2013**

**Franchised Comparable Sales Growth by Division**

Brazil	6.7%
Caribbean division	26.8
NOLAD	(1.0)
SLAD	26.5

Our comparable sales growth on a systemwide basis in 2013 was driven by the increase in average check, which resulted mainly from price increases.

*Average Restaurant Sales*

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
	<b>(in thousands of U.S. dollars)</b>	
Systemwide average restaurant sales	\$ 2,611	\$ 2,603
Company-operated average restaurant sales	2,581	2,586
Franchised average restaurant sales	2,697	2,654

Our ARS increased slightly in 2013 because of comparable sales growth of 11.2%, which was mostly offset by the depreciation of most currencies in the Territories against the U.S. dollar.

*Sales Growth*

	<b>For the Year Ended December 31, 2013</b>	
	<b>(in nominal terms)</b>	<b>(in constant currency)</b>
Brazil	3.0%	13.9%
Caribbean division	10.3	21.3
NOLAD	4.7	2.6
SLAD	10.4	26.7
<b>Total Systemwide Sales Growth</b>	<b>6.2%</b>	<b>16.7%</b>

In nominal terms, sales increased during 2013 due to comparable sales growth of 11.2% and the net addition of 222 restaurants systemwide since January 1, 2012. We had 1,538 Company-operated restaurants and 524 franchised restaurants as of December 31, 2013, compared to 1,453 Company-operated restaurants and 495 franchised restaurants as of December 31, 2012. This was partially offset by the negative impact of the depreciation of most currencies in the Territories against the U.S. dollar.

*Revenues*

	<b>For the Years Ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2013</b>	<b>2012</b>	
	<b>(in thousands of U.S. dollars)</b>		
<b>Sales by Company-operated Restaurants</b>			
Brazil	\$ 1,755,716	\$ 1,717,761	2.2%
Caribbean division	780,675	706,990	10.4
NOLAD	388,246	364,588	6.5
SLAD	935,246	845,032	10.7
<b>Total</b>	<b>3,859,883</b>	<b>3,634,371</b>	<b>6.2</b>
<b>Revenues from Franchised Restaurants</b>			
Brazil	86,608	79,795	8.5%
Caribbean division	49,772	47,740	4.3

	For the Years Ended December		% Increase (Decrease)
	31,		
	2013	2012	
	(in thousands of U.S. dollars)		
NOLAD	19,526	19,453	0.4
SLAD	17,521	16,035	9.3
<b>Total</b>	<b>173,427</b>	<b>163,023</b>	<b>6.4</b>
<b>Total Revenues</b>			
Brazil	1,842,324	1,797,556	2.5%
Caribbean division	830,447	754,730	10.0
NOLAD	407,772	384,041	6.2
SLAD	952,767	861,067	10.6
<b>Total</b>	<b>\$ 4,033,310</b>	<b>\$ 3,797,394</b>	<b>6.2%</b>

#### *Sales by Company-operated Restaurants*

Total sales by Company-operated restaurants increased by \$225.5 million, or 6.2%, from \$3,634.4 million in 2012 to \$3,859.9 million in 2013. The 10.8% growth in comparable sales, which resulted from a higher average check, caused sales to increase by \$391.2 million. In addition, sales by Company-operated restaurants increased by \$214.5 million as a result of 170 net restaurant openings and the conversion of 10 franchised restaurants into Company-operated restaurants since January 1, 2012. This was offset by \$380.2 million as a result of the depreciation of most currencies in the Territories against the U.S. dollar.

In Brazil, sales by Company-operated restaurants increased by \$38.0 million, or 2.2%, to \$1,755.7 million. This was a consequence of comparable sales growth of 6.6%, which contributed \$112.0 million to the increase in sales. Average check growth was the driver of comparable sales growth in Brazil. In addition, 94 net restaurant openings and the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 contributed \$111.3 million to the increase. Sales were negatively affected by the depreciation of the *real* against the U.S. dollar, which caused sales to decrease by \$185.4 million.

In the Caribbean division, sales by Company-operated restaurants increased by \$73.7 million, or 10.4%, to \$780.7 million. The main driver of this increase was 16.3% growth in comparable sales, which represented \$114.1 million. Average check growth was the driver of comparable sales growth and resulted from price increases. In addition, the net opening of 20 restaurants and the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 contributed \$26.0 million to the increase in sales. This was offset by the depreciation of local currencies in the Territories, which caused sales to decrease by \$66.5 million (mainly the depreciation of the Venezuelan *bolívar fuerte* from 5.30 *bolívares fuertes* per U.S. dollar to 6.30 *bolívares fuertes* per U.S. dollar).

In NOLAD, sales by Company-operated restaurants increased by \$23.7 million, or 6.5%, to \$388.2 million. This growth was mainly explained by 23 net restaurant openings and the conversion of 8 franchised restaurants into Company-operated restaurants since January 1, 2012, which resulted in a sales increase of \$19.9 million. In addition, appreciation of local currencies caused sales to increase by \$6.9 million. A lower average check, resulting from a negative product mix change, caused comparable sales to decrease by 0.9%, negatively impacting sales by \$3.1 million.

In SLAD, sales by Company-operated restaurants increased by \$90.2 million, or 10.7%, to \$935.2 million. The 20.1% growth in comparable sales caused sales to increase by \$168.2 million due to a higher average check resulting from price increases. In addition, the net opening of 33 Company-operated restaurants since January 1, 2012 resulted in a sales increase of \$57.3 million. This was partially offset by the depreciation of most currencies in the region against the U.S. dollar, which offset the increase in sales by \$135.2 million.

#### *Revenues from Franchised Restaurants*

Our total revenues from franchised restaurants increased by \$10.4 million, or 6.4%, from \$163.0 million in 2012 to \$173.4 million in 2013. The main contributors to this increase were comparable sales growth of 12.3%, which resulted in an increase in revenues of \$21.7 million, and the net opening of 52 franchised restaurants since January 1, 2012, which was partially offset by the conversion of 10 franchised restaurants into Company-operated

restaurants during the same period, which caused revenues from franchised restaurants to increase by \$7.0 million. Rental income as a percentage of sales remained unchanged from 2012 and therefore had no impact on the revenue increase. In 2013, 85% and 15% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. In 2012, 71% and 29% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. The depreciation of most currencies in the Territories against the U.S. dollar offset the increase in revenues by \$18.3 million.

In Brazil, revenues from franchised restaurants increased by \$6.8 million, or 8.5%, to \$86.6 million primarily as a result of 56 net franchised restaurant openings, which were partly offset by the conversion of one franchised restaurant into a Company-operated restaurant, since January 1, 2012, and comparable sales growth of 6.7%, which explained \$7.5 million and \$5.3 million of the increase, respectively. In addition, increased rental income (most of our franchise agreements provide for increases in rent when sales increase) and higher location fee income (charged to new franchisees) from new restaurant openings, resulted in increased revenues from franchised restaurants of \$3.1 million. This was partially offset by the depreciation of the *real* against the U.S. dollar by \$9.2 million.

In the Caribbean division, revenues from franchised restaurants increased by \$2.0 million, or 4.3%, to \$49.8 million. This increase was driven by comparable sales growth of 26.8%, resulting in a \$12.3 million increase. This was partially offset by the depreciation of the Venezuelan *bolívar fuerte*, amounting to \$6.6 million, lower rental income, amounting to \$3.2 million, and the impact from the net closing of 6 restaurants as well as the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2012 of \$0.6 million. Rental income was negatively affected, mainly by new Venezuelan governmental regulations on rental contracts, which imposed a limit on the rent that we can charge to lessees beginning in December 2013.

In NOLAD, revenues from franchised restaurants increased by \$0.1 million, or 0.4%, to \$19.5 million. This growth was a result of the appreciation of the Mexican *peso* against the U.S. dollar, contributing \$0.4 million, partially offset by a 1.0% decrease in comparable sales, the conversion of 8 franchised restaurants into Company-operated restaurants since January 1, 2012, amounting to \$0.2 million, and lower rental income, which caused revenues from franchised restaurants to decrease \$0.1 million.

In SLAD, revenues from franchised restaurants increased by \$1.5 million, or 9.3%, to \$17.5 million. This growth mainly resulted from a comparable sales growth of 26.5%, which accounted for \$4.2 million. In addition, the net openings of 2 restaurants since January 1, 2012 and higher rental income caused revenues to increase by \$0.1 million and \$0.1 million, respectively. The depreciation of the local currencies in Argentina and Chile against the U.S. dollar represented a decrease in revenues of \$3.0 million.

### **Operating Costs and Expenses**

#### *Food and Paper*

Our total food and paper costs increased by \$81.4 million, or 6.4%, to \$1,350.5 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, food and paper costs increased by 0.1 percentage points to 35.0%, primarily due to the higher cost of dollar-denominated inputs, especially in Venezuela.

In Brazil, food and paper costs increased by \$2.0 million, or 0.4%, to \$553.3 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.6 percentage points to 31.5%, primarily as a result of an average check increase that was higher than the increase in costs.

In the Caribbean division, food and paper costs increased by \$48.3 million, or 17.9%, to \$318.3 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 2.6 percentage points to 40.8%, mainly due to the higher cost of dollar-denominated inputs in Venezuela.

In NOLAD, food and paper costs increased by \$4.1 million, or 2.7%, to \$155.8 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 1.5 percentage points to 40.1%, resulting primarily from price increases that were higher than the increase in costs throughout all markets, coupled with favorable product mix changes.

In SLAD, food and paper costs increased by \$27.0 million, or 9.1%, to \$323.1 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.5 percentage points to 34.5%, mostly as a result of an average check increase that was higher than the increase in costs in Argentina.

*Payroll and Employee Benefits*

Our total payroll and employee benefits costs increased by \$61.0 million, or 8.1%, to \$814.1 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs increased 0.4 percentage points to 21.1%. This increase in payroll and employee benefits costs as a percentage of our total sales by Company-operated restaurants is mostly attributable to wage increases that outpaced our sales growth in several markets. Wages increased mostly due to government-mandated minimum wage increases in our major Territories.

In Brazil, payroll and employee benefits costs increased by \$21.3 million, or 6.0%, to \$376.7 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased by 0.8 percentage points to 21.5% as a result of the government-mandated minimum wage increases above average check growth, coupled with the initial costs of the migration to a fixed-hour schedule and a decrease in operational efficiency. Operational efficiency is defined as the number of transactions (receipts issued by cashiers) per crew hour.

In the Caribbean division, payroll and employee benefits costs increased by \$13.5 million, or 9.4%, to \$157.1 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased by 0.2 percentage points to 20.1%, mainly as a result of average check growth being higher than salary increases.

In NOLAD, payroll and employee benefits costs increased by \$6.2 million, or 10.5%, to \$65.3 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased 0.6 percentage points to 16.8% resulting from the average check increasing at a lower rate than wages in all markets. This was partially offset by an increase in operational efficiency.

In SLAD, payroll and employee benefits costs increased by \$20.0 million, or 10.2%, to \$214.9 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits decreased by 0.1 percentage points to 23.0% as a result of an increase in operational efficiency in all markets.

*Occupancy and Other Operating Expenses*

Our total occupancy and other operating expenses increased by \$71.2 million, or 7.2%, to \$1,055.2 million in 2013, as compared to 2012. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 0.3 percentage points to 27.3%, mainly due to an increase in depreciation and amortization and higher rent expense as a result of new restaurant openings.

In Brazil, occupancy and other operating expenses increased by \$12.9 million, or 2.7%, to \$496.3 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.1 percentage points to 28.3% as a result of an increase in depreciation and amortization expenses.

In the Caribbean division, occupancy and other operating expenses increased by \$18.7 million, or 9.5%, to \$215.0 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses decreased by 0.2 percentage points to 27.5% due to cost increases that were lower than sales increases, mainly in Venezuela.

In NOLAD, occupancy and other operating expenses increased by \$8.1 million, or 6.7%, to \$128.8 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 0.1 percentage points to 33.2%, mainly due to the impact of the comparable sales decrease on minimum rent contracts.

In SLAD, occupancy and other operating expenses increased by \$28.3 million, or 13.4%, to \$239.6 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased by 0.6 percentage points to 25.6%, mainly due to higher utilities costs in Argentina related to shortages of electricity and the need to utilize electricity generators, and depreciation and amortization.

*Royalty Fees*

Our total royalty fees increased by \$8.3 million, or 4.6%, to \$188.9 million in 2013, as compared to 2012. As a percentage of sales, royalty fees decreased by 0.1 percentage points to 4.9% due to the additional relief granted by McDonald's Corporation in Venezuela due to the economic environment prevailing in that country.

In Brazil, royalty fees increased by \$2.2 million, or 2.4%, to \$94.3 million in 2013, as compared to 2012, in line with the increase in sales by Company-operated restaurants.

In the Caribbean division, royalty fees increased by \$0.4 million, or 1.5%, to \$30.1 million in 2013, as compared to 2012. As a percentage of sales, royalty fees decreased by 0.3 percentage points due to the additional relief granted by McDonald's Corporation in Venezuela because of the economic environment prevailing in that country.

In NOLAD, royalty fees increased by \$1.2 million, or 6.8%, to \$18.7 million in 2013, as compared to 2012, in line with the increase in sales by Company-operated restaurants.

In SLAD, royalty fees increased by \$4.5 million, or 10.8%, to \$45.7 million in 2013, as compared to 2012. As a percentage of sales by Company-operated restaurants, royalty fees remained unchanged at 4.9%.

*Franchised Restaurants—Occupancy Expenses*

Occupancy expenses from franchised restaurants increased by \$7.2 million, or 12.9%, to \$63.3 million in 2013, as compared to 2012, primarily due to higher depreciation expenses for owned properties as well as higher rent expenses for leased properties as a consequence of the increase in sales generated by franchised restaurants.

In Brazil, occupancy expenses from franchised restaurants increased by \$5.1 million, or 15.7%, to \$37.9 million in 2013, as compared to 2012, primarily due to higher depreciation expenses for owned properties and increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants.

In the Caribbean division, occupancy expenses from franchised restaurants remained unchanged at \$12.4 million. Increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants were offset by the depreciation of Venezuelan *bolívar fuerte* against the U.S. dollar and the positive effect of new governmental regulations in Venezuela that imposed limits on rental prices beginning in December 2013.

In NOLAD, occupancy expenses from franchised restaurants increased by \$0.7 million, or 7.0%, to \$11.2 million in 2013, as compared to 2012, mainly due to reversal of allowances for doubtful accounts in Mexico in 2012 and higher rent expenses in Panama in 2013.

In SLAD, occupancy expenses from franchised restaurants increased by \$1.3 million, or 44.1%, to \$4.3 million in 2013, as compared to 2012. This resulted from the reversal of allowances for doubtful accounts in Chile in 2012 and increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants in 2013.

Set forth below are the margins for our franchised restaurants in 2013, as compared to 2012. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	<b>For the Years Ended December 31,</b>	
	<b>2013</b>	<b>2012</b>
Brazil	56.2%	58.9%
Caribbean Division	75.1	74.1
NOLAD	42.9	46.4
SLAD	75.7	81.5
<b>Total</b>	<b>63.5%</b>	<b>65.6%</b>

*General and Administrative Expenses*

General and administrative expenses increased by \$3.1 million, or 1.0%, to \$317.7 million in 2013, as compared to 2012. This increase was mainly due to higher payroll costs as a result of salary increases linked to Argentina's inflation and new hiring, mainly in Brazil, due to our market expansion plan, which amounted to an aggregate of \$30.0 million. In addition, our long-term incentive plan explains a \$12.9 million increase in stock-based compensation expense, resulting from a gain of \$11.6 million recorded in 2012, compared to a loss of \$1.2 million in 2013 (net of the result of the total return equity swap transaction entered into in August 2012 with the objective of minimizing the impact of share price variation on our income statement). This was partially offset by the depreciation of most currencies in the Territories against the U.S. dollar, amounting to \$32.3 million, lower other compensation expense amounting to \$4.3 million (mainly due to the forfeitures of units granted under our Equity Incentive Plan), lower professional services expenses amounting to \$1.8 million and lower occupancy and other expenses, amounting to \$1.5 million.

In Brazil, general and administrative expenses decreased by \$0.7 million, or 0.7%, to \$92.3 million in 2013, as compared to 2012. The decrease resulted primarily from the depreciation of the *real* against the U.S. dollar amounting to \$9.7 million. The increase in general and administrative expenses as measured in local currency was a consequence of higher payroll costs as a result of salary increases and the hiring of employees to fill new positions, most of which were related to our expansion plan and higher professional services, which totaled \$8.9 million and \$2.7 million, respectively. This was partially offset by lower occupancy expenses, amounting to \$1.6 million, and higher capitalized costs linked to new openings expenses, which amounted to \$0.6 million.

In the Caribbean division, general and administrative expenses decreased by \$1.0 million, or 1.8%, to \$54.9 million in 2013, as compared to 2012. This decrease was mainly due to the depreciation of the Venezuelan *bolivar fuerte* against the U.S. dollar amounting to \$4.2 million. The increase in general and administrative expenses as measured in local currencies was mostly due to higher payroll costs of \$1.7 million, higher professional services in Venezuela as a consequence of the country's inflation, amounting to \$1.3 million, and higher moving expenses due to the relocation of the divisional office, amounting to \$1.0 million, partially offset by lower occupancy and other expenses, which amounted to \$0.7 million.

In NOLAD, general and administrative expenses increased by \$2.9 million, or 11.9%, to \$27.4 million in 2013, as compared to 2012. Higher payroll costs due to salary and headcount increases and severance payments accounted for \$2.7 million. In addition, the appreciation of the local currency in Mexico against the U.S. dollar contributed to a \$0.7 million increase in general and administrative expenses, partially offset by a \$0.5 million decrease in other expenses.

In SLAD, general and administrative expenses increased by \$2.2 million, or 5.9%, to \$39.2 million in 2013, as compared to 2012, primarily as a result of higher payroll costs and professional services, mainly in Argentina, due to its relatively high inflation levels, which explained \$5.8 million and \$1.0 million, respectively. This was partially offset by the depreciation of the Argentine *peso* against the U.S. dollar, which caused general and administrative expenses to decrease by \$4.6 million.

General and administrative expenses for Corporate and others decreased by \$0.3 million, or 0.3%, to \$103.9 million in 2013, as compared to 2012. This decrease was mainly due to the depreciation of the Argentine *peso* against the U.S. dollar, which explained \$14.5 million, lower professional services, amounting to \$6.7 million, and lower other compensation expense amounting to \$4.3 million (mainly due to the forfeitures of units granted under our Equity Incentive Plan). This was partially offset by higher payroll costs due to salary increases linked to Argentina's inflation, as our corporate headquarters are located in Argentina, and an increase in the headcount of our regional shared service center, replacing previously outsourced people, amounting to \$9.0 million and \$2.0 million, respectively. In addition, our long-term incentive plan explains a \$12.9 million increase in stock-based compensation expense, resulting from a gain of \$11.6 million recorded in 2012 compared to a loss of \$1.2 million in 2013 (net of the result of the total return equity swap transaction entered into in August 2012 with the objective of minimizing the impact of share price variation on our income statement). General and administrative expenses also increased by \$1.4 million due to higher software amortization.

*Other Operating Expenses, Net*

Other operating expenses, net increased by \$11.8 million, to \$15.1 million in 2013, as compared to 2012. This increase was primarily attributable to the recovery of Brazilian tax credits in 2012 totaling \$12.0 million.

*Operating Income*

	<b>For the Years Ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2013</b>	<b>2012</b>	
	<b>(in thousands of U.S. dollars)</b>		
Brazil	\$ 188,445	\$ 193,339	(2.5)%
Caribbean division	37,837	40,692	(7.0)
NOLAD	(5,314)	(5,557)	4.4
SLAD	84,324	74,824	12.7
Corporate and others and purchase price allocation	(76,770)	(66,658)	(15.2)
<b>Total</b>	<b>\$ 228,522</b>	<b>\$ 236,640</b>	<b>(3.4)%</b>

Operating income decreased by \$8.1 million, or 3.4%, to \$228.5 million in 2013, as compared to 2012.

*Net Interest Expense*

Net interest expense increased by \$33.9 million, or 62.5%, to \$88.2 million in 2013, as compared to 2012, mainly due to the losses incurred in 2013 in connection with the purchase, exchange and redemption of the 2019 notes totaling \$23.5 million, partially offset by lower accrued interest in 2013 for \$4.4 million as a consequence of these transactions, and increases in interest expense of \$8.2 million as a result of the issuance of the 2023 notes in September 2013, and \$1.4 million as a result of the issuances of the 2016 notes in April 2012 and July 2011.

*Loss from Derivative Instruments*

Loss from derivative instruments increased by \$3.3 million to \$4.1 million in 2013, as compared to \$0.9 million in 2012, primarily due to the unwinding of our cross-currency interest rate swaps (\$4.2 million).

*Foreign Currency Exchange Results*

Foreign currency exchange results decreased by \$20.4 million, to a \$38.8 million loss in 2013, mainly due to the loss incurred in remeasuring our net monetary asset position in Venezuela as a result of the devaluation of the official exchange rate that occurred in early 2013.

*Other Non-Operating Expenses, Net*

Other non-operating expenses, net decreased by \$1.3 million to a \$0.9 million loss in 2013, as compared to a \$2.1 million loss in 2012.

*Income Tax Expense*

Income tax expense decreased by \$3.7 million, from \$46.4 million in 2012 to \$42.7 million in 2013. Our consolidated effective tax rate increased by 15.4 percentage points to 44.2% in 2013, as compared to 2012, mainly as a result of the one-time charges related to the redemption of the 2019 notes and the loss incurred as a result of the devaluation in Venezuela, both of which had no related tax benefits.

*Net Income Attributable to Non-controlling Interests*

Net income attributable to non-controlling interests for 2013 increased by \$0.2 million when compared to 2012.

*Net Income Attributable to Arcos Dorados Holdings Inc.*

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. decreased by \$60.5 million, or 52.9%, to \$53.9 million in 2013, as compared to 2012.

**Year Ended December 31, 2012 Compared to Year Ended December 31, 2011**

In January 2013, we made certain organizational changes in the structure of our geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela became part of the Caribbean division with headquarters located in Colombia. For purposes of this annual report on Form 20-F, we have restated the discussion of our financial condition and results of operations for fiscal year 2012 compared to fiscal year 2011 by applying the structure prevailing as of the date of this annual report on Form 20-F on a retroactive basis.

Set forth below are our results of operations for the years ended December 31, 2012 and 2011.

	<b>For the Years Ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
	<b>(in thousands of U.S. dollars)</b>		
Sales by Company-operated restaurants	\$ 3,634,371	\$ 3,504,128	3.7%
Revenues from franchised restaurants	163,023	153,521	6.2
<b>Total revenues</b>	<b>3,797,394</b>	<b>3,657,649</b>	<b>3.8</b>
Company-operated restaurant expenses:			
Food and paper	(1,269,146)	(1,216,141)	4.4
Payroll and employee benefits	(753,120)	(701,278)	7.4
Occupancy and other operating expenses	(984,004)	(918,102)	7.2
Royalty fees	(180,547)	(170,400)	6.0
Franchised restaurants – occupancy expenses	(56,057)	(51,396)	9.1
General and administrative expenses	(314,619)	(334,914)	(6.1)
Other operating expenses, net	(3,261)	(14,665)	(77.8)
<b>Total operating costs and expenses</b>	<b>(3,560,754)</b>	<b>(3,406,896)</b>	<b>4.5</b>
<b>Operating income</b>	<b>236,640</b>	<b>250,753</b>	<b>(5.6)</b>
Net interest expense	(54,247)	(60,749)	(10.7)
Loss from derivative instruments	(891)	(9,237)	(90.4)
Foreign currency exchange results	(18,420)	(23,926)	(23.0)
Other non-operating (expenses) income, net	(2,119)	3,562	(159.5)
<b>Income before income taxes</b>	<b>160,963</b>	<b>160,403</b>	<b>0.3</b>
Income tax expense	(46,375)	(44,603)	4.0
<b>Net income</b>	<b>114,588</b>	<b>115,800</b>	<b>(1.0)</b>
Less: Net income attributable to non-controlling interests	(256)	(271)	(5.5)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 114,332</b>	<b>\$ 115,529</b>	<b>(1.0)%</b>

Set forth below is a summary of changes to our systemwide, Company-operated and franchised restaurant portfolios in 2012 and 2011.

<b>Systemwide Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Systemwide restaurants at beginning of period	1,840	1,755
Restaurant openings	130	101
Restaurant closings	(22)	(16)
Systemwide restaurants at end of period	1,948	1,840

<b>Company-operated Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Company-operated restaurants at beginning of period	1,358	1,292
Restaurant openings	99	79
Restaurant closings	(16)	(15)

<b>Company-operated Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Net conversions of franchised restaurants to Company-operated restaurants	12	2
Company-operated restaurants at end of period	1,453	1,358

<b>Franchised Restaurants</b>	<b>For the Years Ended December 31,</b>	
	<b>2012</b>	<b>2011</b>
Franchised restaurants at beginning of period	482	463
Restaurant openings	31	22
Restaurant closings	(6)	(1)
Net conversions of franchised restaurants to Company-operated restaurants	(12)	(2)
Franchised restaurants at end of period	495	482

**Key Business Measures**

We track our results of operations and manage our business by using three key business measures: comparable sales growth, average restaurant sales and sales growth. Unless otherwise stated, comparable sales growth, average restaurant sales and sales growth are presented on a systemwide basis.

*Comparable Sales*

	<b>For the Year Ended December 31, 2012</b>
<b>Arcos Dorados</b>	
Systemwide comparable sales growth	9.2%
Company-operated comparable sales growth	9.0
Franchised comparable sales growth	9.5
<b>Systemwide Comparable Sales Growth by Division</b>	
Brazil	5.2%
Caribbean division	13.3
NOLAD	4.4
SLAD	19.9
<b>Company-operated Comparable Sales Growth by Division</b>	
Brazil	4.8%
Caribbean division	11.7
NOLAD	4.5
SLAD	19.3
<b>Franchised Comparable Sales Growth by Division</b>	
Brazil	6.1%
Caribbean division	17.0
NOLAD	4.1
SLAD	24.4

Our comparable sales growth on a systemwide basis in 2012 was mainly driven by the increase in average check, which represented 89.8% of the increase in comparable sales. Average check growth resulted primarily from price increases. An increase in traffic caused 10.2% of the increase in comparable sales and was mainly driven by our value menu program.

## Average Restaurant Sales

	For the Years Ended December 31,	
	2012	2011
	(in thousands of U.S. dollars)	
Systemwide average restaurant sales	\$ 2,603	\$ 2,648
Company-operated average restaurant sales	2,586	2,645
Franchised average restaurant sales	2,654	2,658

Our ARS decreased in 2012 because of the depreciation of most currencies in the Territories against the U.S. dollar, which was partially offset by comparable sales growth of 9.2%.

## Sales Growth

	For the Year Ended December 31, 2012	
	(in nominal terms)	(in constant currency)
Brazil	(4.6)%	11.4%
Caribbean division	14.2	14.6
NOLAD	5.9	9.9
SLAD	15.4	24.0
<b>Total Systemwide Sales Growth</b>	<b>3.6%</b>	<b>14.0%</b>

In nominal terms, sales growth increased during 2012 due to comparable sales growth of 9.2% and the net addition of 193 restaurants systemwide since January 1, 2011. We had 1,453 Company-operated restaurants and 495 franchised restaurants as of December 31, 2012, compared to 1,358 Company-operated restaurants and 482 franchised restaurants as of December 31, 2011. This was partially offset by the negative impact of the depreciation of most currencies in the Territories against the U.S. dollar.

## Revenues

	For the Years Ended December 31,		% Increase (Decrease)
	2012	2011	
	(in thousands of U.S. dollars)		
<b>Sales by Company-operated Restaurants</b>			
Brazil	\$ 1,717,761	\$ 1,811,390	(5.2)%
Caribbean division	706,990	621,947	13.7
NOLAD	364,588	336,004	8.5
SLAD	845,032	734,787	15.0
<b>Total</b>	<b>3,634,371</b>	<b>3,504,128</b>	<b>3.7</b>
<b>Revenues from Franchised Restaurants</b>			
Brazil	79,795	79,434	0.5%
Caribbean division	47,740	42,034	13.6
NOLAD	19,453	19,261	1.0
SLAD	16,035	12,792	25.4
<b>Total</b>	<b>163,023</b>	<b>153,521</b>	<b>6.2</b>
<b>Total Revenues</b>			
Brazil	1,797,556	1,890,824	(4.9)%
Caribbean division	754,730	663,981	13.7
NOLAD	384,041	355,265	8.1
SLAD	861,067	747,579	15.2
<b>Total</b>	<b>\$ 3,797,394</b>	<b>\$ 3,657,649</b>	<b>3.8</b>

### *Sales by Company-operated Restaurants*

Total sales by Company-operated restaurants increased by \$130.2 million, or 3.7%, from \$3,504.1 million in 2011 to \$3,634.4 million in 2012. The 9.0% growth in comparable sales, 87.5% of which resulted from a higher average check and the rest of which resulted from increased traffic, caused sales to increase by \$314.9 million. In addition, sales by Company-operated restaurants increased by \$182.1 million as a result of 147 net restaurant openings and the conversion of 14 franchised restaurants into Company-operated restaurants since January 1, 2011. This was offset by \$366.8 million as a result of the depreciation of most currencies in the Territories against the U.S. dollar.

In Brazil, sales by Company-operated restaurants decreased by \$93.6 million, or 5.2%, to \$1,717.8 million. The driver of the decrease was the depreciation of the *real* against the U.S. dollar, which caused sales to decrease by \$290.1 million. In constant currency, sales increased by 10.8% mainly as a result of 79 net restaurant openings and the conversion of one franchised restaurant into a Company-operated restaurant since January 1, 2011, which contributed \$110.1 million to the increase in sales in Brazil. In addition, 4.8% growth in comparable sales contributed \$86.3 million to the increase. Average check growth represented 84.9% of comparable sales growth and the rest resulted from increased traffic. Average check growth resulted primarily from price increases, while the increase in traffic was primarily driven by our Big Pleasures, Small Prices value menu program.

In the Caribbean division, sales by Company-operated restaurants increased by \$85.0 million, or 13.7%, to \$707.0 million. The main driver of this increase was 11.7% growth in comparable sales, which represented \$71.3 million. Average check was the driver of comparable sales growth and it resulted from price increases. In addition, the net opening of 20 restaurants and the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2011 contributed \$17.1 million to the increase in sales. This was partially offset by the depreciation of the European euro, which is the local currency in several of our Territories in the Caribbean, against the U.S. dollar, which caused sales to decrease by \$3.3 million.

In NOLAD, sales by Company-operated restaurants increased by \$28.6 million, or 8.5%, to \$364.6 million. This growth was mainly explained by 18 net restaurant openings and the conversion of 7 franchised restaurants into Company-operated restaurants since January 1, 2011, which resulted in a sales increase of \$24.9 million. In addition, comparable sales growth of 4.5% caused sales to increase by \$15.2 million. Increase in traffic, which represented 98.8% of comparable sales increase, resulted primarily from higher volumes in the dessert category in Mexico. This was partially offset by the depreciation of local currencies in 2012, which caused sales to decrease by \$11.5 million.

In SLAD, sales by Company-operated restaurants increased by \$110.2 million, or 15.0%, to \$845.0 million. The 19.3% growth in comparable sales, which resulted primarily from a higher average check coming from price increases, caused sales to increase by \$142.1 million. In addition, the net opening of 30 Company-operated restaurants and the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2011 resulted in a sales increase of \$30.0 million. This was partially offset by the depreciation of some currencies in the region against the U.S. dollar, which offset the increase in sales by \$61.9 million.

### *Revenues from Franchised Restaurants*

Our total revenues from franchised restaurants increased by \$9.5 million, or 6.2%, from \$153.5 million in 2011 to \$163.0 million in 2012. The main contributors to this increase were comparable sales growth of 9.5%, which resulted in an increase in revenues of \$15.8 million, and the net opening of 46 franchised restaurants since January 1, 2011, which was partially offset by the conversion of 14 franchised restaurants into Company-operated restaurants during the same period, which caused revenues from franchised restaurants to increase by \$6.5 million. Increased rental income, as most of our franchise agreements provide for rent increases when sales increase, resulted in higher revenues from franchised restaurants of \$2.9 million. In 2012, 71% and 29% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. In 2011, 73% and 27% of revenues from franchised restaurants were earned on the basis of a percentage of sales and on a flat fee basis, respectively. The depreciation of most currencies in the Territories against the U.S. dollar offset the increase in revenues by \$15.7 million.

In Brazil, revenues from franchised restaurants increased by \$0.4 million, or 0.5%, to \$79.8 million primarily as a result of 36 net franchised restaurant openings, which were partly offset by the conversion of one franchised restaurant into a Company-operated restaurant, since January 1, 2011, and comparable sales growth of 6.1%, which

explained \$5.8 million and \$4.8 million of the increase, respectively. In addition, increased rental income resulted in increased revenues from franchised restaurants of \$3.2 million. This was partially offset by the depreciation of the *real* against the U.S. dollar by \$13.5 million.

In the Caribbean division, revenues from franchised restaurants increased by \$5.7 million, or 13.6%, to \$47.7 million. This increase is mainly explained by comparable sales growth of 17.0%, which represented \$6.9 million. This was partially offset by lower rental income by \$0.7 million and the impact of the closing of 3 restaurants as well as the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2011, which caused revenues to decrease \$0.4 million.

In NOLAD, revenues from franchised restaurants increased by \$0.2 million, or 1.0%, to \$19.5 million. This growth was a result of the 4.1% increase in comparable sales and 9 net franchised restaurant openings, partially offset by the conversion of 7 franchised restaurants into Company-operated restaurants, since January 1, 2011, which caused revenues from franchised restaurants to increase \$0.7 million and \$0.3 million, respectively. The depreciation of the Mexican *peso* against the U.S. dollar contributed to the decrease in revenues by \$0.9 million.

In SLAD, revenues from franchised restaurants increased by \$3.2 million, or 25.4%, to \$16.0 million. This growth mainly resulted from a comparable sales growth of 24.4%, which represented \$2.9 million. In addition, the net openings of 4 restaurants partially offset by the conversion of 3 franchised restaurants into Company-operated restaurants since January 1, 2011 and higher rental income caused revenues to increase by \$0.7 million and \$0.9 million, respectively. The depreciation of some currencies in the region against the U.S. dollar represented a decrease in revenues of \$1.3 million.

### ***Operating Costs and Expenses***

#### ***Food and Paper***

Our total food and paper costs increased by \$53.0 million, or 4.4%, to \$1,269.1 million in 2012, as compared to 2011. As a percentage of our total sales by Company-operated restaurants, food and paper costs increased by 0.2 percentage points to 34.9% primarily due to the depreciation of most currencies in the Territories against the U.S. dollar, as approximately 30% of our food and paper raw materials (excluding toys) and 100% of our Happy Meal toys are imported and paid for in U.S. dollars while our revenues are generated in local currencies.

In Brazil, food and paper costs decreased by \$24.1 million, or 4.2%, to \$551.4 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs increased by 0.3 percentage points to 32.1%, primarily as a result of the depreciation of the Brazilian *real* against the U.S. dollar, as approximately 19% of food and paper costs are imported.

In the Caribbean division, food and paper costs increased by \$31.4 million, or 13.2%, to \$269.9 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.2 percentage points to 38.2%, mainly as a result of price increases above cost increases in Venezuela.

In NOLAD, food and paper costs increased by \$10.2 million, or 7.2%, to \$151.8 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.5 percentage points to 41.6%, resulting primarily from average check increases higher than the increase in costs in Costa Rica and Panama, coupled with efficiencies.

In SLAD, food and paper costs increased by \$35.7 million, or 13.7%, to \$296.1 million. As a percentage of the division's sales by Company-operated restaurants, food and paper costs decreased by 0.4 percentage points to 35.0%, mostly as a result of cost increases lower than the increase in the average check in Argentina.

#### ***Payroll and Employee Benefits***

Our total payroll and employee benefits costs increased by \$51.8 million, or 7.4%, to \$753.1 million in 2012, as compared to 2011. As a percentage of our total sales by Company-operated restaurants, payroll and employee benefits costs increased 0.7 percentage points to 20.7%. This increase in payroll and employee benefits costs as a percentage of our total sales by Company-operated restaurants is mostly attributable to wage increases that outpaced our sales growth in several markets, which offset an increase in operational efficiency. Wages increased mostly due to government-mandated minimum wage increases in our major Territories.

In Brazil, payroll and employee benefits costs remained unchanged at \$355.4 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased 1.1 percentage points to 20.7% as a result of the government-mandated minimum wage increases above average check growth. This was partially offset by an increase in operational efficiency.

In the Caribbean division, payroll and employee benefits costs increased by \$13.6 million, or 10.5%, to \$143.6 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs decreased 0.6 percentage points to 20.3% as a result of a reduction in overtime costs and the closing of 7 under-performing restaurants with higher than average payroll costs.

In NOLAD, payroll and employee benefits costs increased by \$5.7 million, or 10.6%, to \$59.1 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits costs increased 0.3 percentage points to 16.2%, resulting from the average check increasing at a lower rate than wages in Panama and Costa Rica. This was partially offset by an increase in operational efficiency and the depreciation of the Mexican *peso* against the U.S. dollar, which contributed to a decrease in payroll costs of \$2.0 million.

In SLAD, payroll and employee benefits costs increased by \$32.5 million, or 20.0%, to \$195.0 million. As a percentage of the division's sales by Company-operated restaurants, payroll and employee benefits increased 1.0 percentage points to 23.1% as a result of salary increases higher than increases in our average check. This was partially offset by an increase in operational efficiency.

#### *Occupancy and Other Operating Expenses*

Our total occupancy and other operating expenses increased by \$65.9 million, or 7.2%, to \$984.0 million in 2012, as compared to 2011. As a percentage of our total sales by Company-operated restaurants, occupancy and other operating expenses increased 0.9 percentage points to 27.1% mainly due to an increase in depreciation and amortization as a result of the net openings in 2012 and higher outside services in some of the Territories.

In Brazil, occupancy and other operating expenses decreased by \$9.6 million, or 1.9%, to \$483.4 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 0.9 percentage points to 28.1%, mainly due to an increase in outside services.

In the Caribbean division, occupancy and other operating expenses increased by \$27.2 million, or 16.1%, to \$196.4 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 0.6 percentage points to 27.8% as a result of higher rent expense due to new store openings with higher average rent and higher depreciation expense.

In NOLAD, occupancy and other operating expenses increased by \$9.5 million, or 8.5%, to \$120.7 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses remained unchanged at 33.1 percentage points.

In SLAD, occupancy and other operating expenses increased by \$30.3 million, or 16.8%, to \$211.3 million. As a percentage of the division's sales by Company-operated restaurants, occupancy and other operating expenses increased 0.4 percentage points to 25.0% mainly due to higher outside services, maintenance and repair expenses and higher preopening costs.

#### *Royalty Fees*

Our total royalty fees increased by \$10.1 million, or 6.0%, to \$180.5 million in 2012, as compared to 2011. As a percentage of sales, royalty fees increased 0.1 percentage points due to CIDE tax charges on royalty payments, as discussed below. This was partially offset by a partial relief granted by McDonald's Corporation in Venezuela due to the economic environment prevailing in that country.

In Brazil, royalty fees increased by \$3.9 million, or 4.4%, to \$92.1 million in 2012, as compared to 2011, due to CIDE tax charges on royalty payments that we started to pay in 2012. In 2011, CIDE tax charges on royalty payments were recorded within "Other operating expenses, net" as part of the accrual of the provision for contingencies. CIDE is a Brazilian social contribution tax that applies to Brazilian entities that pay royalties to non-residents. Prior to 2011, we were not required to pay CIDE under the then-existing interpretations of the Brazilian

fiscal authorities. In 2011, there was a change in the interpretation of the Brazilian fiscal authorities, pursuant to which we decided to commence recognition of these charges.

In the Caribbean division, royalty fees decreased by \$0.7 million, or 2.3%, to \$29.6 million in 2012, as compared to 2011, due to the relief granted by McDonald's Corporation in Venezuela.

In NOLAD, royalty fees increased by \$1.3 million, or 8.3%, to \$17.6 million in 2012, as compared to 2011, in line with the increase in sales by Company-operated restaurants.

In SLAD, royalty fees increased by \$5.6 million, or 15.7%, to \$41.3 million in 2012, as compared to 2011. As a percentage of sales by Company-operated restaurants, royalty fees remained unchanged at 4.9%.

*Franchised Restaurants—Occupancy Expenses*

Occupancy expenses from franchised restaurants increased by \$4.7 million, or 9.1%, to \$56.1 million in 2012, as compared to 2011, primarily due to higher depreciation expense as well as higher rent expenses for leased properties as a consequence of the increase in sales generated by franchised restaurants. This was partially offset by lower allowance for doubtful accounts in Puerto Rico in 2012 as compared to 2011 and the reversal of allowances in Chile and Mexico.

In Brazil, occupancy expenses from franchised restaurants increased by \$4.3 million, or 15.1%, to \$32.8 million in 2012, as compared to 2011, primarily due to CIDE tax charges on royalty payments, depreciation expense and increased rent expenses for leased properties as a consequence of the increase in sales from franchised restaurants.

In the Caribbean division, occupancy expenses from franchised restaurants increased by \$0.6 million, or 5.3%, to \$12.4 million in 2012, as compared to 2011. This is mainly explained by higher rent expense for leased properties as a consequence of the increase in sales from franchised restaurants and higher depreciation expense, partially offset by the abovementioned lower allowance for doubtful accounts in Puerto Rico.

In NOLAD, occupancy expenses from franchised restaurants decreased by \$0.3 million, or 2.7%, to \$10.4 million in 2012, as compared to 2011, primarily from a partial reversal of allowances for doubtful accounts in Mexico.

In SLAD, occupancy expenses from franchised restaurants decreased by \$0.9 million, or 22.7%, to \$3.0 million in 2012, as compared to 2011. This resulted mainly from the reversal of allowances for doubtful accounts in Chile.

Set forth below are the margins for our franchised restaurants in 2012, as compared to 2011. The margin for our franchised restaurants is expressed as a percentage and is equal to the difference between revenues from franchised restaurants and occupancy expenses from franchised restaurants, divided by revenues from franchised restaurants.

	<b>For the Years Ended December</b>	
	<b>31,</b>	
	<b>2012</b>	<b>2011</b>
Brazil	58.9%	64.2%
Caribbean Division	74.1	72.1
NOLAD	46.4	44.3
SLAD	81.5	70.1
<b>Total</b>	<b>65.6%</b>	<b>66.5%</b>

*General and Administrative Expenses*

General and administrative expenses decreased by \$20.3 million, or 6.1%, to \$314.6 million in 2012, as compared to 2011. This decrease was mostly due to a decrease in the stock-based compensation expense as a consequence of the impact of the variation in our stock price from period to period, which decrease amounted to \$30.9 million, and from the depreciation of most currencies in the Territories against the U.S. dollar, amounting to \$28.3 million. This was partially offset by an increase in expenses resulting primarily from higher payroll costs amounting to \$25.5 million, mainly due to salary increases linked to Argentina's inflation and new hirings in Brazil due to the market expansion plan, higher professional services expenses amounting to \$14.9 million, due to our ongoing systems integration and shared service center implementation throughout the region, and higher occupancy expenses amounting to \$4.6 million.

In Brazil, general and administrative expenses decreased by \$4.6 million, or 4.7%, to \$92.9 million in 2012, as compared to 2011. The decrease resulted primarily from the depreciation of the *real* against the U.S. dollar amounting to \$15.2 million. The increase in local currency is a consequence of higher payroll costs as a result of salary increases and the hiring of employees to fill new positions, most of which are related to our expansion plan and higher professional services, which totaled \$6.9 million and \$3.3 million, respectively.

In the Caribbean division, general and administrative expenses increased by \$4.9 million, or 9.6%, to \$55.9 million in 2012, as compared to 2011. This increase was mostly due to higher payroll costs, mainly related to salary increases due to inflation in Venezuela, which explained \$5.7 million. This was partially offset by lower other general expenses and the depreciation of the European euro against the U.S. dollar, which contributed \$0.4 million and \$0.3 million to the decrease in expenses, respectively.

In NOLAD, general and administrative expenses decreased by \$3.5 million, or 12.6%, to \$24.5 million in 2012, as compared to 2011. This decrease was due in part to lower payroll costs, which explained \$1.5 million. In addition, the depreciation of the local currency in Mexico against the U.S. dollar contributed to a decrease in general and administrative expenses of \$1.3 million.

In SLAD, general and administrative expenses decreased by \$2.7 million, or 6.7%, to \$37.1 million in 2012, as compared to 2011, primarily as a result of the depreciation of some local currencies in the region against the U.S. dollar, which caused general and administrative expenses to decrease by \$2.2 million, coupled with lower professional services by \$1.3 million and lower occupancy expenses amounting to \$0.4 million. This was partially offset by higher payroll costs of \$1.3 million, mainly in Argentina.

General and administrative expenses for Corporate and others decreased by \$14.4 million, or 12.1%, to \$104.2 million in 2012, as compared to 2011. This decrease was mostly due to a decrease in stock-based compensation expense of \$30.9 million as a consequence of the variation in our stock price from period to period and the depreciation of most local currencies in the Territories against the U.S. dollar, which explained \$9.3 million. This was partially offset by higher payroll costs due to salary increases linked to Argentina's inflation, as our corporate headquarters are located in Argentina, amounting to \$13.1 million and higher professional services expenses related to our ongoing systems integration and shared service center implementation throughout the region, which increased by \$12.9 million.

*Other Operating Expenses, Net*

Other operating expenses, net decreased by \$11.4 million, to \$3.3 million in 2012, as compared to 2011. This decrease was primarily attributable to the recovery of Brazilian tax credits in 2012 totaling \$12.0 million.

*Operating Income*

	<b>For the Years Ended December 31,</b>		<b>% Increase (Decrease)</b>
	<b>2012</b>	<b>2011</b>	
	<b>(in thousands of U.S. dollars)</b>		
Brazil	\$ 193,339	\$ 246,926	(21.7)%
Caribbean division	40,692	32,475	25.3
NOLAD	(5,557)	(8,709)	36.2
SLAD	74,824	62,094	20.5
Corporate and others and purchase price allocation	(66,658)	(82,033)	18.7
<b>Total</b>	<b>\$ 236,640</b>	<b>\$ 250,753</b>	<b>(5.6)%</b>

Operating income decreased by \$14.1 million, or 5.6%, to \$236.6 million in 2012, as compared to 2011.

### ***Net Interest Expense***

Net interest expense decreased by \$6.5 million, or 10.7%, to \$54.2 million in 2012, as compared to 2011, mainly due to the losses incurred in 2011 in connection with the partial redemption of the 2019 notes totaling \$13.9 million, lower accrued interest in 2012 for \$5.8 million as a consequence of this redemption, and lower other net interest charges in 2012 for \$5.7 million. This was partially offset by an increase in interest expense of \$18.9 million as a result of the issuances of the 2016 notes in April 2012 and July 2011.

### ***Loss from Derivative Instruments***

Loss from derivative instruments decreased by \$8.3 million, or 90.4%, to \$0.9 million in 2012, as compared to 2011, primarily due to the unwinding of our cross-currency interest rate swaps and mirror swaps in July 2011 (\$9.7 million).

### ***Foreign Currency Exchange Results***

Foreign currency exchange results improved by \$5.5 million, to a \$18.4 million loss in 2012, as compared to 2011. This was mainly a consequence of the decreased depreciation of the Brazilian *real* against the U.S. dollar as well as decreased exposure to foreign currency exchange risk in 2012 when compared to 2011, partially offset by higher losses incurred in the acquisition of U.S. dollars in Venezuela.

### ***Other Non-Operating Income (Expenses), Net***

Other non-operating income (expenses), net worsened by \$5.7 million to a \$2.1 million loss in 2012, as compared to 2011, primarily because in 2011 we recorded a gain as a result of the monetary actualization of certain tax credits in Brazil.

### ***Income Tax Expense***

Income tax expense increased by \$1.8 million, from \$44.6 million in 2011 to \$46.4 million in 2012. Our consolidated effective tax rate increased by 1 percentage point to 28.8% in 2012, as compared to 2011, mainly as a result of a higher weighted-average statutory income tax rate (\$4.8 million), a lower recovery of valuation allowances over deferred tax assets (\$13.3 million) and a lower goodwill tax deduction in Brazil (\$2.9 million) in 2012 when compared to 2011, partially offset by lower withholding income taxes on intercompany transactions (\$5.6 million), lower non-deductible expenses (\$6.5 million) and higher deductions related to permanent tax inflation adjustments (\$7.5 million) in 2012 when compared to 2011.

### ***Net Income Attributable to Non-controlling Interests***

Net income attributable to non-controlling interests for 2012 remained unchanged at \$0.3 million when compared to 2011.

### ***Net Income Attributable to Arcos Dorados Holdings Inc.***

As a result of the foregoing, net income attributable to Arcos Dorados Holdings Inc. decreased by \$1.2 million, or 1.0%, to \$114.3 million in 2012, as compared to 2011.

## **B. Liquidity and Capital Resources**

Our financial condition and liquidity is and will continue to be influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- the level of our outstanding indebtedness and the interest we pay on this indebtedness;
- our dividend policy;
- changes in exchange rates which will impact our generation of cash flows from operations when measured in U.S. dollars; and
- our capital expenditure requirements.

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimagining or upgrading restaurants during the applicable three-year period. As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250 new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open. We expect to fund these commitments using cash flow from operations and possible future debt and/or equity financings.

Our management believes that our sources of liquidity and capital resources, including working capital, are adequate for our present requirements and business operations and will be adequate to satisfy our presently anticipated requirements during at least the next twelve months for working capital, capital expenditures and other corporate needs.

### *Overview*

Net cash provided by operations was \$217.0 million in 2013, compared to \$230.1 million in 2012. Our investing activities program increased by \$4.2 million in 2013 to \$310.7 million. Cash provided by financing activities increased by \$11.7 million, from an inflow of \$90.6 million in 2012 to an inflow of \$102.3 million in 2013. This was mainly as a result of the issuance of the 2023 notes for \$378.4 million, higher issuance of short-term debt for \$8.9 million, higher issuance of long-term debt for \$5.4 million and lower dividend payments of \$12.5 million. This was partially offset by a decrease related to the issuance of the 2016 notes of \$149.7 million, higher net payments of derivative instruments of \$5.7 million and the purchase and call of 2019 notes for \$237.0 million in 2013.

Net cash provided by operations was \$230.1 million in 2012, compared to \$261.6 million in 2011. Our investing activities program decreased by \$13.7 million in 2012 to \$306.4 million. Cash provided by financing activities increased by \$55.0 million, from an inflow of \$35.7 million in 2011 to an inflow of \$90.6 million in 2012. This was mainly a consequence of the partial redemption of the 2019 notes for \$152.0 million in 2011, lower net payments of derivative instruments of \$114.6 million, the split-off of the Axionlog business for \$35.4 million in 2011, lower settlements of short-term debt for \$10.7 million and lower dividend payments of \$6.6 million. This was partially offset by the issuance of class A shares in connection with the initial public offering with net proceeds amounting to \$152.3 million in 2011, a decrease related to the issuance of the 2016 notes of \$105.4 million and a decrease in the collection of collateral deposits of \$15.0 million.

At December 31, 2013, our total financial debt was \$785.0 million, consisting of \$7.5 million in short-term debt, \$775.9 million in long-term debt (of which \$468.5 million related to the 2023 notes, including the original issue discount, and \$287.5 million related to the 2016 notes), and \$1.6 million related to the fair market value of our outstanding derivative instruments (net of the asset portion amounting to \$0.5 million).

At December 31, 2012, our total financial debt was \$659.8 million, consisting of \$0.6 million in short-term debt, \$651.6 million in long-term debt (of which \$306.8 million related to the 2019 notes, including the original issue discount, and \$331.9 million related to the 2016 notes), and \$7.6 million related to the fair market value of our outstanding derivative instruments (net of the asset portion amounting to \$1.7 million).

Cash and cash equivalents was \$175.6 million at December 31, 2013 and \$184.9 million at December 31, 2012.

**Comparative Cash Flows**

The following table sets forth our cash flows for the periods indicated:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(in thousands of U.S. dollars)		
Net cash provided by operating activities	\$ 217,014	\$ 230,113	\$ 261,624
Net cash used in investing activities	(310,655)	(306,421)	(320,132)
Net cash provided by financing activities	102,302	90,646	35,673
Effect of exchange rate changes on cash and cash equivalents	(17,864)	(5,788)	(8,963)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>\$ (9,203)</b>	<b>\$ 8,550</b>	<b>\$ (31,798)</b>

*Operating Activities*

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(in thousands of U.S. dollars)		
Net income attributable to Arcos Dorados Holdings Inc.	\$ 53,854	\$ 114,332	\$ 115,529
Non-cash charges and credits	186,980	131,958	137,970
Changes in assets and liabilities	(23,820)	(16,177)	8,125
<b>Net cash provided by operating activities</b>	<b>\$ 217,014</b>	<b>\$ 230,113</b>	<b>\$ 261,624</b>

For the year ended December 31, 2013, net cash provided by operating activities was \$217.0 million, compared to \$230.1 million in 2012. The \$13.1 million decrease is mainly attributable to lower net income adjusted for non-cash charges (\$5.5 million) and to a negative change in assets and liabilities (\$7.6 million).

For the year ended December 31, 2012, net cash provided by operating activities was \$230.1 million, compared to \$261.6 million in 2011. The \$31.5 million decrease is mainly attributable to lower net income adjusted for non-cash charges (\$7.2 million) and to a negative change in assets and liabilities (\$24.3 million).

*Investing Activities*

New restaurant investments are primarily concentrated in markets with opportunities for long-term growth and returns on investment above a pre-defined threshold that is significantly above our cost of capital. Average development costs vary widely by market depending on the types of restaurants built and the real estate and construction costs within each market and are affected by foreign currency fluctuations. These costs, which include land, buildings and equipment, are managed through the use of optimally sized restaurants, construction and design efficiencies and the leveraging of best practices.

The following table presents our cash used in investing activities by type:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	(in thousands of U.S. dollars)		
Property and equipment expenditures	\$ (313,462)	\$ (294,478)	\$ (319,859)
Purchases of restaurant businesses	(324)	(6,004)	(5,993)
Proceeds from sales of property and equipment	7,751	6,643	9,778
Proceeds from sales of restaurant businesses	6,452	—	903
Loans to related parties	(2,000)	(7,000)	—
Others, net	(9,072)	(5,582)	(4,961)
<b>Net cash used in investing activities</b>	<b>\$ (310,655)</b>	<b>\$ (306,421)</b>	<b>\$ (320,132)</b>

The following table presents our property and equipment expenditures by type:

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(in thousands of U.S. dollars)</b>		
New restaurants	\$ 157,901	\$ 177,329	\$ 139,647
Existing restaurants	63,421	79,717	139,140
Other(1)	92,140	37,432	41,072
<b>Total property and equipment expenditures</b>	<b>\$ 313,462</b>	<b>\$ 294,478</b>	<b>\$ 319,859</b>

(1) Primarily corporate equipment and other office related expenditures. For 2013, includes a real estate purchase in Venezuela.

In 2013, net cash used in investing activities was \$310.7 million, compared to \$306.4 million in 2012. This \$4.2 million increase was primarily attributable to higher property and equipment expenditures (\$19.0 million), partially offset by higher proceeds from the sale of restaurant businesses and property and equipment (totaling \$7.6 million), lower purchases of restaurant businesses (\$5.7 million) and lower loans granted to related parties (\$5.0 million).

Property and equipment expenditures increased by \$19.0 million, from \$294.5 million in 2012 to \$313.5 million in 2013. The increase in property and equipment expenditures is explained by an increase in other property and equipment expenditures totaling \$54.7 million, primarily due to a real estate purchase in Venezuela. This increase was partially offset by a lower investment in new restaurants (\$19.4 million) as well as in existing restaurants (\$16.3 million), mainly due to the depreciation of local currencies against the U.S. dollar. In 2013, we opened 130 restaurants and closed 16 restaurants.

Proceeds from sales of restaurant businesses reached \$6.5 million in 2013, compared to no proceeds in 2012, mainly as a result of the conversion of company-operated restaurants into franchised restaurants in Venezuela and Argentina.

Proceeds from sales of property and equipment increased by \$1.1 million to \$7.8 million in 2013, as compared to 2012, primarily as a consequence of higher sales, mainly in Chile and Mexico (\$1.7 million and \$0.9 million, respectively), partially offset by lower sales in Argentina and Brazil (\$0.8 million and \$0.6 million, respectively).

In addition, in 2013 and 2012 we used \$0.3 million and \$6.0 million, respectively, to convert franchised restaurants into Company-operated restaurants, mainly due to lower purchases in Colombia, Mexico and Puerto Rico (\$2.6 million, \$1.8 million and \$1.6 million, respectively).

In 2012, net cash used in investing activities was \$306.4 million, compared to \$320.1 million in 2011. This \$13.7 million decrease was primarily attributable to the adjustment downwards in our investment program by \$25.4 million in 2012, partially offset by a decrease in proceeds from the sale of property and equipment (\$4.0 million) and loans granted to related parties (\$7.0 million).

Property and equipment expenditures decreased by \$25.4 million, from \$319.9 million in 2011 to \$294.5 million in 2012. The decrease in property and equipment expenditures resulted from a decrease in reinvestment in existing restaurants and corporate equipment and other office expenditures (\$63.1 million), partially offset by increased investment in new restaurants (\$37.7 million). In 2012, we opened 130 restaurants and closed 22 restaurants.

Proceeds from sales of property and equipment decreased by \$4.0 million to \$6.6 million in 2012, as compared to 2011, primarily as a consequence of lower sales mainly in Puerto Rico and Venezuela (\$2.5 million and \$1.2 million, respectively). In addition, in 2012 and 2011 we used \$6.0 million to convert franchised restaurants into Company-operated restaurants.

## Financing Activities

	<b>For the Years Ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>(in thousands of U.S. dollars)</b>		
Purchase and call of 2019 notes	\$ (237,006)	\$ —	\$ (152,005)
Issuance of 2023 notes	378,409	—	—
Net payments of derivative instruments	(9,975)	(4,322)	(118,932)
Net short-term borrowings	8,743	(157)	(10,871)
Collateral deposits	—	—	15,000
Split-off of Axionlog business	—	—	(35,425)
Issuance of class A shares in connection with the initial public offering	—	—	152,281
Issuance of the 2016 notes	—	149,658	255,102
Issuance of other long-term debt	8,483	3,073	—
Distribution of dividends to our shareholders	(37,527)	(50,036)	(56,627)
Other financing activities	(8,825)	(7,570)	(12,850)
<b>Net cash provided by financing activities</b>	<b>\$ 102,302</b>	<b>\$ 90,646</b>	<b>\$ 35,673</b>

Net cash provided by financing activities was \$102.3 million in 2013, compared to \$90.6 million provided in 2012. The \$11.7 million increase in the amount of cash provided by financing activities was primarily attributable to the issuance of the 2023 notes for \$378.4 million, lower dividend payments for \$12.5 million, higher issuance of short-term debt for \$8.9 million and higher issuance of long-term debt for \$5.4 million, partially offset by the issuance of the 2016 notes for \$149.7 million in 2012, the purchase and call of 2019 notes in 2013 for \$237.0 million and higher payments of derivative instruments for \$5.7 million.

Net cash provided by financing activities was \$90.6 million in 2012, compared to \$35.7 million provided in 2011. The \$55.0 million increase in the amount of cash provided by financing activities was primarily attributable to the partial redemption of the 2019 notes for \$152.0 million in 2011, lower net payments of derivative instruments for \$114.6 million, the split-off of the Axionlog business for \$35.4 million in 2011, lower dividend payments for \$6.6 million and lower settlements of short-term debt for \$10.7 million, partially offset by the issuance of class A shares in connection with the initial public offering, with net proceeds amounting to \$152.3 million, in 2011, a decrease related to the issuance of the 2016 notes of \$105.4 million and a decrease in the collection of collateral deposits of \$15.0 million.

See Note 27 to our consolidated financial statements for details about changes in our borrowings subsequent to December 31, 2013.

**Revolving Credit Facility**

On August 3, 2011, our subsidiary, Arcos Dorados B.V., entered into a committed revolving credit facility with Bank of America, N.A., as lender, for \$50 million. On August 2, 2013, Arcos Dorados B.V. renewed the revolving credit facility for \$75 million maturing on August 3, 2015. The obligations of Arcos Dorados B.V. under the revolving credit facility are jointly and severally guaranteed by certain of our subsidiaries on an unconditional basis. This revolving credit facility will permit us to borrow money from time to time to cover our working capital needs and for other lawful general corporate purposes.

Each loan made to Arcos Dorados B.V. under the revolving credit facility will bear interest at a rate per annum equal to LIBOR plus 2.50%. Interest on each loan will be payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made.

The revolving credit facility includes customary covenants including, among others, restrictions on the ability of Arcos Dorados B.V., the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) permit the consolidated net indebtedness to EBITDA ratio to be greater than 2.50 to 1 on the last day of any fiscal quarter of the borrower; and (vii) engage in transactions that violate certain anti-terrorism laws.

The revolving credit facility provides for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.

As of December 31, 2013, no amounts were due on the revolving credit facility.

### 2016 Notes

In July 2011, we issued R\$400 million aggregate principal amount of notes due 2016 bearing interest of 10.25% per year, payable in U.S. dollars, which we refer to as the 2016 notes. In addition, on April 24, 2012, we issued an additional R\$275 million aggregate principal amount of the 2016 notes at a price of 102.529%. The 2016 notes are denominated in *reais*, but payment of principal and interest will be made in U.S. dollars. The 2016 notes mature on July 13, 2016. Interest is paid semi-annually in arrears on January 13 and July 13 of each year.

The 2016 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2016 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of our assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2016 notes limits our and our subsidiaries' ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2016 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2016 notes to be due and payable immediately.

The 2016 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2016 notes from time to time pursuant to the indenture governing the 2016 notes.

### 2019 Notes

In October 2009, our subsidiary, Arcos Dorados B.V., issued senior notes for an aggregate principal amount of \$450 million under an indenture dated October 1, 2009, which we refer to as the 2019 notes. Prior to their redemption in December 2013, the 2019 notes were scheduled to mature on October 1, 2019 and bore interest of 7.5% per year. Interest was paid semiannually on April 1 and October 1.

The 2019 notes were redeemable at the option of Arcos Dorados B.V. at any time at the applicable redemption prices set forth in the indenture. On June 13, 2011, Arcos Dorados B.V. exercised its option to redeem on July 18, 2011 a total of \$141.4 million aggregate principal amount of the 2019 notes at a redemption price of 107.5% of the principal amount plus accrued and unpaid interest from April 1, 2011 to the redemption date. Following the redemption, a total of \$308.6 million of the aggregate principal amount of the 2019 notes remained outstanding.

On September 10, 2013, we announced the commencement of a tender offer, exchange offer and consent solicitation to purchase for cash any and all of the properly tendered (and not validly withdrawn) outstanding 2019 notes of Arcos Dorados B.V. (the "Tender Offer") and to exchange for the 2023 notes (described below) any and all of Arcos Dorados B.V.'s properly tendered (and not validly withdrawn) 2019 notes (the "Exchange Offer," and together with the Tender Offer, the "Tender and Exchange Offer").

In conjunction with the Tender and Exchange Offer, Arcos Dorados B.V. solicited consents to certain proposed amendments to the indenture under which the 2019 notes were issued. The proposed amendments eliminated Arcos Dorados B.V.'s obligations to comply with substantially all of the restrictive covenants contained in the indenture governing the 2019 notes. Adoption of the proposed amendments required the consent of holders of 2019 notes representing at least a majority in aggregate principal amount of the outstanding 2019 notes held by persons other than Arcos Dorados B.V. and its affiliates. Each holder tendering 2019 notes that were not validly withdrawn was deemed to have consented to the proposed amendments.

As a result of the Tender and Exchange Offer, we canceled \$118.4 million of the 2019 notes pursuant to the Tender Offer and \$90.0 million of the 2019 notes pursuant to the Exchange Offer on September 27, 2013. We subsequently canceled \$0.5 million of the 2019 notes pursuant to the Exchange Offer on October 9, 2013.

On December 17, 2013, Arcos Dorados B.V. exercised its option to redeem all (\$99.8 million) of the outstanding principal amount of the 2019 notes at a redemption price of 109.129% of the principal amount plus accrued and unpaid interest to the redemption date. The aggregate amount paid to redeem the notes was \$108.9 million, plus accrued and unpaid interest to the redemption date. Following the redemption, there are no 2019 notes outstanding.

See Note 11 to our consolidated financial statements for details about the impact of the aforementioned transaction on our income statement.

### 2023 Notes

In September 2013, we issued senior notes for an aggregate principal amount of \$473.8 million under an indenture dated September 27, 2013, which we refer to as the 2023 notes. The total aggregate principal amount of the 2023 notes consists of \$375 million issued for cash and \$98.8 million issued in exchange for 2019 notes. The 2023 notes mature on September 27, 2023 and bear interest of 6.625% per year. Interest is paid semiannually on March 27 and September 27. The proceeds from the issuance of the 2023 notes were used to pay the principal and premium on the 2019 notes in connection with the Tender and Exchange Offer, to repay certain of our short-term indebtedness with Banco Itau BBA S.A., to unwind a cross-currency interest rate swap with Bank of America, N.A. and for general corporate purposes.

The 2023 notes are redeemable at our option at any time at the applicable redemption price set forth in the indenture.

The 2023 notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of our subsidiaries. The 2023 notes and guarantees (i) are senior unsecured obligations and rank equal in right of payment with all of our and the guarantors' existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of our and the guarantors' existing and future secured indebtedness to the extent of the value of our assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of our subsidiaries that are not guarantors.

The indenture governing the 2023 notes limits our and our subsidiaries' ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2023 notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2023 notes to be due and payable immediately.

The 2023 notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

We may issue additional 2023 notes from time to time pursuant to the indenture governing the 2023 notes.

### C. Research and Development, Patents and Licenses, etc.

We have not had significant research and development activities for the past three years because we rely primarily on McDonald's research and development. McDonald's operates research and development facilities in the United States, Europe and Asia, and independent suppliers also conduct research activities that benefit McDonald's and us. Nevertheless, we have developed certain menu items, such as bone-in-chicken, *Pão na Chapa* (in Brazil), *Angus BBQ Chipotle* (in Mexico) and dessert items, such as *McFlurry Língua de gato* (in Brazil) and *Fried Yuca sticks* (in Colombia), to better tailor our product offerings to local tastes and to provide our customers with additional food options.

### D. Trend Information

Our business and results of operations have recently experienced the following trends, which we expect will continue in the near term:

- *Social upward mobility in Latin America and the Caribbean:* Our sales have benefited, and we expect to continue to benefit, from our Territories' population size, younger age profile when compared to more developed markets and improving socio-economic conditions. This has led to a modernization of consumption patterns and increased affordability of our products across socio-economic segments, leading to greater demand for our products.

- *Decline in free time:* More single-parent and dual-earner households have increased the demand for the convenience offered by eating out and takeout food.
- *Product offerings:* Our beverages, core meals, desserts, breakfast, reduced calorie and sodium products, and value menu item offerings have been popular among customers and—combined with our revenue management—have helped us remain relevant with our customers.
- *Increased competition in some markets:* The popularity of the QSR concept in markets such as Puerto Rico and Mexico has attracted new competitors. Even though we have been able to maintain or even increase market share in these markets, we have seen a reduction in pricing flexibility and have increased the focus of our marketing efforts on value offerings.
- *Inflationary environment:* Over the last few years, we have been able through our revenue management strategy to mitigate cost increase tied to inflation. However, inflation has been, and will continue to be, an important factor affecting our results of operations, specifically impacting our food and paper costs, occupancy and other operating expenses, general administrative expenses and labor costs.
- *Controlled general and administrative costs to support future growth:* Our business grew at a very rapid pace during our first years of operation and we experienced increasing general and administrative expenses in order to support and prepare for our future growth. However, during the past two years, general and administrative expenses decreased by 128 basis points as a percentage of total revenues and we expect this trend to continue in the near future.
- *Increased volatility of foreign exchange rates and impact of currency controls:* Our results of operations have been impacted by increased volatility in foreign exchange rates in many of the Territories as well as currency controls in Venezuela and Argentina. We expect that foreign exchange rates will continue to be an important factor affecting our foreign currency exchange results and the “Accumulated other comprehensive loss” component of shareholders’ equity and, consequently, our results of operations and financial condition. In addition, the currency controls in Venezuela and Argentina have also negatively impacted our business and results of operations. See “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls.” See Note 27 to our consolidated financial statements for details about the announcements made by the Venezuelan government and the devaluation in Argentina subsequent to December 31, 2013.

#### E. Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

#### F. Tabular Disclosure of Contractual Obligations

The following table presents information relating to our contractual obligations as of December 31, 2013.

Contractual Obligations	Payment Due by Period						
	Total	2014	2015	2016	2017	2018	Thereafter
	(in thousands of U.S. dollars)						
Capital lease obligations (1)	\$ 10,458	\$ 1,794	\$ 1,919	\$ 839	\$ 721	\$ 687	\$ 4,498
Operating lease obligations	1,157,184	156,577	144,523	131,147	119,538	103,205	502,194
Contractual purchase obligations(2)	189,114	118,506	29,078	26,707	13,629	1,194	—
2016 notes(1)	373,634	29,291	29,291	315,052	—	—	—
2023 notes(1)	787,637	31,387	31,387	31,387	31,387	31,387	630,702
Other long-term borrowings(1)	14,856	4,819	6,825	3,212	—	—	—
Derivative instruments	1,558	2,048	(3,153)	(2,645)	(2,200)	(1,843)	9,351
<b>Total</b>	<b>\$ 2,534,441</b>	<b>\$ 344,422</b>	<b>\$ 239,870</b>	<b>\$ 505,699</b>	<b>\$ 163,075</b>	<b>\$ 134,630</b>	<b>\$ 1,146,745</b>

(1) Includes interest payments.

(2) Includes automatic annual renewals, which contains only enforceable and legally binding unconditional obligations corresponding to prevailing agreements without considering future undefined renewals when the agreement is cancellable by the Company. This type of purchase obligation represents \$43.5 million of contractual obligations for 2014 only.

The table set forth above excludes projected payments on our restaurant opening and reinvestment plans pursuant to the MFAs in respect of which we do not yet have any contractual commitments.

## G. Safe Harbor

See “Forward-Looking Statements.”

## ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

### A. Directors and Senior Management

#### Board of Directors

Our Board of Directors consists of ten members, four of whom are independent directors. In case of a tie vote by the Board of Directors, the Chairman will have the deciding vote. Our memorandum and articles of association authorize us to have eight members, and the number of authorized members may be increased or decreased by a resolution of shareholders or by a resolution of directors. On November 1, 2012 and August 2, 2013, respectively, our Board of Directors passed resolutions increasing the number of authorized members of our Board of Directors to nine and ten.

Pursuant to our articles of association, our Board of Directors is divided into three classes. There is no distinction in the voting or other powers and authorities of directors of different classes. The members of each class serve staggered, three-year terms. Upon the expiration of the term of a class of directors, directors in that class will be elected for three-year terms at the annual meeting of shareholders in the year in which their term expires. At our most recent annual general meeting of shareholders, held on April 21, 2014, our shareholders re-elected Mr. Sergio Alonso, Mr. Michael Chu, Mr. José Alberto Vélez and Mr. José Fernández to serve as Class III directors.

The classes are currently composed as follows:

- Mr. Staton, Mr. Lemonnier and Mr. Elias Ayub are Class I directors, whose term will expire at the annual meeting of shareholders to be held in 2015;
- Mr. Hernández-Artigas and Ms. Franqui and Mr. Ramírez are Class II directors, whose term will expire at the annual meeting of shareholders to be held in 2016; and
- Mr. Alonso, Mr. Chu, Mr. Vélez and Mr. Fernández are Class III directors, whose term will expire at the annual meeting of shareholders to be held in 2017.

Any additional directorships resulting from an increase in the number of directors and any directors elected to fill vacancies on the board will be distributed among the three classes so that, as nearly as possible, each class will consist of one third of our directors. This classification of our Board of Directors may have the effect of delaying or preventing changes in control of our company. Any director may be removed, with or without cause, by a resolution of shareholders or a resolution of directors. Our directors do not have a retirement age requirement under our memorandum and articles of association.

The following table presents the names of the members of our Board of Directors.

Name	Position	Age
Woods Staton	Chairman and CEO	64
Sergio Alonso	Chief Operating Officer	51
Germán Lemonnier	Chief Financial Officer	51
Annette Franqui	Director	52
Carlos Hernández-Artigas	Director	50
Michael Chu	Director	65
José Alberto Vélez	Director	64
Alfredo Elias Ayub	Director	64
Alejandro Ramírez Magaña	Director	41
José Fernández	Director	52

The following is a brief summary of the business experience of our directors. Unless otherwise indicated, the current business addresses for our directors is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Juncal 1408, Oficina 404, CP 11000, Montevideo, Uruguay.

*Woods Staton.* Mr. Staton is our CEO and Chairman of the Board and is a member of the Compensation Committee. He was McDonald's joint venture partner in Argentina for over 20 years and served as the President of SLAD beginning in 2004. Mr. Staton is a member of the International Advisory Board of Itaú Unibanco Holding S.A. Mr. Staton is also a member of the founding family and served as the CEO and Chairman of the board of directors of Panamerican Beverages, Inc., or Panamco, which was Coca-Cola's largest bottler in Latin America.

*Sergio Alonso.* Mr. Alonso is our Chief Operating Officer and was, prior to his appointment as such, McDonald's Divisional President in Brazil. He graduated with a degree in Accounting from Universidad de Buenos Aires in 1986. He began his career at McDonald's as Accounting Manager and subsequently moved to the operations area, eventually being promoted to Vice President of Operations in 6 years. From 1999 until 2003, Mr. Alonso was involved in the development of the Aroma Café brand in Argentina.

*Germán Lemonnier.* Mr. Lemonnier is our Chief Financial Officer and was, prior to his appointment as such, the Chief Financial Officer of SLAD. He graduated with a degree in Accounting from Universidad de Buenos Aires in 1986. He began his career at McDonald's in 1993, as Accounting Chief of Argentina and after one year was promoted to Accounting Manager. In 1995, Mr. Lemonnier became the Finance & Administration Manager of Argentina and held the positions of Finance & Administration Director and Chief Financial Officer of Argentina from 1997 until his appointment as Chief Financial Officer of SLAD in 2005.

*Annette Franqui.* Ms. Franqui has been a member of our board of directors since 2007 and was a member of the Audit Committee until April 7, 2012. She graduated with a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania in 1984 and an MBA from the Stanford Graduate School of Business in 1986. She is also a Chartered Financial Analyst. Ms. Franqui began her career in 1986 with J.P. Morgan and joined Goldman Sachs in 1989. In 1994, she returned to J.P. Morgan where she became a Managing Director and the Head of the Latin America Research Department. Ms. Franqui joined Panamco in 2001 as Vice President of Corporate Finance and became the Chief Financial Officer in 2002. She is one of the founding partners of Forrester Capital and is currently a board member of Wireless WERX International, Axionlog Cold Solutions, Medina Medical and Latam LLC.

*Carlos Hernández-Artigas.* Mr. Hernández-Artigas has been a member of our board of directors since 2007 and is a member of the Compensation Committee. He graduated from Universidad Panamericana, Escuela de Derecho in 1987 and University of Texas at Austin, School of Law in 1988. He received an MBA from IPADE in Mexico City in 1996. Mr. Hernández-Artigas worked as a lawyer for several years in Mexico and as a foreign attorney in Dallas, Texas and New York. He served as the General Counsel, Chief Legal Officer and Secretary of Panamco for ten years. He is one of the founding partners of Forrester Capital and is currently a board member of several companies, including Wireless WERX International, Axionlog Cold Solutions and Latam LLC.

*Michael Chu.* Mr. Chu has been an independent member of our board of directors since April 2011 and is a member of our Audit Committee. He graduated with honors from Dartmouth College in 1968 and received an M.B.A. with highest distinction from the Harvard Business School in 1976. From 1989 to 1993, Mr. Chu served as an executive and limited partner in the New York office of the private equity fund Kohlberg Kravis Roberts & Co. From 1993 to 2000, Mr. Chu was with ACCION International, a nonprofit corporation dedicated to microfinance, where he served as President and CEO. Mr. Chu currently holds an appointment as Senior Lecturer at the Harvard Business School and is Managing Director and co-founder of the IGRIA Fund, an investment firm dedicated to investing in commercial enterprises serving low-income populations in Mexico. He was a founding partner of, and continues to serve as Senior Advisor to, Pegasus Group, a private equity firm in Buenos Aires.

*José Alberto Vélez.* Mr. Vélez has been an independent member of our board of directors since June 2011 and is a member of our Audit Committee. Mr. Vélez received a Master of Science in Engineering degree from the University of California, Los Angeles (UCLA), and a degree in Administrative Engineering from Universidad Nacional de Colombia. Mr. Vélez previously served as the CEO of Suramericana de Seguros, the leading insurance company in Colombia, and also as the CEO of Inversura, a holding company that integrates the leading insurance and social security companies in Colombia. He has been the Chief Executive Officer of Cementos Argos, S.A. since 2003. He is currently also a member of the Boards of Directors of Grupo Suramericana de Inversiones S.A.,

Bancolombia, Grupo Nutresa and Compañía Colombiana de Inversiones. He also is a member of the Universidad EAFIT Board of Directors and Chairman of CECODES, the Colombian chapter of the World Business Council for Sustainable Development (WBCSD). In addition, he sits on the Advisory Board of the Council of the Americas based in New York.

*Alfredo Elias Ayub.* Mr. Elias has been an independent member of our board of directors since August 2, 2012. Mr. Elias holds an MBA from Harvard Business School, where he graduated as a Baker Scholar, and a Civil Engineering degree from Mexico City’s Universidad Anahuac, where he is a member of the Advisory Council of the School of Engineering. From 1999 until April 2011, Mr. Elias was the Chief Executive Officer of the Comisión Federal de Electricidad, Mexico’s largest state-owned utilities company. Since 2012 Mr. Elias has served as member of the Dean’s board of advisors for Harvard Business School.

*Alejandro Ramírez Magaña.* Mr. Ramírez has been an independent member of our board of directors since November 1, 2012 and is a member of our Audit Committee. Mr. Ramírez holds an MBA from Harvard Business School, a Master of Sciences in Development Economics from the University of Oxford and a Bachelor of Arts in Economics from Harvard University. Mr. Ramírez is the General Director of Cinépolis, the largest cineplex chain in Latin America and the fourth largest in the world. He recently co-chaired the 2012 Annual Meeting of the World Economic Forum and was also appointed by former Mexican President Calderón as Chair of the G20’s Business Summit (B20), in Mexico in June 2012. He currently serves as committee advisor for the World Bank and the United Nation Development Programme (UNDP). In 2005, he was also appointed as “Young Global Leader” by the Davos World Economic Forum in Switzerland.

*José Fernández.* Mr. Fernandez has been a member of our board of directors since October 1, 2013. Mr. Fernández previously acted as the Divisional President of operations for SLAD. Mr. Fernández is a Mechanical Engineer from Instituto Tecnológico Buenos Aires and began his career at McDonald’s in 1986. He held the positions of Development Director, Development Vice President and Managing Director of McDonald’s Argentina before becoming the Divisional President of operations of SLAD.

**Executive Officers**

Our executive officers are responsible for the management and representation of our company. We have a strong centralized management team led by Mr. Staton, our CEO and Chairman of the Board, with broad experience in development, revenue, supply chain management, operations, finance, marketing, legal affairs, human resources, communications and training. Most of our executive officers have worked in the food service industry for several years. Many of the members of the management team have a long history with McDonald’s operations in Latin America and the Caribbean and with Mr. Staton, and have worked together as a team for many years. Our executive officers were appointed by our Board of Directors for an indefinite term.

The following table lists our current executive officers:

<b>Name</b>	<b>Position</b>	<b>Initial Year of Appointment</b>
Woods Staton	Chairman and CEO	2007
Sergio Alonso	Chief Operating Officer	2007
Germán Lemonnier	Chief Financial Officer	2007
Juan David Bastidas	Chief Legal Counsel	2010
José Valledor Rojo	Divisional President—Brazil	2011
Alejandro Yapur	Divisional President—SLAD	2013
Marcelo Rabach	Divisional President—NOLAD	2013
Sebastian Magnasco	Vice President of Development	2007
Raul Mandia	Vice President of Marketing	2007
Pablo Rodriguez de la Torre	Vice President of Human Resources	2008
Horacio Sbrolla	Vice President of Supply Chain	2007
Marlene Fernandez	Vice President of Government Relations	2011

The following is a brief summary of the business experience of our executive officers who are not also directors. Unless otherwise indicated, the current business addresses for our executive officers is Roque Saenz Peña 432, Olivos, Buenos Aires, Argentina (B1636 FFB) and Juncal 1408, Oficina 404, CP 11000, Montevideo, Uruguay.

*Juan David Bastidas.* Mr. Bastidas, 46, is our Chief Legal Counsel. He attended Universidad Pontificia Bolivariana in Colombia in 1989, where he received a Law Degree. In 1990, he graduated as a Business Law Specialist from the same university. He received an MBA from New York University in 1994. He has post-graduate studies in International Business (2000) from EAFIT in Colombia and Senior Management (2009) from Universidad de Los Andes in Colombia. Mr. Bastidas worked from 1994 to 1995 as an international operations lawyer for Banco Industrial Colombiano (Bancolombia). He served as General Counsel and Secretary of the board of directors of Interconexión Eléctrica S.A. E.S.P.–ISA from 1995 to 2010 before joining us in July 2010.

*José Valledor Rojo.* Mr. Valledor Rojo, 47, was promoted to the position of Divisional President in Brazil, effective August 1, 2011. Prior to his appointment as such, he was Regional Director for the Southern Cone. He joined us in 1990 as an assistant in the accounting department, and four years later he became Manager of that department. In 2005, he became Regional Operations Director, responsible for the markets of Uruguay, Paraguay and Argentina. Two years later, he became Argentina's General Director while continuing to supervise the market operations in Uruguay, Chile and Paraguay. Mr. Valledor Rojo has a degree in Business Administration and a post-graduate degree from the Instituto de Altos Estudios (IAE) in Buenos Aires, Argentina.

*Alejandro Yapur.* Mr. Yapur, 45, was appointed Divisional President of SLAD. Previously, Mr. Yapur was the Managing Director of the Southern Cone Region. He graduated from the Universidad de Estudios Empresariales in Buenos Aires, and subsequently went on to earn a Master's degree in Communications from Universidad Austral. Mr. Yapur has 26 years of experience in the Company and he began his career as a crew member of the first McDonald's restaurant in Argentina.

*Marcelo Rabach.* Mr. Rabach, 43, is our Divisional President for NOLAD, and was, prior to his appointment as such, Vice President of Operations Development since 2012 and Divisional President in Brazil since 2008. He graduated with a degree in Business Administration from Universidad Argentina de la Empresa in 2002. He began his career at McDonald's Argentina in 1990 and has over 17 years of line operations experience, starting as a crew employee and steadily advancing into larger operational roles. From 1999 until his appointment as McDonald's Chief Operating Officer in Venezuela in 2005, Mr. Rabach was responsible for the operations, real estate, construction, human resources, local store marketing, and training and franchising of a region within Argentina, holding the positions of Operations Manager and Operations Director. He was the Chief Operating Officer in Venezuela from 2005 until 2008.

*Sebastian Magnasco.* Mr. Magnasco, 44, is our Vice President of Development and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Engineering from Instituto Tecnológico Buenos Aires, in 1990. He began his career at McDonald's in 1994 and held the positions of Real Estate & Equipment Director of Argentina and IT, Real Estate and Equipment Director of Argentina until his appointment as Vice President of Development of SLAD in 2005.

*Raul Mandía.* Mr. Mandía, 52, is our Vice President of Marketing and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with an associate degree in Accounting from Northern Virginia Community College, Virginia in 1988. Mr. Mandía also holds a Bachelor's degree in accounting from Strayer College in Washington D.C. and a Master's degree in taxation from Southeastern University in Washington D.C. He has also completed post graduate coursework from The Garvin School of International Management in Arizona and The Wharton School in Pennsylvania. He began his career at McDonald's in 1991 as Finance Manager in Uruguay. In 2000, he became Director of Operations, Learning and Development in the Latin American group of McDonald's corporate headquarters, and in 2002 he returned to McDonald's Uruguay as Managing Director until he was appointed as Vice President of Marketing of SLAD in 2005.

*Pablo Rodríguez de la Torre.* Mr. Rodríguez, 49, joined the Company in April 2008 as Vice President of Human Resources. Mr. Rodríguez started his professional career in 1985 working for the Argentine law firm Estudio Costa & Asociados, specializing in labor law after having graduated with a degree in Law from Buenos Aires University in 1988. In 1999, Mr. Rodríguez joined Internet operator UOL International, where he held different senior positions, mainly in Human Resources, dealing with the company's operations in the major Latin American countries, including assignments in Brazil and Mexico. In 2002, he joined Starwood Hotels & Resorts Worldwide Inc. as Vice President of Human Resources Latin America, based in Miami, where he stayed until joining Arcos Dorados.

*Horacio Sbrolla.* Mr. Sbrolla, 51, is our Vice President of Supply Chain and served, prior to his appointment as such, in the same capacity in SLAD. He graduated with a degree in Industrial Engineering from Instituto Tecnológico Buenos Aires, in 1986. He began his career at McDonald's in 1988 as Equipment Manager of Argentina. In 2001, he became the Regional Leader for the implementation of the "ERP" solution within all Latin American markets and since 2002 was the Managing Director of Chile until his appointment as Vice President of Supply Chain of SLAD in 2005.

*Marlene Fernandez.* Ms. Fernandez, 52, was recently appointed our Vice President of Government Relations. Prior to joining us in 2009, she served as Executive Director of the Gallup Organization in Latin America and held various governmental positions, including member of Bolivia's Chamber of Deputies, Bolivian Ambassador to the United States and Permanent Representative to the Organization of American States in Washington, D.C., the European Union and Italy. Ms. Fernandez graduated with a degree in Communications and Public Relations from John F. Kennedy University in Buenos Aires. She holds a Master of Science with a specialization in broadcast journalism from Boston University and has completed doctorate courses at Harvard University in Law and Diplomacy, Strategic Communications, Conflict Resolution and Negotiations in Conflict Areas.

## **B. Compensation**

### **Long-term and Equity Incentive Plans**

#### *Long-term Incentive Plan*

We implemented a long-term incentive plan in 2008 to reward certain employees for the success of our business. In accordance with this plan, we historically granted phantom equity units, called CADs, annually to certain employees, pursuant to which such employees are entitled to receive, upon vesting, a cash payment equal to the appreciation in the fair value of the award over the base value of the award. In 2011, our Board approved the use of the Company's market capitalization following our initial public offering as the metric used to determine the Company's fair market value under this incentive plan in place of the existing formula used to determine the current value of the awards. The CADs vest over a five-year period, subject to continued employment with us, as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. The right is cumulative and, once it has become exercisable, it may be exercised during a quarterly window period in whole or in part until the date of termination, which occurs at the fifth anniversary of the grant date. Any outstanding CADs at the date of termination will be automatically settled by us.

As of December 31, 2013, 1,018,306 CADs were outstanding, as compared to 2,129,221 CADs as of December 31, 2012. During 2013, 1,022,347 CADs were exercised, and the total amount paid for these exercises was \$7.9 million. A total of 88,568 CADs were forfeited during 2013. At December 31, 2013, we maintain a current payable of \$4.9 million related to these exercises that is disclosed within "accrued payroll and other liabilities" in our balance sheet. See Note 16 to our consolidated financial statements for additional information.

#### *Equity Incentive Plan*

In March 2011, we adopted our Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of our business. This plan replaces our 2008 long-term incentive plan discussed above, although the CADs that have already been granted will remain outstanding until their respective termination dates. Like our 2008 long-term incentive plan, the 2011 Plan is being used to reward certain employees for the success of our business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of share (also referred to as stock) options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by our Board.

Pursuant to the 2011 Plan, on April 14, 2011, the first trading day of our class A shares on the NYSE, we made the annual grants for 2011 to certain of our executive officers and other employees. The grants included 231,455 restricted share units and 833,388 stock options that will vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. In addition, on April 14, 2011, we granted special awards of restricted share units and stock options to certain of our executive officers and other employees in connection with our initial public offering. The special grant included 782,137 restricted share units and 1,046,459 stock options that will vest 1/3 on each of the second, third and fourth anniversaries of the grant date. With respect to all of the grants made on April 14, 2011, each stock option represents the right to acquire one class A share at a strike price of \$21.20 (the closing price on the date of grant), while each restricted share unit represents the right to receive one class A share, when vested.

Pursuant to the 2011 Plan, on May 10, 2012, we made the annual grants for 2012 to certain of our executive officers and other employees. The grants include 211,169 restricted share units and 548,587 stock options that will vest as follows: 40% on the second anniversary of the grant date and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.35 (the closing price on the grant date), while each restricted share unit represents the right to receive one class A share when vested.

Pursuant to the 2011 Plan, on May 10, 2013, we made the annual grants for 2013 to certain of our executive officers and other employees. The grants include 213,600 restricted share units and 431,726 stock options that will vest as follows: 40% on the second anniversary of the grant date and 20% on each of the following three anniversaries. Each stock option granted represents the right to acquire one class A share at a strike price of \$14.31 (the closing price on the grant date), while each restricted share unit represents the right to receive one class A share when vested.

The maximum number of shares that may be issued under the 2011 Plan is 5,238,235 class A shares, equal to 2.5% of our total outstanding class A and class B shares immediately following our initial public offering on April 14, 2011. We issued 338,014 class A shares during 2013 in connection with the partial vesting of outstanding restricted share units.

See Note 16 to our consolidated financial statements for additional information.

We intend to make the 2014 annual grant under the 2011 Plan during the second quarter of 2014.

## **Compensation of Directors and Officers**

### *General*

The approximate aggregate annual total cash compensation for our 13 officers was \$9.5 million in 2013. In 2013, we approved annual compensation for our non-executive directors of \$140,000 each, payable 50% in cash and 50% in stock options. The cash payments corresponding to services performed in 2013 were paid in 2013 and the stock options will be granted during the second quarter of 2014, at the same time that we make the 2014 annual grant under the 2011 Plan described above. Terms of the stock options will be determined in accordance with market practice and will be reviewed by our compensation committee. We have not entered into any service contracts with our directors to provide for benefits upon termination of employment.

## **C. Board Practices**

### **Our Committees**

#### *Audit Committee*

Our audit committee consists of three directors: Mr. Chu, Mr. Vélez and Mr. Ramírez Magaña. Mr. Chu, Mr. Vélez and Mr. Ramírez Magaña are independent within the meaning of the SEC and NYSE corporate governance rules. Our Board of Directors has determined that Mr. Chu and Mr. Vélez are “audit committee financial experts” as defined by the SEC.

The charter of the audit committee states that the purpose of the audit committee is to assist the Board of Directors in its oversight of:

- the integrity of our financial statements;
- the annual independent audit of our financial statements, the engagement of the independent auditor and the evaluation of the qualifications, independence and performance of our independent auditor;
- the performance of our internal audit function; and
- our compliance with legal and regulatory requirements.

**Compensation Committee**

Our compensation committee consists of Mr. Staton, Mr. Hernández-Artigas and Ms. Franqui. Pursuant to its charter, the compensation committee is responsible for, among other things:

- approving corporate goals and objectives relevant to compensation, evaluating the performance of executives in light of such goals and objectives and recommending compensation based on such evaluation, recommending any long-term incentive component of compensation and approving the compensation of our executive officers;
- reviewing and reporting to the board of directors on our management succession plan and on compensation for directors;
- evaluating our compensation and benefits policies; and
- reporting to the board periodically.

**D. Employees**

Our employees are a crucial component of our customers' restaurant service experience. As such, we consistently train our employees to deliver fast and friendly service through a series of training programs. We support our McDonald's-based training programs with an extensive set of quality controls throughout production, processing and distribution and also in our restaurants, where we monitor restaurant managers' performance and use ongoing external customer satisfaction opportunity reports that analyze key operating indicators.

Our employees can be divided into three different categories: crew, restaurant managers and professional staff. Due to the different tasks of each of these categories of employees, turnover rates differ significantly. Crew turnover is considerably higher than turnover for managers and professional staff.

As of December 31, 2013, we had a total of approximately 96,815 employees throughout the Territories. Of this number, 83% were crew, 15% were restaurant managers and the remainder were professional staff. Approximately 45% of our employees were located in Brazil.

We have various types of employment arrangements with our employees in Brazil. Some of our employees receive monthly wages whereas others are paid by the hour, and some of our employees have fixed work schedules. Most of our employees in Brazil, in particular students and minors, work schedules of less than 180 hours per month. Brazilian law requires that employers provide a minimum monthly wage, which, in the case of employees who are paid by the hour, is pro-rated in terms of wages per hour.

In the beginning of 2012, we decided to transition to fixed work schedules and hourly wages for our employees in Brazil. Our employees will work between 180 and 220 hours per month, with proportional wages based on the quantity of hours fixed in their employment agreements. In 2013, pursuant to the Pernambuco Labor Court ruling, we began the transition to a fixed hourly schedule according to the timeframe agreed to in the ruling. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation."

In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) regarding alleged non-compliance with certain labor laws. See "Item 8. Financial Information—A. Consolidated Statements and Other Financial Information—Legal Proceedings—Brazilian Labor Litigation."

The following table illustrates the distribution of our employees by division and employee category as of December 31, 2013. Due to the reorganization of our segments effective January 1, 2013, the segment information below is not directly comparable to the segment information presented in our annual reports on Form 20-F for prior years. See "Presentation of Financial and Other Information—Operating Data."

Division	Crew	Restaurant Managers	Professional Staff	Total
Brazil	36,004	7,260	503	43,767
Caribbean division	12,152	2,084	368	14,604

Division	Crew	Restaurant Managers	Professional Staff	Total
NOLAD	9,001	1,886	302	11,189
SLAD	23,255	3,172	332	26,759
Corporate and other	—	—	496	496
<b>Total</b>	<b>80,412</b>	<b>14,402</b>	<b>2,001</b>	<b>96,815</b>

Restaurant managers are responsible for the daily management of our restaurants. As such, we have a comprehensive training program for them that is focused on customer management practices, food preparation and other operational procedures. Standards are taught and continuously reinforced through the use of such training programs. We also use performance measurements on a continual basis, both internally and externally in connection with all our restaurants. Our internal on-site visit restaurant operations improvement process evaluates operational standards, which are compared globally to assure continuous improvement. We also contract third parties, which we refer to as third-party shoppers, to visit our restaurants anonymously and report on our performance. Our external third-party shopper measurements and customer satisfaction opportunity reports help maintain our competitiveness. In addition, Hamburger University provides restaurant managers, mid-managers and owner/operators with training on best practices in different aspects of our business. In 2013, 15,656 people attended different courses or events at Hamburger University in areas such as restaurant and customer management, sales and accounting.

The role performed by our crew is of critical importance in our interactions with our customers. Employee relations are thus key to maintaining the level of motivation and enthusiasm on the part of our crew that help differentiate our restaurants from those of our competitors. We have been recognized by many independent organizations for being a “great place to work.” In 2012, the Great Place to Work Institute ranked us sixth among the top 25 best multinational employers in Latin America, and we led the “*Súper Empresas*” (Super Companies) ranking by the *Expansión/CNN magazine*.

Although we have unions in some of our most important markets, including Brazil, Argentina and Mexico, the unions do not have an active role in the restaurants. In these markets, the restaurant industry is unionized by law.

## E. Share Ownership

The following table presents the beneficial ownership of our shares owned by our directors and officers as of the date of this annual report. Other than those persons listed below, none of our directors or officers beneficially own any of our shares.

Shareholder	Class A Shares	Percentage of Outstanding Class A Shares	Class B Shares	Percentage of Outstanding Class B Shares	Total Economic Interest	Total Voting Interest(1)
Los Laureles Ltd.(2)(3)	—	—	80,000,000	100.0%	38.1%	75.5%
Woods Staton(3)	4,032,424	3.1%	—	—	1.9%	0.8%
Sergio Alonso	*	*	—	—	*	*
Germán Lemonnier	*	*	—	—	*	*
Annette Franqui	*	*	—	—	*	*
Carlos Hernández-Artigas	*	*	—	—	*	*
Juan David Bastidas	*	*	—	—	*	*
José Valledor Rojo	*	*	—	—	*	*
José Fernandez	*	*	—	—	*	*
Marcelo Rabach	*	*	—	—	*	*
Sebastian Magnasco	*	*	—	—	*	*
Raul Mandía	*	*	—	—	*	*
Pablo Rodriguez de la Torre	*	*	—	—	*	*
Horacio Sbrolla	*	*	—	—	*	*
Marlene Fernandez	*	*	—	—	*	*

\* Each of these directors and officers beneficially owns less than 1% of the total number of outstanding class A shares.

(1) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.

(2) Los Laureles Ltd. is beneficially owned by Mr. Staton, our Chairman and CEO. See “Item 7. Major Shareholders and Related Party Transactions—A. Major Shareholders—Los Laureles Ltd.”

(3) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Staton beneficially owns class A shares through direct and indirect ownership. On a combined basis, Mr. Staton is the beneficial owner of an aggregate of 40.0% of our total economic interests and 76.3% of our total voting interests.

As of the date of this annual report, our 13 officers had been granted (i) a total of 619,776 restricted share units, 886,306 options at an exercise price of \$21.20 per share, 295,499 stock options at an exercise price of \$14.35 per share and 138,230 stock options at an exercise price of \$14.31 per share pursuant to the 2011 Plan. For more information, see “—B. Compensation—Long-term and Equity Incentive Plans” above. Our non-executive directors had been granted a total of 53,652 stock options at an exercise price of \$14.35 per share and 100,332 stock options at an exercise price of \$14.31 per share pursuant to the 2011 Plan.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS****A. Major Shareholders**

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue a maximum of 420,000,000 class A shares, no par value per share, and 80,000,000 class B shares, no par value per share. Each of our class A shares entitles its holder to one vote. Each of our class B shares entitles its holder to five votes. Los Laureles Ltd., our controlling shareholder, owns 38.1% of our issued and outstanding share capital, and 75.5% of our voting power by virtue of its ownership of 100% of our class B shares. The following table presents the beneficial ownership of our shares as of the date of this annual report:

Shareholder	Class A Shares	% of Outstanding Class A Shares	Class B Shares	% of Outstanding Class B Shares	Total Economic Interest	Total Voting Interest(1)
Los Laureles Ltd(2)(3)	—	—	80,000,000	100.0%	38.1%	75.5%
Woods Staton(3)	4,032,424	3.1%	—	—	1.9%	0.8%
Capital World Investors(4)	15,632,352	12.0%	—	—	7.4%	3.0%
Massachusetts Financial Services Company(5)	12,929,080	10.0%	—	—	6.2%	2.4%
Capital Group International, Inc.(6)	18,085,232	13.9%	—	—	8.6%	3.4%
Baillie Gifford & Co(7)	11,735,552	9.0%	—	—	5.6%	2.2%
Coronation Asset Management (Pty) Ltd.(8)	8,601,103	6.6%	—	—	4.1%	1.6%
William H. Gates III(9)	8,641,400	6.7%	—	—	4.1%	1.6%
Public	50,210,283	38.7%	—	—	23.9%	9.5%
<b>Total</b>	<b>129,867,426</b>	<b>100.0%</b>	<b>80,000,000</b>	<b>100.0%</b>	<b>100.0%(10)</b>	<b>100.0%(10)</b>

- (1) Class A shares are entitled to one vote per share and class B shares are entitled to five votes per share.
- (2) The address of Los Laureles Ltd. is 325 Waterfront Drive, Omar Hodge Building, 2nd Floor, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Los Laureles Ltd. is beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. See “—Los Laureles Ltd.”
- (3) In addition to the class B shares he beneficially owns through Los Laureles Ltd., Mr. Staton beneficially owns class A shares through direct and indirect ownership. On a combined basis, Mr. Staton is the beneficial owner of an aggregate of 40.0% of the total economic interests of Arcos Dorados and 76.3% of its total voting interests.
- (4) Capital World Investors, a division of Capital Research and Management Company (CRMC), filed with the SEC a Schedule 13G/A dated February 7, 2014. Based solely on the disclosure set forth in such Schedule 13G/A, Capital World Investors has sole voting power with respect to 15,632,352 class A shares and sole dispositive power with respect to 15,632,352 class A shares, but has disclaimed beneficial ownership of these class A shares. Capital World Investors is deemed to be the beneficial owner of these class A shares as a result of CRMC acting as investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940. The address of Capital World Investors is 333 South Hope Street, Los Angeles, CA 90071.
- (5) Massachusetts Financial Services Company filed with the SEC a Schedule 13G/A dated February 12, 2014. Based solely on the disclosure set forth in such Schedule 13G/A, Massachusetts Financial Services Company has sole voting power with respect to 12,628,596 class A shares and sole dispositive power with respect to 12,929,080 class A shares. The address of Massachusetts Financial Services Company is 111 Huntington Avenue, Boston, MA 02199.
- (6) Capital Group International, Inc. filed with the SEC a Schedule 13G/A dated February 10, 2014. Based solely on the disclosure set forth in such Schedule 13G/A, Capital Group International, Inc. has sole voting power with respect to 17,461,032 class A shares and sole dispositive power with respect to 18,085,232 class A shares, but Capital Group International, Inc. has disclaimed beneficial ownership of these class A shares. Capital Group International, Inc. is the parent holding company of a group of investment management companies that hold investment power and, in some cases, voting power over the class A shares reported in such Schedule 13G/A. The address of Capital Group International, Inc. is 11100 Santa Monica Blvd., Los Angeles, CA 90025.

- (7) Baillie Gifford & Co, a Scottish partnership, filed with the SEC a Schedule 13G/A dated January 17, 2014. Based solely on the disclosure set forth in such Schedule 13G/A, Baillie Gifford & Co has sole voting power with respect to 9,318,385 class A shares and sole dispositive power with respect to 11,735,552 class A shares. Securities reported on such Schedule 13G/A as being beneficially owned by Baillie Gifford & Co are held by Baillie Gifford & Co and/or one or more of its investment adviser subsidiaries, which may include Baillie Gifford Overseas Limited, on behalf of investment advisory clients, which may include investment companies registered under the Investment Company Act, employee benefit plans, pension funds or other institutional clients. The address of Baillie Gifford & Co is Calton Square, 1 Greenside Row, Edinburgh EH1 3AN, Scotland, UK.
- (8) Coronation Asset Management (Pty) Ltd. filed with the SEC a Schedule 13G dated February 14, 2014. Based solely on the disclosure set forth in such Schedule 13G, Coronation Asset Management (Pty) Ltd. has sole voting power with respect to 8,601,103 class A shares and sole dispositive power with respect to 8,601,103 class A shares. The address of Coronation Asset Management (Pty) Ltd. is 7th Fl. Montclare Centre, CNR Main and Campground Rd., Claremont, Cape Town T3 7708, South Africa.
- (9) William H. Gates III (“Mr. Gates”) indirectly owns Class A shares through Cascade Investment, LLC (“Cascade”) and the Bill & Melinda Gates Foundation Trust (the “Trust”). Cascade, the Trust, Mr. Gates and Melinda French Gates (“Mrs. Gates”) filed with the SEC a Schedule 13G dated March 13, 2014. Based solely on the disclosure set forth in such Schedule 13G, (i) Cascade has sole voting power with respect to 5,580,900 class A shares and sole dispositive power with respect to 5,580,900 class A shares; (ii) the Trust has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares; (iii) Mr. Gates has shared voting power with respect to 8,641,400 class A shares and shared dispositive power with respect to 8,641,400 class A shares; and (iv) Mrs. Gates has shared voting power with respect to 3,060,500 class A shares and shared dispositive power with respect to 3,060,500 class A shares. The address of Cascade Investment, LLC is 2365 Carillon Point, Kirkland, Washington 98033. The address of the Trust and Mrs. Gates is 500 Fifth Avenue North, Seattle, Washington 98119. The address of Mr. Gates is One Microsoft Way, Redmond, Washington 98052.
- (10) Does not sum due to rounding.

***Los Laureles Ltd.***

Los Laureles Ltd. is our controlling shareholder and is beneficially owned by Mr. Staton, our Chairman and CEO. Los Laureles Ltd. currently owns 38.1% of the economic interests of Arcos Dorados and 75.5% of its voting interests. Los Laureles Ltd. has established a voting trust with respect to the voting interests in us held by Los Laureles Ltd. Los Laureles Ltd. is the beneficiary of the voting trust. The voting trust exercises the vote of the class B shares through a voting committee which consists of only Mr. Staton. The decision of the voting committee must be approved by Los Laureles (PTC) Limited, a British Virgin Islands company that is a wholly-owned subsidiary of Los Laureles Limited. Mr. Staton is the sole director of Los Laureles (PTC) Limited. Without the consent of McDonald’s, Mr. Staton may add any one or more of his descendants, certain other relatives, any board member of Arcos Dorados and the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados to the committee.

Following Mr. Staton’s death or during Mr. Staton’s incapacity, the voting committee will consist of (1) certain officers or directors of Arcos Dorados, (2) certain descendants of Mr. Staton or their representatives, and (3) other persons appointed by Los Laureles (PTC) Limited, subject to McDonald’s consent if such person is not one of Mr. Staton’s descendants and is not the chief executive officer, chief operating officer or chief financial officer of Arcos Dorados. For the first five years from the date of the execution of the voting trust, the officers and directors of Arcos Dorados on the voting committee will have the tie-breaking vote (if any). Thereafter, Mr. Staton’s descendants will have the tie-breaking vote.

***Significant Changes in Ownership by Major Shareholders***

We have experienced significant changes in the percentage ownership held by major shareholders as a result of our initial public offering and follow-on offering. Prior to our initial public offering in April 2011, our principal shareholders were Los Laureles Ltd. (40.0% economic, 76.9% voting), Gavea Investment AD, L.P. (26.1% economic, 10.0% voting) and investment funds controlled by Capital International, Inc. (20.4% economic, 7.9% voting) and DLJ South American Partners L.L.C. (through its affiliates) (13.2% economic, 5.1% voting).

On April 19, 2011, we completed our initial public offering and listed our class A shares on the New York Stock Exchange. In the initial public offering, we sold 9,529,412 class A shares and Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates) sold 74,977,376 class A shares, including 11,022,624 class A shares sold to the underwriters pursuant to the underwriters’ over-allotment option. On October 25, 2011, we completed a follow-on offering in which Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates) sold the remainder of their shareholdings.

As of April 24, 2014, there were four class A shareholders of record. We believe the number of beneficial owners is substantially greater than the number of record holders because a large portion of class A shares is held in “street name” by brokers.

## **B. Related Party Transactions**

### **Axionlog Split-off**

In March 2011, we effected a split-off of Axionlog (formerly known as Axis) to our principal shareholders. The split-off was effected through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its principal shareholders its equity interests in the operating subsidiaries of the Axionlog business totaling a net book value of \$15.4 million and an equity contribution that was made to the Axionlog holding company amounting to \$29.8 million. Following the redemption, Los Laureles Ltd. acquired the Axionlog shares held by Gavea Investment AD, L.P. and investment funds controlled by Capital International, Inc. and DLJ South American Partners L.L.C. (through its affiliates). The split-off of Axionlog did not have a material effect on our results of operations or financial condition.

In 2011, we entered into a master commercial agreement with Axionlog on arm's-length terms pursuant to which Axionlog continues to provide us with distribution services in Argentina, Chile, Colombia, Mexico and Venezuela. On November 9, 2011, we entered into a revolving loan agreement with Axionlog B.V. (formerly known as Axis Distribution B.V.), a holding company of the Axionlog business, pursuant to which we agreed to lend Axionlog the total sum of \$12.0 million at an interest rate of LIBOR plus 6%. This revolving loan facility will mature on November 7, 2016. During 2013 and 2012, Axionlog B.V. borrowed \$2.0 million and 7.0 million, respectively, from us in connection with this revolving loan facility.

See Note 25 to our consolidated financial statements for details of the outstanding balances and transactions with related parties as of December 31, 2013 and 2012 and for the fiscal years ended December 31, 2013, 2012 and 2011.

### **C. Interests of Experts and Counsel**

Not applicable.

## **ITEM 8. FINANCIAL INFORMATION**

### **A. Consolidated Statements and Other Financial Information**

#### **Financial statements**

See "Item 18. Financial Statements," which contains our financial statements prepared in accordance with U.S. GAAP.

#### **Legal Proceedings**

##### ***Puerto Rican Franchisees***

In January 2007, several Puerto Rican franchisees filed a lawsuit against McDonald's and certain subsidiaries, which we purchased in the Acquisition. The lawsuit was filed before the Puerto Rico Court of First Instance in San Juan, Puerto Rico and originally sought declaratory judgment and damages in the amount of \$11 million plus plaintiffs' attorney fees. In January 2008, the plaintiffs filed an amended complaint that increased the amount of damages sought to \$66.7 million plus plaintiffs' attorneys' fees. The complaint, as amended, requests that the court declare that the plaintiffs' respective franchise agreements and contractual relationships with McDonald's Corporation, which agreements and relationships were assigned or otherwise transferred to us as part of the Acquisition, are governed by the Dealers' Act of Puerto Rico, or Law 75, a Puerto Rican law that limits the grounds under which a principal may terminate or refuse to renew a distribution contract. The complaint also seeks preliminary and permanent injunctions to restrict us from declining to renew the plaintiffs' agreements except for just cause, and to prohibit us from opening restaurants or kiosks within a 3-mile radius of a franchisee's restaurant. In September 2008, we filed a counter-suit requesting the termination of the franchise agreements with these franchisees due to several material breaches. On December 23, 2010, the Commissioner assigned by the Court of

First Instance to this case issued a resolution holding that Law 75 applies to the parties' commercial relationship. On July 20, 2011, the Court of First Instance adopted the Commissioner's determination with respect to the application of Law 75. This determination is an interlocutory determination that defines the legislation applicable to the franchisee rights and obligations. Law 75 will be the applicable law during the trial process. After the trial's conclusion, we can still reiterate in appeal the position that Law 75 does not apply to the franchised agreements. The franchisees will still need to demonstrate and prove that the franchisor has breached their respective contracts. Therefore, no provision has been recorded regarding this lawsuit because we believe that a final negative resolution has a low probability of occurrence.

Both parties have concluded discovery and the pretrial hearing was held on August 30, 2012. The trial commenced on September 10, 2012 and was heard by the court-assigned commissioner. We have had several trial hearings since 2012. We do not anticipate that the trial hearings will conclude in the first semester of 2014.

### ***Brazilian Labor Litigation***

In August 2012, the Public Labor Ministry of the State of Pernambuco (*Ministério Público do Trabalho do Estado de Pernambuco*) in Brazil filed a civil complaint against us in the Labor Court of Pernambuco (*Justiça do Trabalho de Pernambuco*) in order to (i) compel us to change the variable work schedule applicable to our 14 restaurants in Pernambuco, which is a state in northeastern Brazil, to a fixed work schedule, (ii) seek fines of R\$3,000 per employee per month for alleged noncompliance with labor laws related to, for example, overtime payment, breaks between workdays, night shift premiums, duration of breaks and weekly rest time, (iii) seek a penalty of R\$20,000 related to the non-exhibition of documentation relating to audit labor inspections and (iv) seek collective damages of R\$30,000,000 related to the variable work schedule practices in Pernambuco in recent years. The first hearing was scheduled for March 21, 2013.

On February 22, 2013, the Public Labor Ministry of the State of Pernambuco filed an additional petition seeking the extension of the original complaint throughout Brazil and increasing the amount of collective damages requested from R\$30,000,000 to R\$50,000,000. The Public Labor Ministry of the State of Pernambuco also added a demand that all employees should be allowed to bring their own meals for consumption during breaks in our restaurants.

On March 19, 2013, the Labor Court of Pernambuco ruled that we are required to implement a fixed work schedule for all of our employees in Brazil, with the exception of the regions (which represent approximately 80% of our employees in Brazil) where we have already signed a commitment or have obtained favorable legal decisions. The Labor Court of Pernambuco also held that our employees should be allowed to bring their own meals and approved the fine of R\$3,000 for alleged noncompliance with labor laws, as described above, and the penalty of R\$20,000 related to the non-exhibition of documentation relating to audit labor inspections.

On March 21, 2013, at a hearing before the Labor Court of Pernambuco, we agreed with the Public Labor Ministry of the State of Pernambuco to the following terms:

- our commitment to implement a fixed work schedule in the states of Sergipe, Espírito Santo, Bahia, Santa Catarina and Rio Grande do Sul;
- our commitment to comply with overtime payment, breaks between workdays, night shift premiums, duration of breaks, and weekly rest time requirements, among others requirements;
- a reduction of the fine for proved alleged noncompliance with the abovementioned items from R\$3,000 to R\$2,000 per employee per month;
- a reduction of the penalty for the non-exhibition of documentation relating to audit labor inspections from R\$20,000 to R\$2,000;
- the temporary stay for 60 days of the requirement to allow employees to bring their own meals;
- non-recognition of collective damages, provided that we will pay an amount of R\$1.5 million in cash to the states of Pernambuco, Rio de Janeiro and Paraná (R\$0.5 million each) on June 21, 2013 and we will incur an aggregate amount of R\$6.0 million over the course of four years (R\$1.5 million in January of each of 2014, 2015, 2016 and 2017) in advertising as part of a national communications campaign for educational or health purposes to be determined by the Public Labor Ministry of the State of Pernambuco by June 2013.

The claim to guarantee the payment of the minimum wage independently of working hours is currently on hold but will continue to be subject to legal discussion. No provision has been recorded regarding this claim because we believe that a final negative resolution has a low probability based on the fact that this labor practice complies with prevailing laws and regulations. The Labor Prosecutor has begun audits in order to confirm compliance with the terms of the settlement. Pursuant to the terms of the settlement, on June 21, 2013 we paid an aggregate amount of R\$1.5 million in cash to the states of Pernambuco, Rio de Janeiro and Paraná (R\$0.5 million each). On February 24, 2014, Arcos Dourados and the Labor Prosecutor agreed on the schedule and terms relating to the payment of up to an aggregate amount of R\$1.5 million throughout 2014 to fund communications campaigns for the Public Labor Ministry of the State of Pernambuco. The payments will be made at the time of each campaign. As of the date of this annual report we are still in the process of complying with the additional terms of the settlement.

#### ***Retained Lawsuits and Contingent Liabilities***

We have certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. As of December 31, 2013 we maintained a provision for contingencies amounting to \$22.3 million (\$27.8 million as of December 31, 2012), which is disclosed net of judicial deposits amounting to \$7.5 million (\$7.2 million as of December 31, 2012) that we were required to make in connection with the proceedings. As of December 31, 2013, the net amount of \$14.8 million was disclosed as follows: \$1.7 million as a current liability and \$13.1 million as a non-current liability. See Note 17 to our consolidated financial statements for more details.

Pursuant to the Acquisition, McDonald's Corporation indemnifies us for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisee lawsuit. As of December 31, 2013, the non-current portion of the provision for contingencies included \$3.7 million (\$5.7 million as of December 31, 2012) related to Brazilian claims that are covered by the indemnification agreement. As a result, we have recorded a non-current asset in respect of McDonald's Corporation's indemnity in our consolidated balance sheet.

Several of these proceedings have already been resolved successfully, either by a judicial decision or a cash settlement. The cash settlements were made pursuant to a recent reopening of a 2009 amnesty granted by the Brazilian federal government, in which McDonalds opted to participate. The amnesty was originally granted in 2009 as a way to reduce litigation with federal authorities and increase tax collection during the financial crisis. The amnesty allowed Brazilian tax payers to settle federal tax debts under favorable conditions, including reduced penalties and interest and the ability to pay principal in up to 180 installments. The remaining retained proceedings are pending a final decision.

As of December 31, 2013, there are certain matters related to the interpretation of tax law for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$13.0 million and \$20.0 million.

#### ***Other Proceedings***

In addition to the matters described above, we are from time to time subject to certain claims and party to certain legal proceedings incidental to the normal course of our business. In view of the inherent difficulty of predicting the outcome of legal matters, we cannot state with confidence what the eventual outcome of these pending matters will be, what the timing of the ultimate resolution of these matters will be or what the eventual loss, fines or penalties related to each pending matter may be. We believe that we have made adequate reserves related to the costs anticipated to be incurred in connection with these various claims and legal proceedings and believe that liabilities related to such claims and proceedings should not have, in the aggregate, a material adverse effect on our business, financial condition, or results of operations. However, in light of the uncertainties involved in these claims and proceedings, there is no assurance that the ultimate resolution of these matters will not significantly exceed the reserves currently accrued by us; as a result, the outcome of a particular matter may be material to our operating results for a particular period, depending upon, among other factors, the size of the loss or liability imposed and the level of our income for that period.

#### **Dividends and Dividend Policy**

Our Board of Directors considers the legal requirements with regard to our net income and retained earnings and our cash flow generation, targeted leverage ratios and debt covenant requirements in determining the amount of dividends to be paid, if any. Dividends may only be paid in accordance with the provisions of our memorandum and articles of association and Section 57 of the BVI Business Companies Act, 2004 (as amended) and after having fulfilled our capital expenditures program and after satisfying our indebtedness and liquidity thresholds, in that

order. Pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company.

On March 22, 2013, we declared a dividend of \$50.0 million for 2013, which was paid in four equal installments on April 5, 2013, July 5, 2013, October 4, 2013 and January 3, 2014. On March 7, 2014, we announced that our Board of Directors had approved a total dividend cash payment of \$50.0 million for 2014 to be paid in four equal installments. The payments will be made on April 1, July 1, October 1, 2014 and January 2, 2015, in each case in the aggregate amount of \$12.5 million on outstanding class A and class B shares to shareholders of record as of the close of business on March 26, June 26, September 26 and December 26, 2014, respectively.

Other than the 2013 and 2014 dividends, the only other dividends we have declared since the Acquisition are four \$12.5 million dividends in 2012, four \$12.5 million dividends in 2011 and a \$40 million dividend with respect to our results of operations for fiscal year 2009. All of these dividends have been paid in full.

The amounts and dates of future dividend payments, if any, will be subject to, among other things, the discretion of our Board of Directors. Accordingly, there can be no assurance that any future distributions will be made, or, if made, as to the amount of such distributions.

**B. Significant Changes**

None.

**ITEM 9. THE OFFER AND LISTING**

**A. Offering and Listing Details**

The following table shows the annual, quarterly and monthly ranges of the high and low per share closing sales price for our class A shares as reported by the New York Stock Exchange.

	<u>Low</u>	<u>High</u>
<b>Year Ended December 31:</b>		
2011 (since April 14, 2011)	\$ 19.55	\$ 28.52
2012	\$ 10.73	\$ 22.94
2013	\$ 10.60	\$ 15.46
<b>Year Ended December 31, 2011:</b>		
Second Quarter (since April 14, 2011)	\$ 20.15	\$ 24.73
Third Quarter	\$ 19.98	\$ 28.52
Fourth Quarter	\$ 19.55	\$ 25.74
<b>Year Ended December 31, 2012:</b>		
First Quarter	\$ 17.85	\$ 22.94
Second Quarter	\$ 12.39	\$ 19.02
Third Quarter	\$ 12.22	\$ 15.49
Fourth Quarter	\$ 10.73	\$ 15.83
<b>Year Ended December 31, 2013:</b>		
First Quarter	\$ 12.19	\$ 14.25
Second Quarter	\$ 11.59	\$ 15.46
Third Quarter	\$ 10.60	\$ 13.33
Fourth Quarter	\$ 11.19	\$ 12.48
<b>Year Ended December 31, 2014:</b>		
First Quarter	\$ 8.30	\$ 12.12
<b>Month Ended:</b>		
October 31, 2013	\$ 11.12	\$ 12.67
November 30, 2013	\$ 11.13	\$ 12.62
December 31, 2013	\$ 11.14	\$ 12.49
January 31, 2014	\$ 8.74	\$ 12.12
February 28, 2014	\$ 8.30	\$ 9.30
March 31, 2014	\$ 8.61	\$ 10.13
April 30, 2014 (through April 25)	\$ 9.45	\$ 10.40

**B. Plan of Distribution**

Not applicable.

**C. Markets**

Our class A shares have been listed on the New York Stock Exchange, or NYSE, since April 14, 2011 under the symbol “ARCO.” For information regarding the price history of our class A shares, see “—A. Offering and Listing Details.”

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issue**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION**

**A. Share Capital**

Not applicable.

**B. Memorandum and Articles of Association**

**General**

We are a British Virgin Islands company incorporated with limited liability and our affairs are governed by the provisions of our memorandum and articles of association, as amended and restated from time to time, and by the provisions of applicable British Virgin Islands law, including the BVI Business Companies Act, 2004, or the BVI Act.

Our company number in the British Virgin Islands is 1619553. As provided in sub-regulation 4.1 of our memorandum of association, subject to British Virgin Islands law, we have full capacity to carry on or undertake any business or activity, do any act or enter into any transaction and, for such purposes, full rights, powers and privileges. Our registered office is at Maples Corporate Services (BVI) Limited, Kingston Chambers, P.O. Box 173, Road Town, Tortola, British Virgin Islands.

The transfer agent and registrar for our class A and class B shares is Continental Stock Transfer & Trust Company, which maintains the share registrar for each class in New York, New York.

As of the date of this annual report, under our memorandum and articles of association, we are authorized to issue up to 420,000,000 class A shares and 80,000,000 class B shares. As of the date of this annual report, 129,867,426 class A shares and 80,000,000 class B shares were issued, fully paid and outstanding.

The maximum number of shares that we are authorized to issue may be changed by resolution of shareholders amending our memorandum and articles of association. Shares may be issued from time to time only by resolution of shareholders.

Our class A shares are listed on the New York Stock Exchange under the symbol “ARCO.”

The following is a summary of the material provisions of our memorandum and articles of association.

### **Class A Shares**

Holders of our class A shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class A shares:

- each holder of class A shares is entitled to one vote per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class A shares vote together with holders of class B shares;
- there are no cumulative voting rights;
- the holders of our class A shares are entitled to dividends and other distributions, *pari passu* with our class B shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class A shares will be entitled to share ratably, *pari passu* with our class B shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities; and
- the holders of class A shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions.

### **Class B Shares**

All of our class B shares are owned by Los Laureles Ltd. Holders of our class B shares may freely hold and vote their shares.

The following summarizes the rights of holders of our class B shares:

- each holder of class B shares is entitled to five votes per share on all matters to be voted on by shareholders generally, including the election of directors;
- holders of class B shares vote together with holders of class A shares;
- class B shares may not be listed on any U.S. or foreign national or regional securities exchange or market;
- there are no cumulative voting rights;
- the holders of our class B shares are entitled to dividends and other distributions, *pari passu* with our class A shares, as may be declared from time to time by our board of directors out of funds legally available for that purpose, if any, and pursuant to our memorandum and articles of association, all dividends unclaimed for three years after having been declared may be forfeited by a resolution of directors for the benefit of the Company;
- upon our liquidation, dissolution or winding up, the holders of class B shares will be entitled to share ratably, *pari passu* with our class A shares, in the distribution of all of our assets remaining available for distribution after satisfaction of all our liabilities;

- the holders of class B shares have preemptive rights in connection with the issuance of any securities by us, except for certain issuances of securities by us, including (i) pursuant to any employee compensation plans; (ii) as consideration for (a) any merger, consolidation or purchase of assets or (b) recapitalization or reorganization; (iii) in connection with a pro rata division of shares or dividend in specie or distribution; or (iv) in a bona fide public offering that has been registered with the SEC, but they are not entitled to the benefits of any redemption or sinking fund provisions;
- each class B share is convertible into one class A share at the option of the holder at any time, subject to the prior written approval of McDonald's; and
- each class B share will convert automatically into one class A share at such time as the holders of class B shares cease to hold, directly or indirectly, at least 20% of the aggregate number of outstanding class A and class B shares.

#### **Limitation on Liability and Indemnification Matters**

Under British Virgin Islands law, each of our directors and officers, in performing his or her functions, is required to act honestly and in good faith with a view to our best interests and exercise the care, diligence and skill that a reasonably prudent director would exercise in comparable circumstances. Our memorandum and articles of association provide that, to the fullest extent permitted by British Virgin Islands law or any other applicable laws, our directors will not be personally liable to us or our shareholders for any acts or omissions in the performance of their duties. This limitation of liability does not affect the availability of equitable remedies such as injunctive relief or rescission. These provisions will not limit the liability of directors under United States federal securities laws.

Our memorandum and articles of association provide that we shall indemnify any of our directors or anyone serving at our request as a director of another entity against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred in connection with legal, administrative or investigative proceedings or suits. We may pay any expenses, including legal fees, incurred by any such person in defending any legal, administrative or investigative proceedings in advance of the final disposition of the proceedings. If a person to be indemnified has been successful in defense of any proceedings referred to above, the director is entitled to be indemnified against all expenses, including legal fees, and against all judgments, fines and amounts paid in settlement and reasonably incurred by the director or officer in connection with the proceedings.

We may purchase and maintain insurance in relation to any of our directors, officers, employees, agents or liquidators against any liability asserted against them and incurred by them in that capacity, whether or not we have or would have had the power to indemnify them against the liability as provided in our memorandum and articles of association.

Insofar as indemnification for liabilities arising under the Securities Act of 1933, as amended, or the Securities Act, may be permitted to our directors, officers or controlling persons pursuant to the foregoing provisions, we have been informed that in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable as a matter of United States law.

#### **Shareholders' Meetings and Consents**

The following summarizes certain relevant provisions of British Virgin Islands laws and our articles of association in relation to our shareholders' meetings:

- the directors of the Company may convene meetings of shareholders at such times and in such manner and places within or outside the British Virgin Islands as the directors consider necessary or desirable; provided that at least one meeting of shareholders be held each year;
- upon the written request of shareholders entitled to exercise 30 percent or more of the voting rights in respect of the matter for which the meeting is requested, the directors are required to convene a meeting of the shareholders. Any such request must state the proposed purpose of the meeting;
- the directors convening a meeting must give not less than ten days' notice of a meeting of shareholders to: (i) those shareholders whose names on the date the notice is given appear as shareholders in the register of members of our company and are entitled to vote at the meeting, and (ii) the other directors;

- a meeting of shareholders held in contravention of the requirement to give notice is valid if shareholders holding at least 90 percent of the total voting rights on all the matters to be considered at the meeting have waived notice of the meeting and, for this purpose, the presence of a shareholder at the meeting shall constitute waiver in relation to all the shares that such shareholder holds;
- a shareholder may be represented at a meeting of shareholders by a proxy who may speak and vote on behalf of the shareholder;
- a meeting of shareholders is duly constituted if, at the commencement of the meeting, there are present in person or by proxy not less than 50 percent of the votes of the shares or class or series of shares entitled to vote on resolutions of shareholders to be considered at the meeting;
- if within two hours from the time appointed for the meeting a quorum is not present, the meeting, if convened upon the requisition of shareholders, shall be dissolved; in any other case it shall be adjourned to the next business day in the jurisdiction in which the meeting was to have been held at the same time and place or to such other date, time and place as the directors may determine, and if at the adjourned meeting there are present within one hour from the time appointed for the meeting in person or by proxy not less than one third of the votes of the shares or each class or series of shares entitled to vote on the matters to be considered by the meeting, those present shall constitute a quorum, but otherwise the meeting shall be dissolved. Notice of the adjourned meeting need not be given if the date, time and place of such meeting are announced at the meeting at which the adjournment is taken;
- a resolution of shareholders is valid (i) if approved at a duly convened and constituted meeting of shareholders by the affirmative vote of a majority of the votes of the shares entitled to vote thereon which were present at the meeting and were voted, or (ii) if it is a resolution consented to in writing by a majority of the votes of shares entitled to vote thereon; and
- an action that may be taken by the shareholders at a meeting may also be taken by a resolution of shareholders consented to in writing by a majority of the votes of shares entitled to vote thereon, without the need for any notice, but if any resolution of shareholders is adopted otherwise than by unanimous written consent of all shareholders, a copy of such resolution shall forthwith be sent to all shareholders not consenting to such resolution.

We held our most recent annual shareholder meeting on April 21, 2014 in Bogota, Colombia.

#### **Compensation of Directors**

The compensation of our directors is determined by our Board of Directors, and there is no requirement that a specified number or percentage of “independent” directors must approve any such determination.

#### **Differences in Corporate Law**

We were incorporated under, and are governed by, the laws of the British Virgin Islands. The corporate statutes of the State of Delaware and the British Virgin Islands in many respects are similar, and the flexibility available under British Virgin Islands law has enabled us to adopt a memorandum of association and articles of association that will provide shareholders with rights that, except as described in this annual report, do not vary in any material respect from those they would enjoy if we were incorporated under the Delaware General Corporation Law, or Delaware corporate law. Set forth below is a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders.

##### ***Director’s Fiduciary Duties***

Under Delaware corporate law, a director of a Delaware corporation has a fiduciary duty to the corporation and its shareholders. This duty has two components: the duty of care and the duty of loyalty. The duty of care requires that a director act in good faith, with the care that an ordinarily prudent person would exercise under similar circumstances. Under this duty, a director must inform himself of, and disclose to shareholders, all material information reasonably available regarding a significant transaction. The duty of loyalty requires that a director act in a manner he reasonably believes to be in the best interests of the corporation. He must not use his corporate position for personal gain or advantage. This duty prohibits self-dealing by a director and mandates that the best

interest of the corporation and its shareholders take precedence over any interest possessed by a director, officer or controlling stockholder and not shared by the shareholders generally. In general, actions of a director are presumed to have been made on an informed basis, in good faith and in the honest belief that the action taken was in the best interests of the corporation. However, this presumption may be rebutted by evidence of a breach of one of the fiduciary duties. Should such evidence be presented concerning a transaction by a director, a director must prove the procedural fairness of the transaction, and that the transaction was of fair value to the corporation.

British Virgin Islands law provides that every director of a British Virgin Islands company, in exercising his powers or performing his duties, shall act honestly and in good faith and in what the director believes to be in the best interests of the company. Additionally, the director shall exercise the care, diligence, and skill that a reasonable director would exercise in the same circumstances, taking into account the nature of the company, the nature of the decision and the position of the director and his responsibilities. In addition, British Virgin Islands law provides that a director shall exercise his powers as a director for a proper purpose and shall not act, or agree to the company acting, in a manner that contravenes British Virgin Islands law or the memorandum association or articles of association of the company.

#### ***Amendment of Governing Documents***

Under Delaware corporate law, with very limited exceptions, a vote of the shareholders is required to amend the certificate of incorporation. In addition, Delaware corporate law provides that shareholders have the right to amend the bylaws, and the certificate of incorporation also may confer on the directors the right to amend the bylaws. Our memorandum of association may only be amended by a resolution of shareholders, provided that any amendment of the provision related to the prohibition against listing our class B shares must be approved by not less than 50% of the votes of the class A shares entitled to vote that were present at the relevant meeting and voted. Our articles of association may also only be amended by a resolution of shareholders.

#### ***Written Consent of Directors***

Under Delaware corporate law, directors may act by written consent only on the basis of a unanimous vote. Similarly, under our articles of association, a resolution of our directors in writing shall be valid only if consented to by all directors or by all members of a committee of directors, as the case may be.

#### ***Written Consent of Shareholders***

Under Delaware corporate law, unless otherwise provided in the certificate of incorporation, any action to be taken at any annual or special meeting of shareholders of a corporation may be taken by written consent of the holders of outstanding stock having not less than the minimum number of votes that would be necessary to take that action at a meeting at which all shareholders entitled to vote were present and voted. As permitted by British Virgin Islands law, shareholders' consents need only a majority of shareholders signing to take effect. Our memorandum and articles of association provide that shareholders may approve corporate matters by way of a resolution consented to at a meeting of shareholders or in writing by a majority of shareholders entitled to vote thereon.

#### ***Shareholder Proposals***

Under Delaware corporate law, a shareholder has the right to put any proposal before the annual meeting of shareholders, provided it complies with the notice provisions in the governing documents. A special meeting may be called by the board of directors or any other person authorized to do so in the governing documents, but shareholders may be precluded from calling special meetings. British Virgin Islands law and our memorandum and articles of association provide that our directors shall call a meeting of the shareholders if requested in writing to do so by shareholders entitled to exercise at least 30% of the voting rights in respect of the matter for which the meeting is requested. Any such request must state the proposed purpose of the meeting.

#### ***Sale of Assets***

Under Delaware corporate law, a vote of the shareholders is required to approve the sale of assets only when all or substantially all assets are being sold. In the British Virgin Islands, shareholder approval is required when more than 50% of the company's total assets by value are being disposed of or sold if not made in the usual or regular course of the business carried out by the company. Under our memorandum and articles of association, the directors

may by resolution of directors determine that any sale, transfer, lease, exchange or other disposition is in the usual or regular course of the business carried on by us and such determination is, in the absence of fraud, conclusive.

### ***Dissolution; Winding Up***

Under Delaware corporate law, unless the board of directors approves the proposal to dissolve, dissolution must be approved in writing by shareholders holding 100% of the total voting power of the corporation. Only if the dissolution is initiated by the board of directors may it be approved by a simple majority of the corporation's outstanding shares. Delaware corporate law allows a Delaware corporation to include in its certificate of incorporation a supermajority voting requirement in connection with dissolutions initiated by the board. As permitted by British Virgin Islands law and our memorandum and articles of association, we may be voluntarily liquidated under Part XII of the BVI Act by resolution of directors and resolution of shareholders if we have no liabilities or we are able to pay our debts as they fall due.

### ***Redemption of Shares***

Under Delaware corporate law, any stock may be made subject to redemption by the corporation at its option, at the option of the holders of that stock or upon the happening of a specified event, provided shares with full voting power remain outstanding. The stock may be made redeemable for cash, property or rights, as specified in the certificate of incorporation or in the resolution of the board of directors providing for the issue of the stock. As permitted by British Virgin Islands law and our memorandum and articles of association, shares may be repurchased, redeemed or otherwise acquired by us. However, the consent of the shareholder whose shares are to be repurchased, redeemed or otherwise acquired must be obtained, except as described under “—Compulsory Acquisition” below. Moreover, our directors must determine that immediately following the redemption or repurchase we will be able to pay our debts as they become due and that the value of our assets will exceed our liabilities.

### ***Compulsory Acquisition***

Under Delaware General Corporation Law § 253, in a process known as a “short form” merger, a corporation that owns at least 90% of the outstanding shares of each class of stock of another corporation may either merge the other corporation into itself and assume all of its obligations or merge itself into the other corporation by executing, acknowledging and filing with the Delaware Secretary of State a certificate of such ownership and merger setting forth a copy of the resolution of its board of directors authorizing such merger. If the parent corporation is a Delaware corporation that is not the surviving corporation, the merger also must be approved by a majority of the outstanding stock of the parent corporation. If the parent corporation does not own all of the stock of the subsidiary corporation immediately prior to the merger, the minority shareholders of the subsidiary corporation party to the merger may have appraisal rights as set forth in § 262 of the Delaware General Corporation Law.

Under the BVI Act, subject to any limitations in a company's memorandum or articles, members holding 90% of the votes of the outstanding shares entitled to vote, and members holding 90% of the votes of the outstanding shares of each class of shares entitled to vote, may give a written instruction to the company directing the company to redeem the shares held by the remaining members. Upon receipt of such written instruction, the company shall redeem the shares specified in the written instruction, irrespective of whether or not the shares are by their terms redeemable. The company shall give written notice to each member whose shares are to be redeemed stating the redemption price and the manner in which the redemption is to be effected. A member whose shares are to be so redeemed is entitled to dissent from such redemption, and to be paid the fair value of his shares, as described under “—Shareholders' Rights under British Virgin Islands Law Generally” below.

### ***Variation of Rights of Shares***

Under Delaware corporate law, a corporation may vary the rights of a class of shares with the approval of a majority of the outstanding shares of that class, unless the certificate of incorporation provides otherwise. As permitted by British Virgin Islands law and our memorandum of association, we may vary the rights attached to any class of shares only with the consent in writing of holders of not less than 50% of the issued shares of that class and of holders of not less than 50% of the issued shares of any other class which may be adversely affected by such variation.

### ***Removal of Directors***

Under Delaware corporate law, a director of a corporation with a classified board may be removed only for cause with the approval of a majority of the outstanding shares entitled to vote, unless the certificate of incorporation provides otherwise. Our memorandum and articles of association provide that directors may be removed at any time, with or without cause, by a resolution of shareholders or a resolution of directors.

In addition, directors are subject to rotational retirement every three years. The initial terms of office of the Class I, Class II and Class III directors have been staggered over a period of three years to ensure that all directors of the company do not face reelection in the same year.

### ***Mergers***

Under Delaware corporate law, one or more constituent corporations may merge into and become part of another constituent corporation in a process known as a merger. A Delaware corporation may merge with a foreign corporation as long as the law of the foreign jurisdiction permits such a merger. To effect a merger under Delaware General Corporation Law § 251, an agreement of merger must be properly adopted and the agreement of merger or a certificate of merger must be filed with the Delaware Secretary of State. In order to be properly adopted, the agreement of merger must be adopted by the board of directors of each constituent corporation by a resolution or unanimous written consent. In addition, the agreement of merger generally must be approved at a meeting of stockholders of each constituent corporation by a majority of the outstanding stock of the corporation entitled to vote, unless the certificate of incorporation provides for a supermajority vote. In general, the surviving corporation assumes all of the assets and liabilities of the disappearing corporation or corporations as a result of the merger.

Under the BVI Act, two or more BVI companies may merge or consolidate in accordance with the statutory provisions. A merger means the merging of two or more constituent companies into one of the constituent companies, and a consolidation means the uniting of two or more constituent companies into a new company. In order to merge or consolidate, the directors of each constituent BVI company must approve a written plan of merger or consolidation which must be authorized by a resolution of shareholders. One or more BVI companies may also merge or consolidate with one or more companies incorporated under the laws of jurisdictions outside the BVI, if the merger or consolidation is permitted by the laws of the jurisdictions in which the companies incorporated outside the BVI are incorporated. In respect of such a merger or consolidation a BVI company is required to comply with the provisions of the BVI Act, and a company incorporated outside the BVI is required to comply with the laws of its jurisdiction of incorporation.

Shareholders of BVI companies not otherwise entitled to vote on the merger or consolidation may still acquire the right to vote if the plan of merger or consolidation contains any provision which, if proposed as an amendment to the memorandum of association or articles of association, would entitle them to vote as a class or series on the proposed amendment. In any event, all shareholders must be given a copy of the plan of merger or consolidation irrespective of whether they are entitled to vote at the meeting or consent to the written resolution to approve the plan of merger or consolidation.

### ***Inspection of Books and Records***

Under Delaware corporate law, any shareholder of a corporation may for any proper purpose inspect or make copies of the corporation's stock ledger, list of shareholders and other books and records. Under British Virgin Islands law, members of the general public, on payment of a nominal fee, can obtain copies of the public records of a company available at the office of the British Virgin Islands Registrar of Corporate Affairs which will include the company's certificate of incorporation, its memorandum and articles of association (with any amendments) and records of license fees paid to date, and will also disclose any articles of dissolution, articles of merger and a register of charges if the company has elected to file such a register.

A member of a company is entitled, on giving written notice to the company, to inspect:

- (a) the memorandum and articles;
- (b) the register of members;
- (c) the register of directors; and
- (d) the minutes of meetings and resolutions of members and of those classes of members of which he is a member; and to make copies of or take extracts from the documents and records referred to in (a) to (d) above. Subject to the memorandum and articles, the directors may, if they are satisfied that it would be contrary to the company's interests to allow a member to inspect any document, or part of a document, specified in (b), (c) or (d) above, refuse to permit the member to inspect the document or limit the inspection of the document, including limiting the making of copies or the taking of extracts from the records.

Where a company fails or refuses to permit a member to inspect a document or permits a member to inspect a document subject to limitations, that member may apply to the court for an order that he should be permitted to inspect the document or to inspect the document without limitation.

A company is required to keep at the office of its registered agent the memorandum and articles of the company; the register of members maintained or a copy of the register of members; the register of directors or a copy of the register of directors; and copies of all notices and other documents filed by the company in the previous ten years.

Where a company keeps a copy of the register of members or the register of directors at the office of its registered agent, it is required to notify any changes to the originals of such registers to the registered agent, in writing, within 15 days of any change; and to provide the registered agent with a written record of the physical address of the place or places at which the original register of members or the original register of directors is kept. Where the place at which the original register of members or the original register of directors is changed, the company is required to provide the registered agent with the physical address of the new location of the records within fourteen days of the change of location.

A company is also required to keep at the office of its registered agent or at such other place or places, within or outside the British Virgin Islands, as the directors determine the minutes of meetings and resolutions of members and of classes of members; and the minutes of meetings and resolutions of directors and committees of directors. If such records are kept at a place other than at the office of the company's registered agent, the company is required to provide the registered agent with a written record of the physical address of the place or places at which the records are kept and to notify the registered agent, within 14 days, of the physical address of any new location where such records may be kept.

### ***Conflict of Interest***

Under Delaware corporate law, a contract between a corporation and a director or officer, or between a corporation and any other organization in which a director or officer has a financial interest, is not void as long as the material facts as to the director's or officer's relationship or interest are disclosed or known and either a majority of the disinterested directors authorizes the contract in good faith or the shareholders vote in good faith to approve the contract. Nor will any such contract be void if it is fair to the corporation when it is authorized, approved or ratified by the board of directors, a committee or the shareholders.

The BVI Act provides that a director shall, forthwith after becoming aware that he is interested in a transaction entered into or to be entered into by the company, disclose that interest to the board of directors of the company. The failure of a director to disclose that interest does not affect the validity of a transaction entered into by the director or the company, so long as the director's interest was disclosed to the board prior to the company's entry into the transaction or was not required to be disclosed because the transaction is between the company and the director himself and is otherwise in the ordinary course of business and on usual terms and conditions. As permitted by British Virgin Islands law and our memorandum and articles of association, a director interested in a particular transaction may vote on it, attend meetings at which it is considered and sign documents on our behalf which relate to the transaction, provided that the disinterested directors consent.

### ***Transactions with Interested Shareholders***

Delaware corporate law contains a business combination statute applicable to Delaware public corporations whereby, unless the corporation has specifically elected not to be governed by that statute by amendment to its certificate of incorporation, it is prohibited from engaging in certain business combinations with an "interested shareholder" for three years following the date that the person becomes an interested shareholder. An interested shareholder generally is a person or group who or that owns or owned 15% or more of the target's outstanding

voting stock within the past three years. This has the effect of limiting the ability of a potential acquirer to make a two-tiered bid for the target in which all shareholders would not be treated equally. The statute does not apply if, among other things, prior to the date on which the shareholder becomes an interested shareholder, the board of directors approves either the business combination or the transaction that resulted in the person becoming an interested shareholder. This encourages any potential acquirer of a Delaware public corporation to negotiate the terms of any acquisition transaction with the target's board of directors.

British Virgin Islands law has no comparable provision. As a result, we cannot avail ourselves of the types of protections afforded by the Delaware business combination statute. However, although British Virgin Islands law does not regulate transactions between a company and its significant shareholders, it does provide that these transactions must be entered into bona fide in the best interests of the company and not with the effect of constituting a fraud on the minority shareholders.

#### ***Independent Directors***

There are no provisions under Delaware corporate law or under the BVI Act that require a majority of our directors to be independent.

#### ***Cumulative Voting***

Under Delaware corporate law, cumulative voting for elections of directors is not permitted unless the company's certificate of incorporation specifically provides for it. Cumulative voting potentially facilitates the representation of minority shareholders on a board of directors since it permits the minority shareholder to cast all the votes to which the shareholder is entitled on a single director, which increases the shareholder's voting power with respect to electing such director. There are no prohibitions to cumulative voting under the laws of the British Virgin Islands, but our memorandum of association and articles of association do not provide for cumulative voting.

#### **Shareholders' Rights under British Virgin Islands Law Generally**

The BVI Act provides for remedies which may be available to shareholders. Where a company incorporated under the BVI Act or any of its directors engages in, or proposes to engage in, conduct that contravenes the BVI Act or the company's memorandum and articles of association, the BVI courts can issue a restraining or compliance order. Shareholders cannot also bring derivative, personal and representative actions under certain circumstances. The traditional English basis for members' remedies has also been incorporated into the BVI Act: where a shareholder of a company considers that the affairs of the company have been, are being or are likely to be conducted in a manner likely to be oppressive, unfairly discriminating or unfairly prejudicial to him, he may apply to the court for an order based on such conduct.

Any shareholder of a company may apply to court for the appointment of a liquidator of the company and the court may appoint a liquidator of the company if it is of the opinion that it is just and equitable to do so.

The BVI Act provides that any shareholder of a company is entitled to payment of the fair value of his shares upon dissenting from any of the following: (a) a merger, if the company is a constituent company, unless the company is the surviving company and the member continues to hold the same or similar shares; (b) a consolidation, if the company is a constituent company; (c) any sale, transfer, lease, exchange or other disposition of more than 50% in value of the assets or business of the company if not made in the usual or regular course of the business carried on by the company but not including (i) a disposition pursuant to an order of the court having jurisdiction in the matter, (ii) a disposition for money on terms requiring all or substantially all net proceeds to be distributed to the shareholders in accordance with their respective interest within one year after the date of disposition, or (iii) a transfer pursuant to the power of the directors to transfer assets for the protection thereof; (d) a redemption of 10% or fewer of the issued shares of the company required by the holders of 90% or more of the shares of the company pursuant to the terms of the BVI Act; and (e) an arrangement, if permitted by the court.

Generally any other claims against a company by its shareholders must be based on the general laws of contract or tort applicable in the British Virgin Islands or their individual rights as shareholders as established by the company's memorandum and articles of association.

## C. Material Contracts

### The MFAs

We received exclusive master franchising rights from McDonald's for the Territories on August 3, 2007 when Mr. Staton, our Chairman, CEO and controlling shareholder and our founding private equity shareholders purchased McDonald's LatAm business for \$698.1 million (including \$18.7 million of acquisition costs) and entered into the MFAs. Prior to the Acquisition, Mr. Staton had been the joint venture partner of McDonald's Corporation in Argentina for over 20 years and had served as President of McDonald's South Latin America division since 2004.

McDonald's has a longstanding presence in Latin America and the Caribbean dating to the opening of its first restaurant in Puerto Rico in 1967. Since then, McDonald's expanded its footprint across the region as consumer markets and opportunities arose, opening its first restaurants in Brazil in 1979, in Mexico and Venezuela in 1985 and in Argentina in 1986.

We hold our McDonald's franchise rights pursuant to the MFA for all of the Territories except Brazil, executed on August 3, 2007, as amended and restated on November 10, 2008 and as further amended on August 31, 2010 and June 3, 2011, entered into by us, our wholly owned subsidiary Arcos Dorados Coöperatieve U.A., Arcos Dorados B.V. (or these two entities together with us collectively, the Owner Entities), LatAm, LLC, or the Master Franchisee, certain subsidiaries of the Master Franchisee, Los Laureles, Ltd. and McDonald's. On August 3, 2007, our subsidiary Arcos Dourados Comercio de Alimentos Ltda., or the Brazilian Master Franchisee, and McDonald's entered into the separate, but substantially identical, Brazilian MFA, which was amended and restated on November 10, 2008.

The MFAs set forth McDonald's and our rights and obligations in respect of the ownership and operation of the McDonald's-branded restaurants located in the Territories. The MFAs do not include the following Latin American and Caribbean countries and territories, among others: Anguilla, Antigua and Barbuda, the Bahamas, Barbados, Belize, Bolivia, the British Virgin Islands, the Cayman Islands, Cuba, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guiana, Haiti, Honduras, Jamaica, Montserrat, Nicaragua, Paraguay, Suriname, St. Barthélemy, St. Kitts and Nevis, St. Lucia, St. Maarten, St. Vincent and the Grenadines, Turks & Caicos Islands and the U.S. Virgin Islands, with the exception of St. Croix and St. Thomas.

The material provisions of the MFAs are set forth below.

#### *Term*

The initial term of the franchise granted pursuant to the MFAs is 20 years for all of the Territories other than French Guiana, Guadeloupe and Martinique. After the expiration of the initial term, McDonald's may grant us an option to extend the term of the MFAs with respect to all Territories for an additional period of 10 years. The initial term of the franchise for French Guiana, Guadeloupe and Martinique is 10 years. We have the right to extend the term of the MFA with respect to French Guiana, Guadeloupe and Martinique for an additional term of 10 years.

#### *Our Right to Own and Operate McDonald's-Branded Restaurants*

Under the MFAs, in the Territories, we have the exclusive right to (i) own and operate, directly or indirectly, McDonald's restaurants, (ii) license and grant franchises with respect to McDonald's-branded restaurants, (iii) adopt and use, and to grant the right and license to franchisees to adopt and use, the McDonald's operations system in our restaurants, (iv) advertise to the public that we are a franchisee of McDonald's, and (v) to use, and to sublicense to our franchisees the right to use the McDonald's intellectual property solely in connection with the development, ownership, operation, promotion and management of our restaurants, and to engage in related advertising, promotion and marketing programs and activities.

Under the MFAs, McDonald's cannot grant the rights described in clauses (i), (ii) and (iii) of the preceding paragraph to any other person while the MFAs are in effect. Notwithstanding the foregoing, McDonald's has reserved, with respect to the McDonald's restaurants located in the Territories, all rights not specifically granted to us, including the right, directly or indirectly, to (i) use and sublicense the McDonald's intellectual property for all other purposes and means of distribution, (ii) sell, promote or license the sale of products or services under the intellectual property and (iii) use the intellectual property in connection with all other activities not prohibited by the MFAs.

In addition, under the MFAs, McDonald's provides us with know-how and new developments, techniques and improvements in the areas of restaurant management, food preparation and service, and operations manuals that contain the standards and procedures necessary for the successful operation of McDonald's-branded restaurants.

#### *Franchise Fees*

Under the MFAs, we are responsible for the payment to McDonald's of initial franchise fees, continuing franchise fees and transfer fees.

The initial franchise fee is payable upon the opening of a new restaurant and the extension of the term of any existing franchise agreement. For Company-operated restaurants, the initial fee is based on the term remaining under the MFAs for the country in which the restaurant is located. For franchised restaurants, we receive an initial fee from the franchisee based on the term of the franchise agreement (generally 20 years), and pay 50% of this fee to McDonald's.

The continuing franchise fee is paid, with respect to each calendar month, to McDonald's in an amount generally equal to 7% of the U.S. dollar equivalent of the gross sales, as defined therein, of each of the McDonald's restaurants in the Territories for that calendar month, minus, as applicable, a brand building adjustment. During the first 10 years of the MFAs, the brand building adjustment is 2% of the gross sales, for a net continuing franchise fee payment of 5% of the gross sales. During years 11 through 15 of the MFAs, the brand building adjustment will be 1% of the gross sales, for a net continuing franchise fee payment of 6%; and the brand building adjustment will be 0% thereafter, for a net continuing franchise fee payment of 7% of the gross sales. We are responsible for collecting the continuing franchise fee from our franchisees and must pay that amount to McDonald's. In the event that a franchisee does not pay the full amount of the fee or any of our subsidiaries are unable to transfer funds to us due to currency restrictions or otherwise, we are responsible for any resulting shortfall. See "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Our Business—Our financial condition and results of operations depend, to a certain extent, on the financial condition of our franchisees and their ability to fulfill their obligations under their franchise agreements" and "Item 3. Key Information—D. Risk Factors—Certain Factors Relating to Latin America and the Caribbean—We are subject to significant foreign currency controls in certain countries in which we operate."

In the event of a voluntary or involuntary transfer of any of the McDonald's restaurants located in the Territories to a person other than a subsidiary of ours or an affiliate of one of our franchisees, we must charge a transfer fee of not less than \$10,000, and must pay to McDonald's an amount equal to 50% of the fee charged.

All payments to McDonald's must be made in U.S. dollars, but are based on local currency exchange rates at the time of payment.

#### *Material Breach*

A material breach under the MFAs would occur if we, or our subsidiaries that are a party to the MFAs, materially breached any of the representations or warranties or obligations (not cured within 30 days after receipt of notice thereof from McDonald's) relating to or otherwise in connection with any aspect of the master franchise business, the franchised restaurants or any other matter in or affecting any one or more Territories. The following events, among others, constitute a material breach under the MFAs: our noncompliance with anti-terrorism or anti-corruption policies and procedures required by applicable law; our bankruptcy, insolvency, voluntary filing or filing by any other person of a petition in commercial insolvency; our conviction or that of our subsidiaries, or of our or our subsidiaries' agents or employees for a crime or offense that is punishable by incarceration for more than one year or a felony, or a crime or offense or the indictment on charges thereof that, in the determination of McDonald's, is likely to adversely affect the reputation of such person, any franchised restaurant or McDonald's; the entry of any judgment against us or our subsidiaries in excess of \$1,000,000 that is not duly paid or otherwise discharged within 30 days (unless such judgment is being contested on appeal in good faith); our failure to achieve (a) at least 80% of the targeted openings during any one calendar year of any restaurant opening plan; or (b) at least 90% of the targeted openings during the three-calendar year term of any restaurant opening plan; and our failure to comply with at least 80% of the funding requirements of any reinvestment plan with respect to any Territory for a period of one year.

*Business of the Company and the Other Owner Entities*

In addition to the payment of franchise fees described above, we and the other Owner Entities are subject to a variety of obligations and restrictions under the MFAs.

Under the MFAs, we cannot, directly or indirectly, enter into any other QSR business or any business other than the operation of McDonald's-branded restaurants in the Territories. Neither we nor any of the other Owner Entities can engage in a business other than holding, directly or indirectly, our equity interests. In addition, neither we nor any of the other Owner Entities can engage in any activity or participate in any business that competes with McDonald's business.

Under the MFAs, Los Laureles Ltd., a British Virgin Islands company beneficially owned by Mr. Staton, our Chairman, CEO and controlling shareholder, is required to own not less than 40% of our economic interests and 51% of our voting interests. The MFAs do provide an exception for any dilution following an initial public offering, so long as such dilution does not cause Los Laureles Ltd. to be diluted below 30% of our economic interests. Also, under the MFAs, we are required to own, directly or indirectly, 100% of the equity interests of our subsidiaries and cannot enter into any partnership, joint venture or similar arrangement without McDonald's consent. In addition, at least 50% of all McDonald's-branded restaurants in the Territories must be Company-operated restaurants.

*Real Estate*

Under the MFAs, we must own or lease the real estate property where all of our Company-operated restaurants are located. We cannot transfer or encumber any of the real estate properties that we own without McDonald's consent. Due to the geographic and commercial importance of certain restaurants, we may not sell certain "iconic" properties without the prior written consent of McDonald's. For certain of these selected properties, we have already perfected a first priority lien in favor of McDonald's.

Under the MFAs, no more than 50% of the total number of restaurants in each Territory, and no more than 10% of the total number of restaurants in all the Territories, can be located on real estate property that is owned, held or leased by our franchisees.

In addition, the MFA lists 25 restaurants that we are prohibited from selling or otherwise transferring without McDonald's consent.

*Transfer of Equity Interests or Significant Assets*

Under the MFAs, neither we nor any of the other Owner Entities can transfer or pledge the equity interests of any of our subsidiaries, or any significant portion of our assets, without McDonald's consent.

*Operational Control*

Under the MFAs, McDonald's is entitled to approve the appointment of our chief executive officer and our chief operating officer.

In the event that McDonald's modifies its standards applicable to technology and related equipment, we must purchase any new or modified technology, software, hardware or equipment necessary to comply with the modified standards.

*Restaurant Opening Plan and Reinvestment Plan*

Under the MFAs, we are required to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period during the term of the MFAs. The restaurant opening plan specifies the number and type of new restaurants to be opened in the Territories during the applicable three-year period, while the reinvestment plan specifies the amount we must spend reimagining or upgrading restaurants during the applicable three-year period. Prior to the expiration of the then-applicable three-year period we must agree with McDonald's on a subsequent restaurant opening plan and reinvestment plan.

As part of the reinvestment plan with respect to the three-year period that commenced on January 1, 2014, we must reinvest an aggregate of at least \$180 million in the Territories. In addition, we have committed to open 250

new restaurants during the current three-year restaurant opening plan. We estimate that the cost to comply with our restaurant opening commitments under the MFAs from 2014 through 2016 will be between \$175 million and \$350 million, depending on, among other factors, the type and location of restaurants we open. See “Item 4. Information on the Company—A. History and Development of the Company—Capital Expenditures and Divestitures.” In the event we are unable to reach an agreement on subsequent plans prior to the expiration of the then-existing plan, the MFAs provide for an automatic increase of 20% in the required amount of reinvestments as compared to the then-existing plan and a number of new restaurants no less than 210 multiplied by a factor that increases each period during the subsequent three-year restaurant opening plan.

#### *Advertising and Promotion Plan*

Under the MFAs, we must develop and implement a marketing plan with respect to each Territory that must be approved in advance by McDonald’s. The MFAs require us to spend at least 5% of our gross sales on advertisement and promotion activities. Our advertisement and promotion activities are guided by our overall marketing plan, which identifies the key strategic platforms that we aim to leverage in order to drive sales.

#### *Insurance*

Under the MFAs, we are required to acquire and maintain a variety of insurance policies with certain minimum coverage limits, including commercial general liability, workers compensation, “all risk” property and business interruption insurance, among others.

#### *Call Option Right and Security Interest in Equity Interests of the Company*

Under the MFAs, McDonald’s has the right, or Call Option, to acquire our non-public shares or our interests in one or more Territories upon: (i) the expiration of the initial term of the MFAs on August 2, 2027 if the initial term is not extended, (ii) the occurrence of a material breach of the MFAs or (iii) during the period of 12 months following the earlier of (x) the 18th month anniversary of the death or permanent incapacity of Mr. Staton or (y) the receipt by McDonald’s of notice from Mr. Staton’s heirs that they have elected to have the period of 12 months commence as of the date specified in the notice. McDonald’s generally has the right either to exercise the Call Option with respect to all of the Territories, or, in its sole discretion, with respect to the Territory or Territories identified by McDonald’s as being affected by such material breach or to which such material breach may be attributable except upon the occurrence of an initial material breach relating to any Territory or Territories in which there are less than 100 restaurants in operation. In such case, McDonald’s only has the right to acquire the equity interests of any of our subsidiaries in the relevant Territory or Territories. As of December 31, 2013, we had more than 100 restaurants in operation in each of Argentina, Brazil, Mexico, Puerto Rico and Venezuela. No other Territory had more than 85 restaurants in operation.

If McDonald’s exercises the Call Option upon the occurrence of the events described in clause (i) or (iii) of the preceding paragraph, it must pay a purchase price equal to 100% of the fair market value of our non-public shares. If the Call Option is exercised upon the occurrence of a material breach, however, the purchase price is reduced to 80% of the fair market value of all of our non-public shares or of all of the equity interests of the subsidiaries operating restaurants in the Territory related to such material breach, as applicable. The purchase price paid by McDonald’s upon exercise of the Call Option is, in all events, reduced by the amount of debt and contingencies and increased by the amount of cash attributable to the entity whose equity interests are being acquired pursuant to the Call Option. In the event McDonald’s were to exercise its right to acquire all of our non-public shares, McDonald’s would become our controlling shareholder.

If McDonald’s exercises the Call Option with respect to any of our subsidiaries (but not all of them) and the amount of debt and contingencies (minus cash) attributable to the equity interests of those subsidiaries is greater than the fair market value of those equity interests, we must, at our election, either (i) assume the debts and contingencies (minus cash) and deliver the equity interests to McDonald’s free of any obligations with respect thereto or (ii) pay to McDonald’s the absolute value of that amount. The fair market value of any of the equity interests is to be determined by internationally recognized investment banks without taking into consideration the debt, contingencies or cash attributable to the equity interests.

In order to secure McDonald’s right to exercise the Call Option, McDonald’s was granted a perfected security interest in the equity interests of the Master Franchisee, the Brazilian Master Franchisee and our subsidiaries other than our subsidiaries organized in Costa Rica, Mexico, French Guiana, Guadeloupe and Martinique. The equity

interests of our subsidiaries organized in Costa Rica and Mexico were transferred to a trust for the benefit of McDonald's. McDonald's does not have a security interest in the equity interests of our subsidiaries organized in French Guiana, Guadeloupe and Martinique.

The equity interests were transferred to Citibank, N.A., acting as escrow agent. Subject to the terms of the Escrow Agreement and the Intercreditor Agreement, upon McDonald's exercise of the Call Option and its payment of the respective purchase price, the escrow agent must transfer the equity interests, free of any liens or encumbrances, to McDonald's.

#### *Limitations on Indebtedness*

Under the MFAs, we cannot incur any indebtedness secured by the collateral pledged by us and certain of our subsidiaries in connection with the letters of credit or amend or waive any of the terms related to the collateral, without McDonald's consent. The pledged collateral includes the equity interests of certain of our subsidiaries, certain of our rights under certain of the Acquisition documents, franchise document payment rights, and our intercompany debt and notes.

Under the MFAs, we must maintain a fixed charge coverage ratio (as defined therein) at least equal to (a) 1.25 from August 31, 2010 through the fiscal quarter ended September 30, 2011 and (b) 1.50, commencing with the fiscal quarter ended December 31, 2011 and thereafter; and a leverage ratio (as defined therein) not in excess of (a) 5.0, from August 31, 2010 through the fiscal quarter ended June 30, 2011, (b) 4.75 for the fiscal quarter ended September 30, 2011, and (c) 4.25, commencing with the fiscal quarter ended December 31, 2011 and thereafter. As of December 31, 2013, our fixed charge coverage ratio was 1.65 and our leverage ratio was 3.84.

#### *Letters of Credit*

As security for the performance of our obligations under the MFAs, we have obtained (i) an irrevocable standby letter of credit in favor of McDonald's in an amount of \$65.0 million, issued by Credit Suisse acting as issuing bank through its Cayman Islands Branch, and (ii) an irrevocable standby letter of credit in favor of McDonald's in an amount of \$15.0 million, issued by Itaú Unibanco S.A. ("Itaú"), acting as issuing bank through its New York Branch. Both letters of credit expire on November 10, 2014, but we will be required by the MFAs to renew these letters of credit or obtain new standby letters of credit in the same amount.

The Credit Suisse letter of credit and reimbursement agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a partial Call Option, (v) our ability to guaranty obligations of our subsidiaries, and (vi) amendments to the credit agreement.

Credit Suisse, as issuing bank, has a security interest in certain of our rights under certain Acquisition documents, franchise document payment rights and our intercompany debt notes. In addition, our subsidiaries (other than those organized in Ecuador, French Guiana, Guadeloupe, Martinique and Peru, and certain subsidiaries organized in Argentina, Colombia and Mexico) guaranteed to Credit Suisse the full and prompt payment of our obligations under the Credit Suisse letter of credit and reimbursement agreement.

The letter of credit that we obtained from Itaú on May 9, 2011 effectively replaced the cash collateral that we had previously pledged in favor of McDonald's in an amount of \$15.0 million. The Itaú continuing standby letter of credit agreement contains a limited number of customary affirmative and negative covenants. These include limitations on (i) any transfer of the MFAs, (ii) amendment or waiver of the MFAs without the consent of the issuing bank, (iii) our leverage ratio, (iv) taking any action to elect to assume the debt of any of our subsidiaries upon McDonald's exercise of a Call Option, and (v) permitting ourselves or any of our subsidiaries to become insolvent.

We delivered a promissory note to Itaú in an amount of \$15.0 million evidencing our obligations to Itaú under the continuing standby letter of credit agreement and a guarantee letter from our Brazilian subsidiary guarantying the full and punctual payment when due of our obligations and liabilities to Itaú in respect of the Itaú letter of credit and the continuing standby letter of credit agreement, including without limitation our reimbursement obligations for any payments made by Itaú under the letter of credit.

### *Termination*

The MFAs automatically terminate without the need for any party to it to take any further action if any type of insolvency or similar proceeding in respect of us or any of the other Owner Entities commences.

In the event of the occurrence of certain material breaches, such as if we fail to comply with the reinvestment or restaurant opening plans, McDonald's has the right to terminate the MFAs.

Upon the termination of the MFAs, McDonald's has the right to acquire all, but not less than all, of our equity interests at fair market value, which is to be calculated by internationally recognized investment banks selected by us and McDonald's. The fair market value of our equity interests shall be calculated in U.S. dollars based on the amount that would be received for our equity interests in an arm's-length transaction between a willing buyer and a willing seller, taking into account the benefits provided by the MFAs.

### **The 2016 Notes, the 2019 Notes and the 2023 Notes**

For a description of the 2016 notes, the 2019 notes and the 2023 notes, see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—2016 Notes," "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—2019 Notes" and Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—2023 Notes," respectively.

### **The Revolving Credit Facility**

For a description of the revolving credit facility entered into by Arcos Dorados B.V. with Bank of America, N.A., see "Item 5. Operating and Financial Review and Prospects—B. Liquidity and Capital Resources—Revolving Credit Facility."

### **The 2012 Swap Transaction**

On August 13, 2012, we entered into an equity total return swap transaction, or the swap transaction, among us, our subsidiary Arcos Dorados B.V. and Goldman Sachs International, or GSI. The purpose of the swap transaction is to reduce the impact that class A share price volatility has on our income statement due to recognition of compensation expense from the long-term incentive plan that we implemented in 2008. See "Item 6. Directors, Senior Management and Employees—B. Compensation—Long-term and Equity Incentive Plans—Long-term Incentive Plan."

Under the terms of the swap transaction, we will receive from GSI any notional gains and dividends and/or pay to GSI any notional losses, as the case may be, from time to time on 2,272,551 class A shares, or the number of notional shares, as described below. The reference price for the swap transaction (which is equal to the Rule 10b-18 volume-weighted average price at which an affiliate of GSI initially acquired a number of class A shares equal to the number of notional shares to hedge GSI's equity price risk under the swap transaction, or the hedge shares) is \$13.7689 per class A share and is subject to adjustment in the event of certain corporate transactions and events. We will also make quarterly payments to GSI at a floating interest rate in an amount based on the equity notional amount of the swap transaction, which is equal to the number of notional shares, multiplied by the reference price (initially approximately \$31.3 million). The swap transaction will mature no later than September 2014, but we may reduce the number of notional shares underlying the swap transaction, and therefore the equity notional amount of the swap transaction, from time to time prior to maturity of the swap transaction, at our option, subject to certain limitations.

On March 26, 2013, we filed a shelf registration statement on Form F-3 and a prospectus supplement thereto with the SEC relating to the offering from time to time by GSI of up to 2,272,551 class A shares through its affiliate Goldman, Sachs & Co., or Goldman Sachs. We expect to effect share reductions at one or more times concurrently with, or shortly following, certain exercises of CADs by our employees under the long-term incentive plan, and we expect that each share reduction will correspond to a number of notional shares approximately equal to the number of class A shares underlying the CADs exercised by our employees. In connection with any share reduction and at maturity of the swap transaction, Goldman Sachs will offer and sell in a registered offering under the F-3 shelf registration statement and prospectus supplement thereto a number of hedge shares equal to the number of notional shares by which we elect to reduce the notional size of the swap transaction (in the case of any share reduction) or the total number of notional shares underlying the swap transaction at such time (at maturity of the swap transaction), as the case may be.

GSI will calculate our gain or loss under the swap transaction by comparing the average net price per share at which its affiliate sells hedge shares in such offering, or the final price, to the then-current reference price. At settlement following any share reduction and at maturity of the swap transaction:

- if the relevant final price is greater than the then-current reference price, we will realize a gain in respect of the relevant number of notional shares subject to such settlement (and GSI will make a cash payment to us in an amount equal to such gain); and
- if the relevant final price is less than the then-current reference price, we will realize a loss in respect of the relevant number of notional shares subject to such settlement (and we will make a cash payment to GSI in an amount equal to such loss).

In addition, we will receive at maturity of the swap transaction the aggregate amount of any quarterly cash dividends we pay per class A share, multiplied by the number of notional shares underlying the swap transaction as of the ex-dividend date for each such dividend.

As of the date of this annual report, Goldman Sachs has sold 1,250,000 class A shares under the F-3 shelf registration statement and prospectus supplement thereto. In connection with the sales of these class A shares, we have paid Goldman Sachs an aggregate amount of \$ 1,651,297.22 as settlement of the share reductions and an aggregate amount of fees amounting to \$ 80,272.16. Since the swap transaction is scheduled to mature no later than September 2014, we expect that Goldman Sachs will sell the remaining 1,022,551 shares this year.

#### **D. Exchange Controls**

There are currently no exchange control regulations in the BVI applicable to us or our shareholders. For information about any exchange controls or restrictions in Argentina, Brazil, Mexico, Puerto Rico and Venezuela, see “Item 3. Key Information—A. Selected Financial Data—Exchange Rates and Exchange Controls.”

#### **E. Taxation**

##### **British Virgin Islands Tax Considerations**

*The following summary contains a general description of certain British Virgin Islands tax consequences of the acquisition, ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to hold class A shares. The general summary is based upon the tax laws of the British Virgin Islands and regulations thereunder as of the date hereof, which are subject to change.*

We are not liable to pay any form of corporate taxation in the BVI and all dividends, interests, rents, royalties, compensations and other amounts paid by us to persons who are not persons resident in the BVI or providing services in the BVI are exempt from all forms of taxation in the BVI and any capital gains realized with respect to any shares, debt obligations, or other securities of ours by persons who are not persons resident in the BVI are exempt from all forms of taxation in the BVI.

No estate, inheritance, succession or gift tax, rate, duty, levy or other charge is payable by persons who are not persons resident in the BVI with respect to any shares, debt obligation or other securities of ours.

Subject to the payment of stamp duty on the acquisition or certain leasing of property in the BVI by us (and in respect of certain transactions in respect of the shares, debt obligations or other securities of BVI incorporated companies owning land in the BVI), all instruments relating to transfers of property to or by us and all instruments relating to transactions in respect of the shares, debt obligations or other securities of ours and all instruments relating to other transactions relating to our business are exempt from payment of stamp duty in the BVI.

There are currently no withholding taxes or exchange control regulations in the BVI applicable to us or our shareholders who are not providing services in the BVI.

EC Council Directive 2003/48/EC on the taxation of savings income (the “Directive”) is designed to facilitate the exchange of information on individuals’ savings income between the tax authorities of the members states of the European Union (each an “EU Member State”). The Directive and associated legislation provides that institutions, termed “paying agents”, must report to their local tax authority details of payments of interest or other similar income paid by them to an individual resident of or certain limited types of entities established in an EU Member State (each such individual or entity, an “Applicable Resident”). The local tax authority in turn must disclose to the tax authority in the EU Member State where the Applicable Resident is resident details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an Applicable Resident of that other EU Member State (the foregoing reporting and disclosure obligations being referred to as the “Automatic Exchange of Information Regime”). However, for a transitional period (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries), Austria and Luxembourg may instead apply (unless during such period they elect otherwise) a withholding system in relation to such payments (the foregoing withholding system being referred to as the “Transitional Withholding Tax Regime”).

A number of non-EU countries and certain dependent or associated territories of certain EU Member States (including the BVI; together with the EU Member States the “Applicable Jurisdictions”), have adopted measures similar to either the Automatic Exchange of Information Regime or the Transitional Withholding Tax Regime in relation to payments made by a paying agent within its jurisdiction to, or collected by such a paying agent for, an Applicable Resident. In addition, the EU Member States have entered into reciprocal provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a paying agent in an EU Member State to, or collected by such a paying agent for, an individual resident or certain limited types of entities established in one of those territories. In 2008, the European Commission proposed certain amendments to the Directive, which may, if implemented, amend or broaden the scope of the requirements described above.

The Directive was implemented in the BVI by way of a series of bilateral agreements with certain Applicable Jurisdictions together with amendments to the Mutual Legal Assistance (Tax Matters) Act, 2003. When the Directive was originally introduced, the BVI opted to give Applicable Residents the choice between the Automatic Exchange of Information Regime or a Transitional Withholding Tax Regime. However, pursuant to the Mutual Legal Assistance (Tax Matters) (Automatic Exchange Information) Order, 2011, with effect from 1 January 2012 paying agents established in the BVI are no longer subject to, or able to rely on, the Transitional Withholding Tax Regime as a way of complying with the Directive. Therefore, with effect from that date, paying agents in the BVI must comply with the Automatic Exchange of Information Regime.

There is no income tax treaty currently in effect between the United States and the BVI. However, a Tax Information Exchange Agreement (“TIEA”) is in place. The parties to the TIEA have agreed to provide assistance through the exchange of information relating to the administration and enforcement of the domestic laws of the parties concerning the taxes and the tax matters covered by the TIEA, including information that may be relevant to the determination, assessment, verification, enforcement, or collection of tax claims with respect to persons subject to such taxes, or to the investigation or prosecution of criminal tax evasion in relation to such persons.

#### **Material U.S. Federal Income Tax Considerations for U.S. Holders**

The following summary describes the material U.S. federal income tax consequences of the ownership and disposition of class A shares, but it does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a particular person’s decision to own such securities. This summary applies only to U.S. Holders (as defined below) that own class A shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of a U.S. Holder’s particular circumstances, including alternative minimum tax consequences, the potential application of the provisions of the Internal Revenue Code of 1986, as amended, (the “Code”) known as the Medicare contribution tax, and tax consequences applicable to certain U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities who use a mark-to-market method of tax accounting;

- persons holding class A shares as part of a hedge, “straddle,” wash sale, conversion transaction or integrated transaction or persons entering into a constructive sale with respect to the class A shares;
- persons whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar;
- tax exempt entities, including “individual retirement accounts” and “Roth IRAs”;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons that own or are deemed to own ten percent or more of our voting shares;
- persons who acquired our class A shares pursuant to the exercise of an employee stock option or otherwise as compensation; or
- persons holding class A shares in connection with a trade or business conducted outside the United States.

If an entity that is classified as a partnership for U.S. federal income tax purposes holds class A shares, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the activities of the partnership. Partnerships holding class A shares and partners in such partnerships are encouraged to consult their tax advisers as to the particular U.S. federal income tax consequences of holding and disposing of the class A shares.

This discussion is based upon the Code, administrative pronouncements, judicial decisions and final, temporary and proposed Treasury Regulations, all as of the date hereof, changes to any of which may affect the tax consequences described herein—possibly with retroactive effect.

A “U.S. Holder” is a holder who, for U.S. federal income tax purposes, is a beneficial owner of class A shares that is:

- (1) a citizen or individual resident of the United States;
- (2) a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia; or
- (3) an estate or trust the income of which is subject to U.S. federal income taxation regardless of its source.

U.S. Holders are encouraged to consult their tax advisers concerning the U.S. federal, state, local and foreign tax consequences of owning and disposing of class A shares in their particular circumstances.

This discussion assumes that we are not, and will not become, a passive foreign investment company, as described below.

#### ***Taxation of Distributions***

Distributions paid on class A shares, other than certain pro rata distributions of class A shares, will be treated as dividends to the extent paid out of our current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Because we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, we expect that distributions generally will be reported to U.S. Holders as dividends. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders may be eligible for taxation as “qualified dividend income” and therefore may be taxable at rates applicable to long-term capital gains. Non-corporate U.S. Holders should consult their tax advisers regarding the availability of the reduced tax rates on dividends in their particular circumstances. The amount of the dividend will be treated as foreign-source dividend income to U.S. Holders and will not be eligible for the dividends-received deduction generally available to U.S. corporations under the Code. Dividends will be included in a U.S. Holder’s income on the date of the U.S. Holder’s receipt of the dividend.

#### ***Sale or Other Taxable Disposition of Class A shares***

For U.S. federal income tax purposes, gain or loss realized on the sale or other taxable disposition of class A shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder owned the class A

shares for more than one year. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the class A shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. This gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes.

#### ***Passive Foreign Investment Company Rules***

We believe that we were not a "passive foreign investment company" (a "PFIC") for U.S. federal income tax purposes for our 2013 taxable year. However, because the application of the regulations is not entirely clear and because PFIC status depends on the composition of a company's income and assets and the market value of its assets from time to time, there can be no assurance that we will not be a PFIC for any taxable year.

If we were a PFIC for any taxable year during which a U.S. Holder owned class A shares, gain recognized by such U.S. Holder on a sale or other disposition (including certain pledges) of the class A shares would be allocated ratably over the U.S. Holder's holding period for the class A shares. The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability for each taxable year. Further, to the extent that any distribution received by a U.S. Holder on its class A shares exceeds 125% of the average of the annual distributions on the class A shares received during the preceding three years or such U.S. Holder's holding period, whichever is shorter, that distribution would be subject to taxation in the same manner as gain on the sale of a share of a PFIC, described immediately above. Certain elections may be available that would result in alternative treatments (such as mark-to-market treatment) of the class A shares. U.S. Holders are encouraged to consult their tax advisers to determine whether any of these elections would be available and, if so, what the consequences of the alternative treatments would be in their particular circumstances.

In addition, if we were to be treated as a PFIC in a taxable year in which we pay a dividend with respect to any U.S. Holder or in a prior taxable year, the long-term capital gains rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply.

If we are a PFIC for any taxable year during which a U.S. Holder owned our class A shares, the U.S. Holder will generally be required to file IRS Form 8621 (or any successor form) with their annual U.S. federal income tax returns, subject to certain exceptions.

#### ***Information Reporting and Backup Withholding***

Payments of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries generally are subject to information reporting, and may be subject to backup withholding, unless (i) the U.S. Holder is an exempt recipient or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that it is not subject to backup withholding.

The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the holder's U.S. federal income tax liability and may entitle it to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals may be required to report information relating to their ownership of stock of a non-U.S. person, subject to certain exceptions (including an exception for stock held in certain accounts maintained by a U.S. financial institution). Certain U.S. Holders that are entities may be subject to similar rules in the future. U.S. Holders are encouraged to consult their tax advisers regarding the effect, if any, of these reporting requirements on their ownership and disposition of class A shares.

#### **F. Dividends and Paying Agents**

Not applicable.

#### **G. Statement by Experts**

Not applicable.

## H. Documents on Display

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Accordingly, we are required to file reports and other information with the SEC, including annual reports on Form 20-F and reports on Form 6-K. You may inspect and copy reports and other information filed with the SEC at the Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Information on the operation of the Public Reference Room may be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an Internet website that contains reports and other information about issuers, like us, that file electronically with the SEC. The address of that website is [www.sec.gov](http://www.sec.gov).

As a foreign private issuer, we are exempt under the Exchange Act from, among other things, the rules prescribing the furnishing and content of proxy statements, and our executive officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as U.S. companies whose securities are registered under the Exchange Act.

We will send the transfer agent a copy of all notices of shareholders' meetings and other reports, communications and information that are made generally available to shareholders. The transfer agent has agreed to mail to all shareholders a notice containing the information (or a summary of the information) contained in any notice of a meeting of our shareholders received by the transfer agent and will make available to all shareholders such notices and all such other reports and communications received by the transfer agent.

## I. Subsidiary Information

Not applicable.

## ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

### Risk Management

In the ordinary course of our business activities, we are exposed to various market risks that are beyond our control, including fluctuations in foreign exchange rates and the price of our primary supplies, and which may have an adverse effect on the value of our financial assets and liabilities, future cash flows and profit. As a result of these market risks, we could suffer a loss due to adverse changes in foreign exchange rates and the price of commodities in the international markets. In addition, we are subject to equity price risk relating to our share-based compensation plans. Our policy with respect to these market risks is to assess the potential of experiencing losses and the consolidated impact thereof, and to mitigate these market risks. We are not currently exposed to significant interest rate risk because most of our long-term debt is at fixed interest rates. We do not enter into market risk sensitive instruments for trading or speculative purposes.

### Foreign Currency Exchange Rate Risk

#### *Foreign Currency Exchange Rate Risk in 2013*

We are exposed to foreign currency exchange rate risk primarily in connection with the fluctuation in the value of the local currencies of the countries in which we operate, primarily the Brazilian *real*, Argentine *peso* and the Venezuelan *bolivar*, against the U.S. dollar. We generate revenues and cash from our operations in local currencies while a significant portion of our long-term debt is denominated in U.S. dollars. An adverse change in foreign currency exchange rates would therefore affect the generation of cash flow from operations in U.S. dollars, which could negatively impact our ability to pay amounts owed in U.S. dollars. Moreover, our continuing franchise fee payments to McDonald's pursuant to the MFAs must be translated into and paid in U.S. dollars using the exchange rate of the last business day of the month, payable on the seventh day subsequent to each month-end. As such, in the intervening period we are subject to significant foreign exchange risk.

While substantially all our income is denominated in the local currencies of the countries in which we operate, our supply chain management involves the importation of various products, and some of our imports are denominated in U.S. dollars. Therefore, we are exposed to foreign currency exchange risk related to imports. We have entered into various forward contracts to hedge a portion of the foreign exchange risk associated with the

forecasted imports of certain countries. See Note 12 to our consolidated financial statements for more details. In addition, we attempt to minimize this risk also by entering into annual and semi-annual pricing arrangements with our main suppliers.

We are also exposed to foreign exchange risk related to U.S. dollar-denominated intercompany balances held by certain of our operating subsidiaries with our holding companies, and to foreign currency-denominated intercompany balances held by our holding companies with certain operating subsidiaries. Although these intercompany balances are eliminated through consolidation, an adverse change in exchange rates could have a significant impact on our results through the recognition of foreign currency exchange losses in our consolidated income statement.

To help mitigate some of these foreign currency exchange rate risks, we have entered into a cross-currency interest rate swap agreement, to hedge all the variability in a portion of the collection of principal and interest from the intercompany loan receivable denominated in Brazilian *reais* of our holding company, Arcos Dorados B.V. See Note 12 to our consolidated financial statements for more details. As of December 31, 2013, 37.1% of the principal amount of our long-term debt is denominated in *reais* and 60.4% is denominated in U.S. dollars.

A decrease of 10% in the value of the Brazilian *real* against the U.S. dollar would result in a net foreign exchange loss totaling \$2.6 million over (i) the outstanding balance of the 2016 notes (R\$711.5 million including accrued interest), (ii) the cross-currency interest rate swap used to partially hedge the intercompany loan receivable of Arcos Dorados B.V. denominated in Brazilian *reais* (R\$110.1 million including accrued interest), (iii) the Brazilian *reais*-denominated intercompany net receivable held by our subsidiary, Arcos Dorados B.V. (R\$647.8 million including accrued interest), and (iv) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$102.0 million as of December 31, 2013.

An increase of 10% in the value of the Argentine *peso* against the U.S. dollar would result in a foreign exchange loss of \$1.4 million over (i) the Argentine *peso* denominated intercompany payable held by our holding companies amounting to ARS\$229.1 million and (ii) the outstanding balance of the U.S. dollar-denominated intercompany net debt of our Argentine subsidiary amounting to \$22.7 million as of December 31, 2013.

An increase of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of \$0.9 million mainly related to the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$9.3 million as of December 31, 2013.

An increase of 10% in the value of the Uruguayan *peso* against the U.S. dollar would result in a foreign exchange loss of \$2.7 million over the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiaries in Uruguay of \$24.1 million as of December 31, 2013.

A decrease of 10% in the value of the Costa Rican *colon* against the U.S. dollar would result in a foreign exchange loss of \$0.9 million over the outstanding U.S. dollar-denominated intercompany debt held by our subsidiary in Costa Rica of \$10.3 million (including accrued interest) as of December 31, 2013.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2013 since there are no other significant intercompany balances exposed to foreign exchange risk.

We are also exposed to foreign currency exchange risk related to the currency translation of our Venezuelan operations. A depreciation of the Venezuelan *bolívar fuerte* against the U.S. dollar would result in a foreign currency exchange loss as a result of remeasuring monetary balances denominated in *bolívares fuertes*. See Notes 21 and 27 to our consolidated financial statements for details about exchange controls affecting our operations in Venezuela and new regulations announced subsequent to December 31, 2013.

#### **Summary of Foreign Currency Exchange Rate Risk in 2012**

As of December 31, 2012, a decrease of 10% in the value of the Brazilian *real* against the U.S. dollar would have resulted in a net foreign exchange loss totaling \$1.0 million over (i) the outstanding balance of the 2016 notes (R\$713.1 million including accrued interest), (ii) the cross-currency interest rate swap used to partially hedge the 2016 notes (R\$73.4 million including accrued interest), (iii) the Brazilian *reais*-denominated intercompany receivable held by our subsidiary, Arcos Dorados B.V. (R\$551.9 million including accrued interest), and (iv) the outstanding balance of the U.S. dollar-denominated intercompany net debt held by our Brazilian subsidiaries of \$53.6 million.

As of December 31, 2012, a decrease of 10% in the value of the Argentine *peso* against the U.S. dollar would result in a foreign exchange loss of \$6.0 million over the outstanding U.S. dollar-denominated intercompany debt held by our Argentine subsidiaries of \$65.6 million.

As of December 31, 2012, a decrease of 10% in the value of the Colombian *peso* against the U.S. dollar would result in a foreign exchange loss of \$1.2 million over the outstanding U.S. dollar-denominated intercompany debt held by our Colombian subsidiaries of \$13.1 million.

As of December 31, 2012, an increase of 10% in the value of the European euro against the U.S. dollar would result in a foreign exchange loss of \$0.9 million over the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Martinique of \$8.3 million.

As of December 31, 2012, an increase of 10% in the value of the Uruguayan *peso* against the U.S. dollar would result in a foreign exchange loss of \$2.2 million over the outstanding U.S. dollar-denominated intercompany receivable held by our subsidiary in Uruguay of \$19.7 million.

Fluctuations in the value of the other local currencies against the U.S. dollar would not result in material foreign exchange gains or losses as of December 31, 2012 since there are no other significant intercompany balances exposed to foreign exchange risk.

### **Commodity Price Risk**

We purchase our primary supplies, including beef, chicken, buns, produce, cheese, dairy mixes and toppings pursuant to oral agreements with our approved suppliers at prices that are derived from international market prices, local conversion costs and local tariffs and taxes. We therefore carry market risk exposure to changes in commodity prices that have a direct impact on our costs. We do not enter into futures or options contracts to protect ourselves against changes in commodity prices, although we may do so in the future. We attempt to minimize this risk by entering into annual and semi-annual pricing arrangements with our main suppliers. This allows us to provide cost predictability while avoiding the costs related to the use of derivative instruments, which we may not be able to pass on to our customers due to the competitive nature of the QSR industry.

### **Equity Price Risk**

On August 13, 2012, we entered into the swap transaction in order to mitigate the impact that the volatility of our class A share price has on our income statement due to recognition of compensation expense from our CADs. See “Item 6. Directors, Senior Management and Employees—B. Compensation—Long-term and Equity Incentive Plans—Long-term Incentive Plan.” Under the terms of the swap transaction, we will receive from GSI any notional gains and dividends and/or pay to GSI any notional losses, as the case may be, from time to time on 2,272,551 class A shares, or the number of notional shares. During 2013 we reduced the notional number of class A shares underlying the total equity return swap transaction by 1,250,000 shares to 1,022,551 shares.

The swap transaction will mature no later than September 2014, but we may reduce the number of notional shares underlying the swap transaction, and therefore the equity notional amount of the swap transaction, from time to time prior to maturity of the swap transaction, at our option, subject to certain limitations. See “Item 10. Additional Information—C. Material Contracts—The 2012 Swap Transaction.” We have significantly reduced our exposure to equity price risk from our CADs as a result of entering into this contract.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES**

**A. Debt Securities**

Not applicable.

**B. Warrants and Rights**

Not applicable.

**C. Other Securities**

Not applicable.

**D. American Depositary Shares**

Not applicable.

**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES**

**A. Defaults**

No matters to report.

**B. Arrears and Delinquencies**

No matters to report.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS**

**A. Material Modifications to Instruments**

None.

**B. Material Modifications to Rights**

None.

**C. Withdrawal or Substitution of Assets**

None.

**D. Change in Trustees or Paying Agents**

None.

**E. Use of Proceeds**

Not applicable.

**ITEM 15. CONTROLS AND PROCEDURES**

**A. Disclosure Controls and Procedures**

As of December 31, 2013, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we performed an evaluation of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act). There are inherent limitations to the effectiveness of any system of disclosure controls and procedures. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives.

Based on this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2013 in ensuring that information we are required to disclose in the reports that we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

**B. Management's Annual Report on Internal Control over Financial Reporting**

Our management is responsible for establishing and maintaining an adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act.

Our internal control over financial reporting is a process designed by, or under the supervision of, our principal executive and principal financial officers, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of our financial statements for external reporting purposes, in accordance with generally accepted accounting principles. These include those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements, in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorization of our management and directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, effective control over financial reporting cannot, and does not, provide absolute assurance of achieving our control objectives. Also, projections of, and any evaluation of effectiveness of the internal controls in future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have adapted our internal control over financial reporting based on the guidelines set by the Internal Control—Integrated Framework of the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework), or COSO.

Under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting as of December 31, 2013, based on the guidelines set forth by the COSO.

Based on this assessment, management believes that, as of December 31, 2013, its internal control over financial reporting was effective based on those criteria.

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2013.

### **C. Attestation Report of the Registered Public Accounting Firm**

Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, has audited and reported on the effectiveness of our internal controls over financial reporting as of December 31, 2013, as stated in their report which appears below.

### **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of

#### **ARCOS DORADOS HOLDINGS INC.:**

We have audited Arcos Dorados Holdings Inc. and subsidiaries' internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 Framework), (the COSO criteria). Arcos Dorados Holdings Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the

assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Arcos Dorados Holdings Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Arcos Dorados Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2013, and our report dated March 11, 2014 expressed an unqualified opinion thereon.

Buenos Aires, Argentina

March 11, 2014

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/s/ Pistrelli, Henry Martin y Asociados S.R.L.  
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
Member of Ernst & Young Global

#### **D. Changes in Internal Control over Financial Reporting**

There has been no change in our internal control over financial reporting identified in connection with the evaluation required by Rules 13a-15 or 15d-15 that occurred during the period covered by this annual report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

#### **ITEM 16. [RESERVED]**

#### **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT**

Our audit committee consists of three directors, Mr. Chu, Mr. Vélez and Mr. Ramírez-Magaña, who are independent within the meaning of the SEC and NYSE corporate governance rules applicable to foreign private issuers. Our board of directors has determined that Mr. Chu, Mr. Vélez and Mr. Ramírez-Magaña are also "audit committee financial experts" as defined by the SEC.

#### **ITEM 16B. CODE OF ETHICS**

Our Board of Directors has approved and adopted our Standards of Business Conduct, which are a code of ethics that applies to all employees of Arcos Dorados, including executive officers, and to our board members. The current version of the Standards of Business Conduct is posted and maintained on the Arcos Dorados website at [www.arcosdorados.com](http://www.arcosdorados.com). The information contained on our website is not a part of this annual report.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES**

The following table describes the amounts billed to us by Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm, for audit and other services performed in fiscal years 2013 and 2012.

	<b>2013</b>	<b>2012</b>
	<b>(in thousands of U.S. dollars)</b>	
Audit fees	\$ 3,236	\$ 2,824
Audit-related fees	63	65
Tax fees	852	921
All other fees	82	7

**Audit Fees**

Audit fees are fees billed for professional services rendered by the principal accountant for the audit of the registrant’s annual financial statements or services that are normally provided by the accountant in connection with statutory and regulatory filings or engagements for those fiscal years. It includes the audit of our annual consolidated financial statements, the reviews of our quarterly consolidated financial statements submitted on Form 6-K and other services that generally only the independent accountant reasonably can provide, such as comfort letters, statutory audits, attestation services, consents and assistance with and review of documents filed with the Securities and Exchange Commission.

**Audit-Related Fees**

Audit-related fees are fees billed for assurance and related services that are reasonably related to the performance of the audit or review of our consolidated financial statements for fiscal years 2013 and 2012 and not reported under the previous category. These services would include, among others: employee benefit plan audits, due diligence related to mergers and acquisitions, accounting consultations and audits in connection with acquisitions, internal control reviews, attest services that are not required by statute or regulation and consultation concerning financial accounting and reporting standards.

**Tax Fees**

Tax fees are fees billed for professional services for tax compliance, tax advice and tax planning.

**All Other Fees**

All other fees are fees not reported under other categories. This category mainly includes advisory services on process improvement related to diagnostics and recommendations.

**Pre-Approval Policies and Procedures**

Our audit committee charter requires the audit committee to pre-approve the audit services and non-audit services to be provided by our independent auditor before the auditor is engaged to render such services. The audit committee may delegate its authority to pre-approve services to the Chair of the audit committee, provided that such designees present any such approvals to the full audit committee at the next audit committee meeting.

All of the audit fees, audit-related fees, tax fees and all other fees described in this Item 16C have been pre-approved by the audit committee in accordance with these pre-approval policies and procedures.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS**

None.

## **ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT**

None.

## **ITEM 16G. CORPORATE GOVERNANCE**

Our class A shares are listed on the New York Stock Exchange, or NYSE. We are therefore required to comply with certain of the NYSE's corporate governance listing standards, or the NYSE Standards. As a foreign private issuer, we may follow our home country's corporate governance practices in lieu of most of the NYSE Standards. Our corporate governance practices differ in certain significant respects from those that U.S. companies must adopt in order to maintain NYSE listing and, in accordance with Section 303A.11 of the NYSE Listed Company Manual, a brief, general summary of those differences is provided as follows.

### ***Director independence***

The NYSE Standards require a majority of the membership of NYSE-listed company boards to be composed of independent directors. Neither British Virgin Islands law, the law of our country of incorporation, nor our memorandum and articles of association require a majority of our board to consist of independent directors. Our Board of Directors currently consists of ten members, four of whom are independent directors.

### ***Non-management directors' executive sessions***

The NYSE Standards require non-management directors of NYSE-listed companies to meet at regularly scheduled executive sessions without management. Our memorandum and articles of association do not require our non-management directors to hold such meetings.

### ***Committee member composition***

The NYSE Standards require NYSE-listed companies to have a nominating/corporate governance committee and a compensation committee that are composed entirely of independent directors. British Virgin Islands law, the law of our country of incorporation, does not impose similar requirements. We do not have a nominating/corporate governance committee. While we do have a compensation committee, none of the members of our compensation committee are independent.

### ***Independence of the compensation committee and its advisers***

On January 11, 2013, the SEC approved new NYSE listing standards that will require that the board of directors of a listed company consider two factors (in addition to the existing general independence tests) in the evaluation of the independence of compensation committee members: (i) the source of compensation of the director, including any consulting, advisory or other compensatory fees paid by the listed company, and (ii) whether the director has an affiliate relationship with the listed company, a subsidiary of the listed company or an affiliate of a subsidiary of the listed company. In addition, before selecting or receiving advice from a compensation consultant or other adviser, the compensation committee of a listed company will be required to take into consideration six specific factors, as well as all other factors relevant to an adviser's independence. Compliance with the compensation committee member independence standards will be required by the earlier of a listed company's first annual meeting after January 15, 2014 or October 31, 2014. Other standards, including those that relate to the compensation committee adviser requirements and certain additional compensation committee charter requirements, became effective on July 1, 2013.

Foreign private issuers such as us will be exempt from these new requirements if home country practice is followed. British Virgin Islands law does not impose similar requirements, so we will not be required to implement the new NYSE listing standards relating to compensation committees. None of the members of our compensation committee are independent, and the charter of our compensation committee does not require the compensation committee to consider the independence of any advisers that assist them in fulfilling their duties.

### ***Miscellaneous***

In addition to the above differences, we are not required to: make our audit and compensation committees prepare a written charter that addresses either purposes and responsibilities or performance evaluations in a manner

that would satisfy the NYSE’s requirements; acquire shareholder approval of equity compensation plans in certain cases; or adopt and make publicly available corporate governance guidelines.

We were incorporated under, and are governed by, the laws of the British Virgin Islands. For a summary of some of the differences between provisions of the BVI Act applicable to us and the laws application to companies incorporated in Delaware and their shareholders, see “Item 10. Additional Information—B. Memorandum and Articles of Association—Differences in Corporate Law.”

**ITEM 16H. MINE SAFETY DISCLOSURE**

Not applicable.

## PART III

## ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of this item.

## ITEM 18. FINANCIAL STATEMENTS

Financial Statements are filed as part of this annual report. See page F-1.

## ITEM 19. EXHIBITS

Exhibit No.	Description
1.1	Memorandum and Articles of Association, incorporated herein by reference to Exhibit 3.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
2.1	Indenture dated July 13, 2011 among Arcos Dorados Holdings Inc., as issuer, the subsidiary guarantors named therein, Citibank N.A., as trustee, calculation agent, registrar, paying agent and transfer agent, and Dexia Banque Internationale à Luxembourg, Société Anonyme, as Luxembourg paying agent, incorporated herein by reference to Exhibit 4.2 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.
2.2*	Indenture dated September 27, 2013 among Arcos Dorados Holdings Inc., as issuer, the Subsidiary Guarantors named therein, Citibank N.A., as trustee, registrar, paying agent and transfer agent, and Banque Internationale à Luxembourg Société Anonyme, as Luxembourg paying agent.
3.1	Los Laureles Voting Trust, incorporated herein by reference to Exhibit 9.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.1	Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.2	Amendment No. 1 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.3	Second Amended and Restated Master Franchise Agreement for McDonald's Restaurants in Brazil, incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.4	Amended and Restated Escrow Agreement dated October 12, 2010 among McDonald's Latin America, LLC, LatAm, LLC, each of the Escrowed MF Subsidiaries, Arcos Dorados Restaurantes de Chile Ltda., Arcos Dorados B.V., Deutsche Bank Trust Company Americas, as collateral agent, and Citibank, N.A., as escrow agent, incorporated herein by reference to Exhibit 10.4 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.5	Letter of Credit Reimbursement Agreement dated August 3, 2007 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.5 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.6	Amendment to Letter of Credit Reimbursement Agreement dated November 3, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.6 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.7	Second Amendment to Letter of Credit Reimbursement Agreement dated December 10, 2008 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.7 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.8	Third Amendment to Letter of Credit Reimbursement Agreement dated July 8, 2009 between Arcos Dorados B.V. and Credit Suisse, acting through its Cayman Islands Branch, incorporated herein by reference to Exhibit 10.8 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.

<b>Exhibit No.</b>	<b>Description</b>
4.9	Fourth Amendment to Letter of Credit Reimbursement Agreement dated April 23, 2010 between Arcos Dorados B.V. and Credit Suisse AG, Cayman Islands Branch, incorporated herein by reference to Exhibit 10.9 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.10	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between Morgan Stanley & Co. International plc and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.16 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.11	ISDA Schedule to the 2002 Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.19 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.12	Credit Support Annex to the Schedule to the Master Agreement dated as of December 14, 2009 between JPMorgan Chase Bank, N.A. and Arcos Dorados B.V., incorporated herein by reference to Exhibit 10.20 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.13	Equity Incentive Plan, incorporated herein by reference to Exhibit 10.23 to the Company's Registration Statement on Form F-1 (File No. 333-173063) filed with the SEC on March 25, 2011.
4.14	Amendment No. 2 to the Amended and Restated Master Franchise Agreement for McDonald's Restaurants in All of the Territories, except Brazil, incorporated herein by reference to Exhibit 10.17 to the Company's Registration Statement on Form F-1 (File No. 333-177210) filed with the SEC on October 7, 2011.
4.15	Confirmation dated August 13, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.1 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.16	Amendment to Share Swap Transaction Confirmation dated October 22, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.2 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.17	Amendment No. 2 to Share Swap Transaction Confirmation dated November 28, 2012 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.3 to the Company's Registration Statement on Form F-3 (File No. 333-187531) filed with the SEC on March 26, 2013.
4.18	Amendment No. 3 to Share Swap Transaction Confirmation dated April 4, 2013 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.18 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.19	Amendment No. 4 to Share Swap Transaction Confirmation dated August 15, 2013 among Goldman Sachs International, Arcos Dorados B.V. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 10.4 to the Company's Form 6-K (File No. 001-35129) filed with the SEC on August 19, 2013.
4.20	ISDA Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.19 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.21	ISDA Schedule to the 2012 Master Agreement dated as of April 20, 2012 between Bank of America, N.A. and Arcos Dorados Holdings Inc., incorporated herein by reference to Exhibit 4.20 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.22	Guarantee dated as of April 20, 2012 of Arcos Dourados Comercio de Alimentos Ltda. in favor of Bank of America, N.A. in connection with the ISDA Master Agreement and Schedule thereto, each dated as of April 20, 2012, and any confirmations thereunder, incorporated herein by reference to Exhibit 4.21 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.23	Confirmation dated June 8, 2012 between Arcos Dorados Holdings Inc. and Bank of America, N.A., incorporated herein by reference to Exhibit 4.22 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.24	Credit Agreement dated as of August 3, 2011 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.23 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.

<b>Exhibit No.</b>	<b>Description</b>
4.25	First Amendment to Credit Agreement dated as of August 3, 2012 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender, incorporated herein by reference to Exhibit 4.24 to the Company's Annual Report on Form 20-F for the year ended December 31, 2012.
4.26*	Second Amendment to Credit Agreement dated as of August 2, 2013 among Arcos Dorados B.V., as borrower, certain subsidiaries of the borrower, as guarantors, and Bank of America, N.A., as lender.
8.1*	List of subsidiaries.
12.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
12.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934.
13.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(b) of the Securities Exchange Act of 1934 and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1*	Consent of Pistrelli, Henry Martin y Asociados S.R.L., member firm of Ernst & Young Global, independent registered public accounting firm.
101.INS**	XBRL Instance Document
101.SCH**	XBRL Taxonomy Extension Schema Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document
101.PRE**	XBRL Taxonomy Extension Presentation Linkbase Document

\* Filed with this Annual Report on Form 20-F.

\*\* In accordance with Rule 402 of Regulation S-T, the information in these exhibits shall not be deemed to be "filed" for purposes of Section 18 of the Exchange Act, or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

Arcos Dorados Holdings Inc.

By: /s/ Germán Lemonnier

Name: Germán Lemonnier

Title: Chief Financial Officer

Date: April 28, 2014

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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the Board of Directors and Shareholders of  
**ARCOS DORADOS HOLDINGS INC.:**

We have audited the accompanying consolidated balance sheets of Arcos Dorados Holdings Inc. and subsidiaries (the “Company”) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2013. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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 Arcos Dorados Holdings Inc. and subsidiaries as of December 31, 2013 and 2012, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2013, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (1992 framework) and our report dated March 11, 2014 expressed an unqualified opinion thereon.

Buenos Aires, Argentina  
March 11, 2014

*/s/ Pistrelli, Henry Martin y Asociados S.R.L.*

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PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
Member of Ernst & Young Global

## Arcos Dorados Holdings Inc.

### Consolidated Statements of Income

For the fiscal years ended December 31, 2013, 2012 and 2011

Amounts in thousands of US dollars, except for share data and as otherwise indicated

REVENUES	2013	2012	2011
Sales by Company-operated restaurants	\$ 3,859,883	\$ 3,634,371	\$ 3,504,128
Revenues from franchised restaurants	173,427	163,023	153,521
<b>Total revenues</b>	<b>4,033,310</b>	<b>3,797,394</b>	<b>3,657,649</b>
<b>OPERATING COSTS AND EXPENSES</b>			
Company-operated restaurant expenses:			
Food and paper	(1,350,515)	(1,269,146)	(1,216,141)
Payroll and employee benefits	(814,112)	(753,120)	(701,278)
Occupancy and other operating expenses	(1,055,188)	(984,004)	(918,102)
Royalty fees	(188,885)	(180,547)	(170,400)
Franchised restaurants – occupancy expenses	(63,273)	(56,057)	(51,396)
General and administrative expenses	(317,745)	(314,619)	(334,914)
Other operating expenses, net	(15,070)	(3,261)	(14,665)
<b>Total operating costs and expenses</b>	<b>(3,804,788)</b>	<b>(3,560,754)</b>	<b>(3,406,896)</b>
<b>Operating income</b>	<b>228,522</b>	<b>236,640</b>	<b>250,753</b>
Net interest expense	(88,156)	(54,247)	(60,749)
Loss from derivative instruments	(4,141)	(891)	(9,237)
Foreign currency exchange results	(38,783)	(18,420)	(23,926)
Other non-operating (expenses) income, net	(848)	(2,119)	3,562
<b>Income before income taxes</b>	<b>96,594</b>	<b>160,963</b>	<b>160,403</b>
Income tax expense	(42,722)	(46,375)	(44,603)
<b>Net income</b>	<b>53,872</b>	<b>114,588</b>	<b>115,800</b>
Less: Net income attributable to non-controlling interests	(18)	(256)	(271)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 53,854</b>	<b>\$ 114,332</b>	<b>\$ 115,529</b>

#### Earnings per share information:

Basic net income per common share attributable to Arcos Dorados Holdings Inc.	\$ 0.26	\$ 0.55	\$ 0.54
Diluted net income per common share attributable to Arcos Dorados Holdings Inc.	0.26	0.55	0.54

See Notes to the Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.**  
**Consolidated Statements of Comprehensive Income**  
For the fiscal years ended December 31, 2013, 2012 and 2011  
Amounts in thousands of US dollars

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Net income</b>	<b>\$ 53,872</b>	<b>\$ 114,588</b>	<b>\$ 115,800</b>
<b>Other comprehensive income (losses), net of tax:</b>			
Foreign currency translation	(60,821)	(8,104)	(50,826)
Unrecognized prior service cost of post-employment benefits:			
Unrecognized prior service cost (net of \$624 of income taxes)	-	(1,213)	-
Reclassification adjustment for net losses included in net income (net of \$197 of income taxes)	382	-	-
Unrecognized prior service cost of post-employment benefits	382	(1,213)	-
Unrealized results on cash flow hedges:			
Unrealized net gains (losses) on cash flow hedges (net of \$nil of income taxes)	537	(4,195)	131
Plus: reclassification adjustment for net (gains) losses included in net income (net of \$nil of income taxes)	(164)	3,101	451
Unrealized results on cash flow hedges	373	(1,094)	582
<b>Total other comprehensive losses</b>	<b>(60,066)</b>	<b>(10,411)</b>	<b>(50,244)</b>
<b>Comprehensive (loss) income</b>	<b>(6,194)</b>	<b>104,177</b>	<b>65,556</b>
Plus (Less): Comprehensive expense (income) attributable to non-controlling interests	134	(277)	248
<b>Comprehensive (loss) income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ (6,060)</b>	<b>\$ 103,900</b>	<b>\$ 65,804</b>

See Notes to the Consolidated Financial Statements.

## Arcos Dorados Holdings Inc.

### Consolidated Balance Sheets

For the fiscal years ended December 31, 2013, 2012 and 2011  
Amounts in thousands of US dollars

ASSETS	2013	2012
<b>Current assets</b>		
Cash and cash equivalents	\$ 175,648	\$ 184,851
Accounts and notes receivable, net	110,696	105,019
Other receivables	136,577	131,747
Inventories	105,421	54,824
Prepaid expenses and other current assets	109,144	101,148
Derivative instruments	-	1,731
Deferred income taxes	27,974	22,178
McDonald's Corporation's indemnification for contingencies	991	-
<b>Total current assets</b>	<b>666,451</b>	<b>601,498</b>
<b>Non-current assets</b>		
Miscellaneous	91,924	59,304
Collateral deposits	5,325	5,325
Property and equipment, net	1,244,311	1,176,350
Net intangible assets and goodwill	70,375	67,271
Deferred income taxes	97,687	133,708
Derivative instruments	490	-
McDonald's Corporation's indemnification for contingencies	3,696	5,707
<b>Total non-current assets</b>	<b>1,513,808</b>	<b>1,447,665</b>
<b>Total assets</b>	<b>\$ 2,180,259</b>	<b>\$ 2,049,163</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 311,060	\$ 244,365
Royalties payable to McDonald's Corporation	30,663	29,278
Income taxes payable	29,906	21,051
Other taxes payable	107,586	104,662
Accrued payroll and other liabilities	141,970	150,690
Provision for contingencies	1,748	507
Interest payable	21,899	21,567
Short-term debt	7,549	568
Current portion of long-term debt	4,727	1,634
Derivative instruments	2,048	3,952
<b>Total current liabilities</b>	<b>659,156</b>	<b>578,274</b>
<b>Non-current liabilities</b>		
Accrued payroll and other liabilities	35,446	40,115
Provision for contingencies	13,074	20,092
Long-term debt, excluding current portion	771,171	649,968
Derivative instruments	-	5,397
Deferred income taxes	6,113	9,007
<b>Total non-current liabilities</b>	<b>825,804</b>	<b>724,579</b>
<b>Total liabilities</b>	<b>1,484,960</b>	<b>1,302,853</b>
<b>Equity</b>		
Class A shares - no par value common stock; 420,000,000 shares authorized; 129,867,426 shares issued and outstanding at December 31, 2013; 129,529,412 shares issued and outstanding at December 31, 2012	358,820	351,654
Class B shares - no par value common stock; 80,000,000 shares authorized, issued and outstanding at December 31, 2013 and 2012	132,915	132,915
Additional paid-in capital	17,250	18,634
Retained earnings	404,287	400,761
Accumulated other comprehensive losses	(218,735)	(158,821)
<b>Total Arcos Dorados Holdings Inc. shareholders' equity</b>	<b>694,537</b>	<b>745,143</b>
Non-controlling interests in subsidiaries	762	1,167
<b>Total equity</b>	<b>695,299</b>	<b>746,310</b>
<b>Total liabilities and equity</b>	<b>\$ 2,180,259</b>	<b>\$ 2,049,163</b>

See Notes to the Consolidated Financial Statements.

## Arcos Dorados Holdings Inc.

### Consolidated Statements of Cash Flows

For the fiscal years ended December 31, 2013, 2012 and 2011  
Amounts in thousands of US dollars

	<u>2013</u>	<u>2012</u>	<u>2011</u>
<b>Operating activities</b>			
Net income attributable to Arcos Dorados Holdings Inc	\$ 53,854	\$ 114,332	\$ 115,529
Adjustments to reconcile net income attributable to Arcos Dorados Holdings Inc. to cash provided by operations:			
Non-cash charges and credits:			
Depreciation and amortization	114,860	92,328	68,971
Loss from derivative instruments	4,141	891	9,237
Amortization of deferred financing costs	1,341	1,314	3,316
Amortization and accrual of letter of credit fees	3,022	3,028	2,847
Net income attributable to non-controlling interests	18	256	271
Deferred income taxes	9,113	14,228	(2,882)
Foreign currency exchange results	23,350	13,788	16,209
Accrued net share-based compensation expense	7,027	1,265	29,712
Loss from purchase, exchange and call of 2019 Notes	23,467	-	-
Others, net	641	4,860	10,289
Changes in assets and liabilities:			
Accounts payable	96,957	22,575	60,234
Accounts and notes receivable and other receivables	(43,835)	(48,168)	(14,609)
Inventories, prepaid and other assets	(102,362)	14,628	(42,415)
Income taxes payable	10,773	(23,042)	17,455
Other taxes payable	13,727	8,414	6,627
Interest payable	1,492	6,134	8,961
Accrued payroll and other liabilities and provision for contingencies	(9,883)	(9,956)	(34,479)
Others	9,311	13,238	6,351
<b>Net cash provided by operating activities</b>	<b>217,014</b>	<b>230,113</b>	<b>261,624</b>
<b>Investing activities</b>			
Property and equipment expenditures	(313,462)	(294,478)	(319,859)
Purchases of restaurant businesses	(324)	(6,004)	(5,993)
Proceeds from sale of property and equipment	7,751	6,643	9,778
Proceeds from sales of restaurant businesses	6,452	-	903
Loans to related parties	(2,000)	(7,000)	-
Other investing activity	(9,072)	(5,582)	(4,961)
<b>Net cash used in investing activities</b>	<b>(310,655)</b>	<b>(306,421)</b>	<b>(320,132)</b>
<b>Financing activities</b>			
Issuance of class A shares in connection with the initial public offering	-	-	152,281
Issuance of 2023 Notes	378,409	-	-
Dividend payments to Arcos Dorados Holdings Inc.' shareholders	(37,527)	(50,036)	(56,627)
Net payment of derivative instruments	(9,975)	(4,322)	(118,932)
Collateral deposits	-	-	15,000
Cash and cash equivalents of split-off Axis Business	-	-	(35,425)
Purchase and call of 2019 Notes	(237,006)	-	(152,005)
Issuance of 2016 Notes	-	149,658	255,102
Issuance of other long-term debt	8,483	3,073	-
Net short-term borrowings	8,743	(157)	(10,871)
Other financing activities	(8,825)	(7,570)	(12,850)
<b>Net cash provided by financing activities</b>	<b>102,302</b>	<b>90,646</b>	<b>35,673</b>
Effect of exchange rate changes on cash and cash equivalents	(17,864)	(5,788)	(8,963)
<b>(Decrease) increase in cash and cash equivalents</b>	<b>(9,203)</b>	<b>8,550</b>	<b>(31,798)</b>
Cash and cash equivalents at the beginning of the year	184,851	176,301	208,099
<b>Cash and cash equivalents at the end of the year</b>	<b>\$ 175,648</b>	<b>\$ 184,851</b>	<b>\$ 176,301</b>
<b>Supplemental cash flow information:</b>			
Cash paid during the year for:			
Interest	\$ 61,771	\$ 55,347	\$ 46,022
Income tax	25,422	30,700	50,952
Non-cash transactions:			
Issuance of 2023 Notes as consideration for the exchange of 2019 Notes	\$ 98,767	\$ -	\$ -
Dividend declared pending of payment	12,509	-	-
Seller financing related to purchases of restaurant businesses	3,711	-	-
Split-off Axis Business – non-cash portion	-	-	9,833

See Notes to the Consolidated Financial Statements.

**Arcos Dorados Holdings Inc.**  
**Consolidated Statements of Changes in Equity**

For the fiscal years ended December 31, 2013, 2012 and 2011  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

	Arcos Dorados Holdings Inc.' Shareholders									
	Class A shares of common stock		Class B shares of common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive losses	Total	Non-controlling interests	Total
	Number	Amount	Number	Amount						
<b>Balances at December 31, 2010</b>	<b>145,129,780</b>	<b>226,528</b>	<b>96,753,186</b>	<b>151,018</b>	<b>(2,468)</b>	<b>271,387</b>	<b>(98,664)</b>	<b>547,801</b>	<b>1,394</b>	<b>549,195</b>
Net income for the year	-	-	-	-	-	115,529	-	115,529	271	115,800
Other comprehensive losses	-	-	-	-	-	-	(49,725)	(49,725)	(519)	(50,244)
Split-off of Axis Business	(25,129,780)	(27,155)	(16,753,186)	(18,103)	-	-	-	(45,258)	-	(45,258)
Dividends to Arcos Dorados Holdings Inc.'s shareholders (\$0.24 per share)	-	-	-	-	-	(50,027)	-	(50,027)	-	(50,027)
Issuance of class A shares in connection with the initial public offering	9,529,412	152,281	-	-	-	-	-	152,281	-	152,281
Stock-based compensation related to the 2011 Equity Incentive Plan	-	-	-	-	8,202	-	-	8,202	-	8,202
Dividends on restricted share units under the 2011 Equity Incentive Plan	-	-	-	-	-	(182)	-	(182)	-	(182)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(138)	(138)
<b>Balances at December 31, 2011</b>	<b>129,529,412</b>	<b>351,654</b>	<b>80,000,000</b>	<b>132,915</b>	<b>5,734</b>	<b>336,707</b>	<b>(148,389)</b>	<b>678,621</b>	<b>1,008</b>	<b>679,629</b>
Net income for the year	-	-	-	-	-	114,332	-	114,332	256	114,588
Other comprehensive losses	-	-	-	-	-	-	(10,432)	(10,432)	21	(10,411)
Dividends to Arcos Dorados Holdings Inc.'s shareholders (\$0.24 per share)	-	-	-	-	-	(50,036)	-	(50,036)	-	(50,036)
Stock-based compensation related to the 2011 Equity Incentive Plan	-	-	-	-	12,900	-	-	12,900	-	12,900
Dividends on restricted share units under the 2011 Equity Incentive Plan	-	-	-	-	-	(242)	-	(242)	-	(242)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(118)	(118)
<b>Balances at December 31, 2012</b>	<b>129,529,412</b>	<b>351,654</b>	<b>80,000,000</b>	<b>132,915</b>	<b>18,634</b>	<b>400,761</b>	<b>(158,821)</b>	<b>745,143</b>	<b>1,167</b>	<b>746,310</b>
Net income for the year	-	-	-	-	-	53,854	-	53,854	18	53,872
Other comprehensive losses	-	-	-	-	-	-	(59,914)	(59,914)	(152)	(60,066)
Dividends to Arcos Dorados Holdings Inc.'s shareholders (\$0.24 per share)	-	-	-	-	-	(50,036)	-	(50,036)	-	(50,036)
Issuance of shares in connection with the partial vesting of outstanding restricted share units under the 2011 Equity Incentive Plan	338,014	7,166	-	-	(7,166)	-	-	-	-	-
Stock-based compensation related to the 2011 Equity Incentive Plan	-	-	-	-	5,782	-	-	5,782	-	5,782
Dividends on restricted share units under the 2011 Equity Incentive Plan	-	-	-	-	-	(292)	-	(292)	-	(292)
Dividends to non-controlling interests	-	-	-	-	-	-	-	-	(271)	(271)
<b>Balances at December 31, 2013</b>	<b>129,867,426</b>	<b>358,820</b>	<b>80,000,000</b>	<b>132,915</b>	<b>17,250</b>	<b>404,287</b>	<b>(218,735)</b>	<b>694,537</b>	<b>762</b>	<b>695,299</b>

See Notes to the Consolidated Financial Statements.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 1. Organization and nature of business

Arcos Dorados Holdings Inc. (the “Company”) is a limited liability company organized and existing under the laws of the British Virgin Islands. The Company’s fiscal year ends on the last day of December. The Company has a 99.999% equity interest in Arcos Dorados Cooperatieve U.A., which has a 100% equity interest in Arcos Dorados B.V. (“ADBV”).

On August 3, 2007 the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement and Master Franchise Agreements (“MFAs”) with McDonald’s Corporation pursuant to which the Company completed the acquisition of the McDonald’s business in Latin America and the Caribbean (“LatAm business”). See Note 4 for details. Prior to this acquisition, the Company did not carry out operations.

The Company, through ADBV’s wholly-owned and majority owned subsidiaries, operates and franchises McDonald’s restaurants in the food service industry. The Company has operations in twenty territories as follows: Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guyana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela. All restaurants are operated either by the Company’s subsidiaries or by independent entrepreneurs under the terms of sub-franchisee agreements (franchisees).

#### 2. Basis of presentation and principles of consolidation

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (“US GAAP”) and include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation. The Company has elected to report its consolidated financial statements in United States dollars (“\$” or “US dollars”).

#### 3. Summary of significant accounting policies

The following is a summary of significant accounting policies followed by the Company in the preparation of the consolidated financial statements.

##### Use of estimates

The preparation of the consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

##### Foreign currency translation

The financial statements of the Company’s foreign operating subsidiaries are translated in accordance with guidance in ASC Topic 830 Foreign Currency Matters. Except for the Company’s Venezuelan operations, the functional currencies of the Company’s foreign operating subsidiaries are the local currencies of the countries in which they conduct their operations. Therefore, assets and liabilities are translated into US dollars at the balance sheets date exchange rates, and revenues and expenses are translated at average rates prevailing during the periods. Translation adjustments are included in the “Accumulated other comprehensive losses” component of shareholders’ equity. The Company includes foreign currency exchange results related to monetary assets and liabilities denominated in currencies other than its functional currencies in its income statement.

Effective January 1, 2010, Venezuela is considered to be highly inflationary, and as such, the financial statements of the Company’s Venezuelan subsidiaries are remeasured as if their functional currencies were the reporting currency (US dollars). As a result, remeasurement gains and losses are recognized in earnings rather than in the cumulative translation adjustment, component of “Accumulated other comprehensive losses” within shareholders’ equity.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Foreign currency translation (continued)

See Note 21 for additional information pertaining to the Company's Venezuelan operations, including currency restrictions and controls existing in the country and a discussion of the exchange rate used for remeasurement purposes.

##### Cash and cash equivalents

The Company considers all highly liquid investments with an original maturity of three months or less, from the date of purchase, to be cash equivalents.

##### Revenue recognition

The Company's revenues consist of sales by Company-operated restaurants and revenues from restaurants operated by franchisees. Sales by Company-operated restaurants are recognized on a cash basis. The Company presents sales net of sales tax and other sales-related taxes. Revenues from restaurants operated by franchisees include rental income, initial franchise fees and royalty income. Rental income is measured on a monthly basis based on the greater of a fixed rent, computed on a straight-line basis, or a certain percentage of gross sales reported by franchisees. Initial franchise fees represent the difference between the amount the Company collects from the franchisee and the amount the Company pays to McDonald's Corporation upon the opening of a new restaurant, which is when the Company has performed substantially all initial services required by the franchisee agreement. Royalty income represents the difference, if any, between the amount the Company collects from the franchisee and the amount the Company is required to pay to McDonald's Corporation. Royalty income is recognized in the period earned.

##### Accounts and notes receivable and allowance for doubtful accounts

Accounts receivable primarily consist of royalty and rent receivables due from franchisees and debit and credit card receivables. Accounts receivable are initially recorded at fair value and do not bear interest. Notes receivable relates to interest-bearing financing granted to certain franchisees in connection with the acquisition of equipment and third-party suppliers. The Company maintains an allowance for doubtful accounts in an amount that it considers sufficient to cover losses resulting from the inability of its franchisees to make required payments. In judging the adequacy of the allowance for doubtful accounts, the Company considers multiple factors including historical bad debt experience, the current economic environment and the aging of the receivables.

##### Other receivables

Other receivables primarily consist of value-added tax and other tax receivables (amounting to \$60,165 and \$35,527 as of December 31, 2013 and 2012, respectively), receivable with an independent logistic operator (amounting to \$38,213 and \$nil as of December 31, 2013 and 2012, respectively) and receivables from related parties (amounting to \$16,773 and \$73,664 at December 31, 2013 and 2012, respectively). Other receivables are reported at the amount expected to be collected.

##### Inventories

Inventories are stated at the lower of cost or market, with cost being determined on a first-in, first-out basis.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Property and equipment, net

Property and equipment are stated at cost, net of accumulated depreciation. Property costs include costs of land and building for both company-operated and franchise restaurants while equipment costs primarily relate to company-operated restaurants. Cost of property and equipment acquired from McDonald's Corporation (as part of the acquisition of LatAm business) was determined based on its estimated fair market value at the acquisition date, then partially reduced by the allocation of the negative goodwill that resulted from the purchase price allocation. Cost of property and equipment acquired or constructed after the acquisition of LatAm business in connection with the Company's restaurant reimagining and extension program is comprised of acquisition and construction costs and capitalized internal costs. Capitalized internal costs include payroll expenses related to employees fully dedicated to restaurant construction projects and related travel expenses. Capitalized payroll costs are allocated to each new restaurant location based on the actual time spent on each project. The Company commences capitalizing costs related to construction projects when it becomes probable that the project will be developed – when the site has been identified and the related profitability assessment has been approved. Maintenance and repairs are expensed as incurred. Accumulated depreciation is calculated using the straight-line method over the following estimated useful lives: buildings – up to 40 years; leasehold improvements – the lesser of useful lives of assets or lease terms which generally include option periods; and equipment – 3 to 12 years.

##### Intangible assets, net

Intangible assets include computer software costs, initial franchise fees, reacquired rights under franchise agreements and letter of credit fees.

The Company follows the provisions of ASC 350-40-30 within ASC Topic 350 Intangibles, Subtopic 40 Internal Use Software which requires the capitalization of costs incurred in connection with developing or obtaining software for internal use. These costs are amortized over a period of three years on a straight line basis.

The Company is required to pay to McDonald's Corporation an initial franchisee fee upon opening of a new restaurant. The initial franchise fee related to Company-operated restaurants is capitalized as an intangible asset and amortized on a straight-line basis over the term of the franchise (generally 20 years).

A reacquired franchise right is recognized as an intangible asset as part of the business combination in the acquisition of franchise restaurants apart from goodwill with an assigned amortizable life limited to the remaining contractual term (i.e., not including any renewal periods). The value assigned to the reacquired franchise right excludes any amounts recognized as a settlement gain or loss and is limited to the value associated with the remaining contractual term and current market terms. The reacquired franchise right is measured using a valuation technique that considers restaurant's cash flows after payment of an at-market royalty rate to the Company. The cash flows are projected for the remaining contractual term, regardless of whether market participants would consider potential contractual renewals in determining its fair value.

Letter of credit fees are amortized on a straight-line basis over the term of the Letter of Credit.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Impairment and disposal of long-lived assets

In accordance with the guidance within ASC 360-10-35, the Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of the asset may not be recoverable. For purposes of reviewing assets for potential impairment, assets are grouped at a country level for each of the operating markets. The Company manages its restaurants as a group or portfolio with significant common costs and promotional activities; as such, each restaurant's cash flows are not largely independent of the cash flows of others in a market. If an indicator of impairment exists for any grouping of assets, an estimate of undiscounted future cash flows produced by each individual restaurant within the asset grouping is compared to its carrying value. If an individual restaurant is determined to be impaired, the loss is measured by the excess of the carrying amount of the restaurant over its fair value considering its highest and best use, as determined by an estimate of discounted future cash flows or its market value. In the fourth quarter of 2013, 2012 and 2011, the Company assessed all markets for impairment indicators. As a result of these assessments, the Company performed the impairment testing of its long-lived assets in Mexico, Puerto Rico and Peru in each fiscal year, as well as in Colombia in fiscal 2013 and in Aruba, Curacao and the U.S. Virgin Islands of St. Croix and St. Thomas in fiscal years 2013 and 2012 considering recent operating losses incurred in these markets (indicator of potential impairment). As a result of these analyses, no impairments were recorded for the Company's operations in Colombia in fiscal year 2013, nor in Aruba, Curacao and the U.S. Virgin Islands of St. Croix and St. Thomas in fiscal years 2013 and 2012, and nor in Peru in fiscal year 2011 since the estimates of undiscounted future cash flows for each restaurant in these markets or the fair market value exceeded its carrying value. However, the Company recorded impairment charges associated with certain restaurants in Mexico, Puerto Rico and Peru (the latter only in 2013 and 2012) with undiscounted future cash flows insufficient to recover their carrying value. The impairment charges were measured by the excess of the carrying amount of the restaurants over their fair value. The impairment charges totaling \$2,958, \$1,982 and \$1,715 in 2013, 2012 and 2011, respectively, are included within "Other operating expenses, net" in the consolidated statements of income.

Losses on assets held for disposal are recognized when management and the Board of Directors, as required, has approved and committed to a plan to dispose of the assets, the assets are available for disposal, the disposal is probable of occurring within 12 months, and the net sales proceeds are expected to be less than the assets' net book value. Generally, such losses relate to restaurants that have closed and ceased operations as well as restaurants that meet the criteria to be considered "held for sale" in accordance with ASC 360-10-45.

##### Goodwill

Goodwill represents the excess of cost over the estimated fair market value of net tangible assets and identifiable intangible assets acquired. In accordance with the guidance within ASC Topic 350 Intangibles-Goodwill and Other, goodwill is stated at cost and reviewed for impairment on an annual basis. The annual impairment test is performed during the fourth quarter of the fiscal year and compares the fair value of each reporting unit, generally based on discounted future cash flows, with its carrying amount including goodwill. If the carrying amount of the reporting unit exceeds its fair value, an impairment loss is measured as the difference between the implied fair value of the reporting unit's goodwill and the carrying amount of goodwill. As a result of the analyses performed in the fourth quarter of 2012 and 2011, the Company recorded impairment charges of the full amounts of goodwill that had been generated in the acquisition of restaurants in Puerto Rico and the U.S. Virgin Island of St. Croix, respectively. The impairment charges amounting to \$683 in 2012 and \$2,077 in 2011 are included within "Other operating expenses, net" in the consolidated statements of income. No impairments of goodwill were recognized during fiscal year 2013.

##### Advertising costs

Advertising costs are expensed as incurred. Advertising expenses related to Company-operated restaurants were \$160,184, \$147,194 and \$139,749 in 2013, 2012 and 2011, respectively. Advertising expenses related to franchised operations do not affect the Company's expenses since these are recovered from franchisees. Advertising expenses related to franchised operations were \$49,820, \$46,614 and \$44,779 in 2013, 2012 and 2011, respectively.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Accounting for income taxes

The Company records deferred income taxes using the liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. The guidance requires companies to set up a valuation allowance for that component of net deferred tax assets which does not meet the more likely than not criterion for realization.

Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company is regularly audited by tax authorities, and tax assessments may arise several years after tax returns have been filed. Accordingly, tax liabilities are recorded when, in management's judgment, a tax position does not meet the more likely than not threshold for recognition. For tax positions that meet the more likely than not threshold, a tax liability may be recorded depending on management's assessment of how the tax position will ultimately be settled. The Company records interest and penalties on unrecognized tax benefits in the provision for income taxes.

##### Accounts payable outsourcing

The Company offers its suppliers access to an accounts payable services arrangement provided by third party financial institutions. This service allows the Company's suppliers to view its scheduled payments online, enabling them to better manage their cash flow and reduce payment processing costs. Independent of the Company, the financial institutions also allow suppliers to sell their receivables to the financial institutions in an arrangement separately negotiated by the supplier and the financial institution. The Company has no economic interest in the sale of these receivables and no direct relationship with the financial institutions concerning the sale of receivables. All of the Company's obligations, including amounts due, remain to the Company's suppliers as stated in the supplier agreements. As of December 31, 2013 and 2012, \$1,859 and \$1,988, respectively, of the Company's total accounts payable are available for this purpose and have been sold by suppliers to participating financial institutions.

##### Share-based compensation

The Company recognizes compensation expense as services required to earn the benefits are rendered. See Note 16 for details of the outstanding plans and the related accounting policies.

##### Derivative financial instruments

The Company utilizes certain hedge instruments to manage its interest rate and foreign currency rate exposures, among others. The counterparties to these instruments generally are major financial institutions. The Company does not hold or issue derivative instruments for trading purposes. In entering into these contracts, the Company assumes the risk that might arise from the possible inability of counterparties to meet the terms of their contracts. The Company does not expect any losses as a result of counterparty defaults. All derivatives are recognized as either assets or liabilities in the balance sheets and are measured at fair value. Additionally, the fair value adjustments will affect either shareholders' equity as accumulated other comprehensive income (loss) or net income (loss) depending on whether the derivative instrument qualifies as a hedge for accounting purposes and, if so, the nature of the hedging activity.

##### Severance payments

Under certain laws and labor agreements of the countries in which the Company operates, the Company is required to make minimum severance payments to employees who are dismissed without cause and employees leaving its employment in certain other circumstances. The Company accrues severance costs if they relate to services already rendered, are related to rights that accumulate or vest, are probable of payment and can be reasonably estimated. Otherwise, severance payments are expensed as incurred.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Post-employment benefits

In 2012 became effective in Venezuela the new Organic Law of Labor and Workers (known as "LOTTT," its Spanish acronym) that, among other regulations, provides for a post-employment payment of 30 days of salary per year of employment tenure based on the last wage earned to all workers who leave the job for any reason. The term of service to calculate the post-employment payment of active workers run retroactively since June 19, 1997. The Company is required to make quarterly deposits in a trust fund.

The Company considers the employee benefits arising from LOTTT as non-retirement post-employment benefits subject to the provisions of ASC 712, because they are benefits provided by the Company to all workers who leave the job for any reason, after active employment but before retirement. In accordance with ASC 712-10-25-4 and 710-10-25-1, the Company recognizes a liability for these employee benefits since all of the following criteria are met: (i) the employees' rights to receive the benefits are attributable to services already rendered; (ii) the employees' rights are cumulative or vested; (iii) the payment of the benefits is probable; and (iv) the expected cost of providing the benefits can be reasonably estimated. Following ASC 712-10-35-1, the Company refers to ASC 715-30 for guidance in measuring these post-employment obligations, similar to pension benefits. The Company obtains an actuarial valuation to measure the post-employment benefits obligation, using the projected unit credit actuarial method. As the post-employment obligation under LOTTT must be computed retroactively based on services rendered in periods prior to the effective date of the new law, the portion of the liability related to prior service periods was recorded as unrecognized prior service costs within the "Accumulated other comprehensive losses" component of shareholders' equity. Unrecognized prior service costs are being amortized to the income statement and recorded as an expense following ASC 715-30-35-11 by assigning an equal amount to each future service period of each active employee who is expected to receive benefits under the plan.

At December 31, 2013 and 2012, the accumulated post-employment obligation was \$3,456 and \$2,506, respectively, of which \$1,258 and \$1,837 were related to unrecognized prior service cost recognized as a component of comprehensive income (net of deferred income tax for \$427 and \$624, respectively). During fiscal year 2013 and 2012 post-employment expenses amounted to \$1,758 and \$669, including the amortization of prior service cost expense for \$579 and \$nil, respectively. During 2013 the Company settled \$229 related to this obligation.

##### Provision for contingencies

The Company accrues liabilities when it is probable that future costs will be incurred and such costs can be reasonably estimated. Such accruals are based on developments to date, the Company's estimates of the outcomes of these matters and the Company's lawyers' experience in contesting, litigating and settling other matters. As the scope of the liabilities becomes better defined, there may be changes in the estimates of future costs. See Note 17 for details.

##### Comprehensive income

Comprehensive income includes net income as currently reported under generally accepted accounting principles and also includes the impact of other events and circumstances from non-owner sources which are recorded as a separate component of shareholders' equity. The Company reports foreign currency translation gains and losses, unrealized results on cash flow hedges as well as unrecognized prior service costs of post-employment benefits as components of comprehensive income.

##### Recent accounting pronouncements

In September 2011 and July 2012, the FASB issued ASU 2011-08 and ASU 2012-02, respectively, which provide an entity the option to first assess qualitative factors to determine whether it is necessary to perform a quantitative impairment test for goodwill and indefinite-lived intangible assets, respectively. If an entity believes, as a result of its qualitative assessment, that it is more-likely-than-not that the fair value of a reporting unit or an indefinite-lived intangible asset is less than its carrying amount, the quantitative impairment test is required. Otherwise, no further testing is required. The Company adopted ASU 2011-08 and ASU 2012-02 for its fiscal year beginning on January 1, 2012 and 2013, respectively, with no significant impact on the Company's consolidated financial statements.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 3. Summary of significant accounting policies (continued)

##### Recent accounting pronouncements (continued)

In February 2013, the FASB issued ASU 2013-02 which provides new guidance on the reporting of amounts reclassified out of accumulated other comprehensive income. This guidance requires entities to provide information about the amounts reclassified out of accumulated other comprehensive income by component and to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The Company adopted this new guidance on January 1, 2013. As a result of such adoption, the Company provides the additional information in Note 22 on a comparative basis.

No other new accounting pronouncement issued or effective during the periods had or is expected to have a material impact on the Company's consolidated financial statements.

#### 4. Acquisition of businesses

##### LatAm Business

On August 3, 2007, the Company, indirectly through its wholly-owned subsidiary ADBV, entered into a Stock Purchase Agreement with McDonald's Corporation pursuant to which the Company completed the acquisition of the McDonald's business in Latin America and the Caribbean for \$679,357. The purchase price was comprised of (a) a base purchase price amounting to \$700,000, and (b) an additional purchase price equal to the final working capital of the acquired business amounting to negative \$20,643. The Company paid the base purchase price and the estimated additional purchase price at the transaction date totaling \$701,244. Subsequently, the Company recorded a receivable from McDonald's Corporation amounting to \$21,887 for the difference between the final working capital and the working capital estimated at the transaction date. This receivable was collected in 2008 (\$15,015 in cash and \$6,872 by assignment of a receivable from suppliers). Fees and expenses associated with this acquisition amounted to \$18,723. The final purchase price was \$698,080.

The acquisition of the LatAm business was accounted for by the purchase method of accounting and, accordingly, the purchase price was allocated to the assets acquired and liabilities assumed based on the estimated fair values at the date of acquisition. When the fair value of the net assets acquired exceeded the purchase price, the resulting negative goodwill was allocated to partially reduce the fair value of the non-current assets acquired on a pro-rata basis.

In connection with this transaction, ADBV and certain subsidiaries (the "MF subsidiaries") also entered into 20-year Master Franchise Agreements ("MFAs") with McDonald's Corporation which grants to the Company and its MF subsidiaries the following:

- i. The right to own and operate, directly or indirectly, franchised restaurants in each territory;
- ii. The right and license to grant sub franchises in each territory;
- iii. The right to adopt and use, and to grant the right and license to sub franchisees to adopt and use, the system in each territory;
- iv. The right to advertise to the public that it is a franchisee of McDonald's;
- v. The right and license to grant sub franchises and sublicenses of each of the foregoing rights and licenses to each MF subsidiary.

The Company is required to pay to McDonald's Corporation continuing franchise fees (Royalty fees) on a monthly basis. The amount to be paid during the first 10 years of the MFAs is equal to 5% of the US dollar equivalent of the gross product sales of each of the franchised restaurants. This percentage increases to 6% and 7% for the subsequent two 5-year periods of the agreement. Payment of monthly royalties is due on the seventh business day of the next calendar month.

Pursuant to the MFAs provisions, McDonald's Corporation has the right to (a) terminate the MFAs, or (b) exercise a call option over the Company's shares or any MF subsidiary, if the Company or any MF subsidiary (i) fails to comply with the McDonald's System (as defined in the MFAs), (ii) files for bankruptcy, (iii) defaults on its financial debt payments, (iv) substantially fails to achieve targeted openings and reinvestments requirements, or (v) upon the occurrence of any other event of default as defined in the MFAs.

## Arcos Dorados Holdings Inc.

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#### 4. Acquisition of businesses (continued)

##### Other acquisitions

In 2011, the Company acquired franchised restaurants in Brazil and Chile. In 2012, the Company acquired franchised restaurants in Colombia, Chile, Mexico and Puerto Rico. In 2013 the Company acquired franchised restaurants in Argentina, Brazil, Chile and Venezuela. Presented below is supplemental information about these non-significant acquisitions:

Purchases of restaurant businesses:	2013	2012	2011
Property and equipment	\$ 2,186	\$ 1,793	\$ 1,704
Identifiable intangible assets	6,628	6,061	-
Goodwill	-	1,196	4,952
Assumed debt	(317)	-	-
Gain on bargain purchase of franchised restaurants	(3,827)	(1,161)	-
<b>Purchase price</b>	<b>4,670</b>	<b>7,889</b>	<b>6,656</b>
Restaurants sold in exchange	(635)	-	-
Settlement of franchise receivables	-	(1,885)	(663)
Seller financing	(3,711)	-	-
<b>Purchase price paid at acquisition date</b>	<b>\$ 324</b>	<b>\$ 6,004</b>	<b>\$ 5,993</b>

#### 5. Accounts and notes receivable, net

Accounts and notes receivable, net consist of the following at year end:

	2013	2012
Receivables from franchisees	\$ 52,475	\$ 38,079
Debit and credit card receivables	39,098	45,223
Meal voucher receivables	14,375	16,800
Notes receivable	9,846	8,939
Allowance for doubtful accounts	(5,098)	(4,022)
	<b>\$ 110,696</b>	<b>\$ 105,019</b>

#### 6. Prepaid expenses and other current assets

Prepaid expenses and other current assets consist of the following at year end:

	2013	2012
Prepaid expenses and taxes	\$ 94,358	\$ 86,249
Promotion items	14,786	14,899
	<b>\$ 109,144</b>	<b>\$ 101,148</b>

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#### 7. Property and equipment, net

Property and equipment, net consist of the following at year-end:

	2013	2012
Land	\$ 190,424	\$ 200,340
Buildings and leasehold improvements	727,567	712,908
Equipment	686,744	544,213
Total cost	1,604,735	1,457,461
Total accumulated depreciation	(360,424)	(281,111)
	<b>\$ 1,244,311</b>	<b>\$ 1,176,350</b>

Total depreciation expense for fiscal years 2013, 2012 and 2011 amounted to \$96,563, \$77,503 and \$57,827, respectively.

#### 8. Net intangible assets and goodwill

Net intangible assets and goodwill consist of the following at year-end:

	2013	2012
<b>Net intangible assets (i)</b>		
Computer software cost	\$ 69,319	\$ 62,159
Initial franchise fees	25,629	20,429
Reacquired franchised rights	11,625	6,076
Letter of credit fees	940	940
Total cost	107,513	89,604
Total accumulated amortization	(54,042)	(40,512)
<b>Subtotal</b>	<b>53,471</b>	<b>49,092</b>
<b>Goodwill (ii)</b>		
Mexico	7,748	7,780
Brazil	7,021	8,086
Ecuador	273	273
Peru	201	220
Chile	1,416	1,553
Colombia	245	267
<b>Subtotal</b>	<b>16,904</b>	<b>18,179</b>
	<b>\$ 70,375</b>	<b>\$ 67,271</b>

(i) Total amortization expense for fiscal years 2013, 2012 and 2011 amounted to \$18,297, \$14,825 and \$11,144, respectively. The estimated aggregate amortization expense for each of the five succeeding fiscal years and thereafter is as follows: \$18,262 for 2014, \$18,104 for 2015; \$7,308 for 2016; \$4,864 for 2017; \$912 for 2018; and thereafter \$4,021.

(ii) Related to the acquisition of franchised restaurants (Mexico, Brazil, Peru, Chile and Colombia) and non-controlling interests in subsidiaries (Ecuador and Chile).

## Arcos Dorados Holdings Inc.

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#### 9. Accrued payroll and other liabilities

Accrued payroll and other liabilities consist of the following at year end:

	2013	2012
<b>Current:</b>		
Accrued payroll	\$ 101,183	\$ 110,499
Long-term incentive plan	3,620	8,843
Accrued expenses	25,931	17,908
Amnesty program	2,220	10,236
Other liabilities	9,016	3,204
	<b>\$ 141,970</b>	<b>\$ 150,690</b>
<b>Non-current:</b>		
Long-term incentive plan	\$ 1,302	\$ 2,968
Amnesty program	15,598	20,210
Other liabilities	18,546	16,937
	<b>\$ 35,446</b>	<b>\$ 40,115</b>

#### 10. Short-term debt

Short-term debt consists of the following at year-end:

	2013	2012
Bank overdrafts (i)	\$ 7,156	\$ 480
Short-term loans	393	88
	<b>\$ 7,549</b>	<b>\$ 568</b>

(i) Mainly comprised of an overdraft granted by *Banco Francés* in Argentina totaling 43.5 million of Argentine Pesos (equivalent to \$6,676 at year-end exchange rate). This overdraft matures in April 2014 and accrues interest at an annual rate of 21.75%.

#### Revolving Credit Facility

On August 3, 2011, ADBV entered into a committed revolving credit facility with Bank of America, N.A., as lender, for \$50 million. On August 2, 2013, ADBV renewed the revolving credit facility for \$75 million maturing on August 3, 2015. The obligations of ADBV under the revolving credit facility are jointly and severally guaranteed by certain of the Company's subsidiaries on an unconditional basis. This revolving credit facility will permit the Company to borrow money from time to time to cover its working capital needs and for other general corporate purposes. Each loan made to ADBV under the revolving credit facility will bear interest at an annual rate equal to LIBOR plus 2.50%. Interest on each loan will be payable on the date of any prepayment, at maturity and on a quarterly basis, beginning with the date that is three calendar months following the date the loan is made.

The revolving credit facility includes customary covenants including, among others, restrictions on the ability of ADBV, the guarantors and certain material subsidiaries to: (i) incur liens, (ii) enter into any merger, consolidation or amalgamation; (iii) sell, assign, lease or transfer all or substantially all of the borrower's or guarantor's business or property; (iv) enter into transactions with affiliates; (v) engage in substantially different lines of business; (vi) permit the consolidated net indebtedness to EBITDA ratio to be greater than 2.50 to 1 on the last day of any fiscal quarter of the borrower; and (vii) engage in transactions that violate certain anti-terrorism laws. The revolving credit facility provides for customary events of default, which, if any of them occurs, would permit or require the lender to terminate its obligation to provide loans under the revolving credit facility and/or to declare all sums outstanding under the loan documents immediately due and payable.

No amounts are due at the date of issuance of these consolidated financial statements in connection with this revolving credit facility.

## Arcos Dorados Holdings Inc.

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#### 11. Long-term debt

Long-term debt consists of the following at year-end:

	2013	2012
2023 Notes	\$ 468,470	\$ -
2016 Notes	287,547	331,859
2019 Notes	-	306,798
Capital lease obligations	7,563	9,121
Other long-term borrowings	12,318	3,824
<b>Total</b>	<b>775,898</b>	<b>651,602</b>
Current portion of long-term debt	4,727	1,634
<b>Long-term debt, excluding current portion</b>	<b>\$ 771,171</b>	<b>\$ 649,968</b>

#### 2023 Notes

On September 27, 2013, the Company issued senior notes for an aggregate principal amount of \$473,225 due 2023 (the “2023 Notes”), of which \$375,000 were issued at a price of 100.909% and \$98,225 were issued as consideration for the partial exchange of 2019 Notes described below. On October 9, 2013, the Company issued additional 2023 Notes for an aggregate principal amount of \$542 as consideration for additional exchanges of 2019 Notes as also described below. The 2023 Notes mature on September 27, 2023 and bear interest of 6.625% per year. Periodic payments of principal are not required under the 2023 Notes. Interest is paid semi-annually commencing on March 27, 2014. The gross proceeds from the cash issuance of 2023 Notes amounting to \$378,409 were partially used to finance the purchase of 2019 Notes discussed below and to repay certain of the Company’s short-term debt.

The Company recorded the portion of 2023 Notes issued in exchange for cash at the original price of 100.909%. The portion of 2023 Notes issued as consideration for the partial exchange of 2019 Notes was recorded at the carrying value of the 2019 Notes since there were no substantive modifications to the terms of the debts according to ASC 470-50-40. The net discount amounting to \$5,420 (comprised of a discount of \$8,829 related to the non-cash issuance, partially offset by \$3,409 of a premium related to the cash issuance) is being accreted over the term of the 2023 Notes and recognized as a higher interest expense. The Company incurred \$3,313 of financing costs related to the cash issuance of 2023 Notes, which were capitalized as deferred financing costs and are being amortized over the life of the notes.

Interest expense related to the 2023 Notes was \$8,196 during fiscal year 2013. Net accretion related to 2023 Notes (due to the initial recognition of the portion issued as consideration for the exchange of 2019 Notes at its carrying value, partially offset by the premium received as a result of the cash issuance) amounted to \$123 during fiscal year 2013. Amortization of deferred financing costs related to the 2023 Notes amounted to \$109 during fiscal year 2013. These charges are included within “Net interest expense” in the consolidated statements of income.

The 2023 Notes are redeemable, in whole or in part, at the option of the Company at any time at the applicable redemption price set forth in the indenture governing the 2023 Notes. The 2023 Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company’s subsidiaries. The 2023 Notes rank equally with all of the Company’s senior unsecured and unsubordinated indebtedness and are effectively junior to all secured indebtedness of the Company. The indenture governing the 2023 Notes imposes certain restrictions on the Company and its subsidiaries, including some restrictions on their ability, with certain permitted exceptions, to: (i) create liens, (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets.

The 2023 Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

## Arcos Dorados Holdings Inc.

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#### 11. Long-term debt (continued)

##### 2016 Notes

On July 13, 2011 the Company issued R\$ 400 million of Brazilian reais notes due 2016 (the “Brazilian notes” or “2016 Notes”). In addition, on April 24, 2012, the Company issued an additional R\$275 million aggregate principal amount of the 2016 Notes at a price of 102.529%. The 2016 Notes bear interest of 10.25% per year, payable semi-annually beginning on January 13, 2012. The 2016 Notes mature on July 13, 2016 and are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company’s subsidiaries.

The Company incurred \$3,699 of financing costs related to these issuances, which were capitalized as deferred financing costs and are being amortized over the life of the notes.

Interest expense related to the 2016 Notes (net of premium amortization) was \$31,418, \$30,051 and \$11,119 for fiscal years 2013, 2012 and 2011, respectively. Amortization of deferred financing costs related to the 2016 Notes amounted to \$777, \$704 and \$250 for fiscal years 2013, 2012 and 2011, respectively. These charges are included within “Net interest expense” in the consolidated statements of income.

The 2016 Notes are fully and unconditionally guaranteed on a senior unsecured basis by certain of the Company’s subsidiaries. The 2016 Notes and guarantees (i) are senior secured obligations and rank equal in right of payment with all of the Company’s and guarantors’ existing and future senior unsecured indebtedness; (ii) will be effectively junior to all of Company’s and guarantors’ existing and future secured indebtedness to the extent of the value of the Company’s assets securing that indebtedness; and (iii) are structurally subordinated to all obligations of the Company’s subsidiaries that are not guarantors.

The indenture governing the 2016 Notes limits the Company’s and its subsidiaries’ ability to, among other things, (i) create liens; (ii) enter into sale and lease-back transactions; and (iii) consolidate, merge or transfer assets. These covenants are subject to important qualifications and exceptions. The indenture governing the 2016 Notes also provides for events of default, which, if any of them occurs, would permit or require the principal, premium, if any, and interest on all of the then-outstanding 2016 Notes to be due and payable immediately.

The 2016 Notes are listed on the Luxembourg Stock Exchange and trade on the Euro MTF Market.

##### 2019 Notes

In October 2009, ADBV had issued senior notes for an aggregate principal amount of \$450,000 at a price of 99.136% (the “2019 Notes”). The 2019 Notes matured on October 1, 2019 and bore interest of 7.5% per year. Periodic payments of principal were not required under the 2019 Notes. Interest was paid semi-annually.

On July 18, 2011 the Company redeemed 31.42% or \$141,400 of the outstanding principal amount of its 2019 Notes at a redemption price of 107.5% plus accrued and unpaid interest.

On September 10, 2013 the Company launched a tender and exchange offer pursuant to which it offered to exchange any and all of ADBV outstanding 2019 Notes for newly issued 2023 Notes and to purchase any and all of ADBV outstanding 2019 Notes for cash. The tender and exchange offer expired on September 23, 2013 and October 7, 2013, respectively. At September 30, 2013 the Company accepted and exchanged \$89,955 of ADBV 2019 Notes and accepted and purchased \$118,366 of ADBV 2019 Notes that were tendered prior to September 23, 2013 (the early exchange date and tender expiration date). The total aggregate amount exchanged or purchased was \$208,321, representing 67.5% of the then outstanding principal amount of the 2019 Notes. The Company issued senior notes due 2023 for an aggregate principal amount of \$98,225 and paid \$51 in cash as consideration for the exchange. The Company paid \$128,131 as tender consideration for the purchase (equal to a redemption price of 108.25%). The Company also paid \$7,638 in cash for accrued and unpaid interests related to the tendered and exchanged debt. On October 7, 2013, the Company accepted and exchanged \$512 of ADBV 2019 Notes that were tendered after the early exchange date and before the exchange expiration date in connection with the tender and exchange offer that had been launched in September 2013. The Company issued additional 2023 Notes for an aggregate principal amount of \$542 and paid \$2 in cash as consideration for this additional exchange.

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#### 11. Long-term debt (continued)

##### 2019 Notes (continued)

In addition, on December 17, 2013, the Company exercised its option to redeem all of the then outstanding principal amount of ADBV 2019 Notes (\$99,767) at a redemption price equal to 109.129%. As a result, the Company paid \$108,875 plus \$1,580 of accrued and unpaid interests related to the called portion of the 2019 Notes.

As a result of the purchase, exchange and call described above, the Company incurred a one-time loss amounting to \$23,467. This loss is comprised of (i) \$18,873 related to the consideration in excess of the principal amount of the purchased and called debt, (ii) \$2,599 related to the accelerated amortization of deferred financing costs of the purchased and called debt, (iii) \$1,127 related to the accelerated accretion of the original discount of the purchased and called debt, and (iv) \$868 related to the costs incurred in connection with the exchange offer. The exchange of debt was accounted for as a modification of debt and as such, the related effects are being recognized prospectively based on a new effective interest rate of the 2023 Notes.

Interest expense related to the 2019 Notes was \$18,765, \$23,145 and \$28,948 during fiscal year 2013, 2012 and 2011, respectively. Amortization of deferred financing costs related to the 2019 Notes (including the accelerated amortization as a result of the purchase, exchange and call described above) amounted to \$3,056, \$610 and \$3,067 for fiscal year 2013, 2012 and 2011, respectively. Accretion of the original discount related to the 2019 Notes (including the accelerated accretion as a result of the purchase and call) amounted to \$1,802, \$266 and \$1,335 for fiscal year 2013, 2012 and 2011, respectively. Loss from the purchase and call of the 2019 Notes at a price higher than the nominal value amounted to \$18,873 in 2013. These charges are included within "Net interest expense" in the consolidated statements of income.

##### Other required disclosures

At December 31, 2013, future payments related to the Company's long-term debt are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2014	\$ 4,721	\$ 62,570	\$ 67,291
2015	7,452	61,970	69,422
2016	289,277	61,213	350,490
2017	442	31,666	32,108
2018	433	31,641	32,074
Thereafter	477,084	158,116	635,200
<b>Total payments</b>	<b>779,409</b>	<b>407,176</b>	<b>1,186,585</b>
Interest	-	(407,176)	(407,176)
Discount on 2023 Notes	(8,620)	-	(8,620)
Premium on 2023 Notes	3,323	-	3,323
Premium on 2016 Notes	1,786	-	1,786
<b>Long-term debt</b>	<b>\$ 775,898</b>	<b>\$ -</b>	<b>\$ 775,898</b>

## Arcos Dorados Holdings Inc.

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#### 12. Derivative instruments

##### *Derivatives not designated as hedging instruments*

###### Cross-currency interest rate swaps and mirror swaps

At December 31, 2009 the Company had certain derivative instruments outstanding pursuant to which the Company converted a portion of its long-term debt (\$200 million) to Brazilian reais denominated debt (R\$466.2 million), paying net interests at a weighted-average interest rate of 10.13% over the notional amount in Brazilian reais. These derivative instruments did not qualify for hedge accounting under ASC Topic 815. Therefore, these derivative instruments were carried at fair market value in the consolidated balance sheets with changes reported in earnings.

On July 19, 2011 and July 20, 2011, the Company settled these derivative instruments before their maturity. During fiscal year 2011, the Company made net payments to the counterparties totaling \$113,594 in connection with these agreements. During fiscal year 2011, the Company recorded net losses for \$9,732 within "Loss from derivative instruments" in the Company's consolidated statements of income.

###### Forward contracts

At December 31, 2010, the Company had outstanding forward contracts to buy a total amount of \$20 million on May 10, 2011 at the forward exchange rate of 1.7355 Brazilian reais per U.S. dollar. When settled, the Company entered into additional forwards contracts to buy a total amount of \$40 million on September 2, 2011 at the forward exchange rate of 1.6152 Brazilian reais per U.S. dollar. These forward contracts were settled before their maturity on August 10, 2011. The Company entered into these derivatives as a result of the partial amortization of the notional amounts of the cross-currency interest rate swaps described above in order to maintain a total notional amount of \$200 million hedged all times.

These forward contracts were carried at fair market value in the consolidated balance sheets with changes reported in earnings. The Company paid \$1,579 in connection with the settlements of these forward contracts. During fiscal year 2011, the Company recognized a loss of \$1,256 in connection with these agreements, which is included within "Loss from derivative instruments" in the Company's consolidated statements of income.

###### Bond swaps

On December 10, 2009, the Company decided to hedge 44% of the Company's currency exposure from the 2019 Notes coupon payments related to the Company's generation of cash flows in Brazilian reais. Therefore in December 2009 ADBV entered into two coupon-only cross-currency interest rate swap agreements (bond swaps) with JP Morgan and Morgan Stanley to convert a portion of the coupons of the 2019 Notes denominated in US dollars (\$200 million at a fixed rate of 7.50%) to Brazilian reais (at a fixed rate of 9.08% and an exchange rate of 1.76 Brazilian reais per US dollar).

These swap agreements did not qualify for hedge accounting under ASC Topic 815. Therefore, the agreements were carried at fair market value in the consolidated balance sheets with changes reported in earnings. On April 24, 2012 the Company settled these derivatives before their maturity. During fiscal year 2012, the Company made net payments to the counterparties totaling \$4,322 and recognized net losses of \$1,738 in connection with these agreements. During fiscal year 2011, the Company made net payments to the counterparties amounting to \$3,759 and recognized a net gain of \$1,464 in connection with these agreements. The abovementioned gains and losses are included within "Loss from derivative instruments" in the Company's consolidated statements of income.

###### Total equity return swap

The Company is exposed to stock price risk related to ADBV Long-Term Incentive Plan as the underlying liability is tied to the Company's stock price. As the Company's stock price changes, such liability is adjusted and the impact is recorded in the Company's consolidated statement of income within "General and administrative expenses".

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#### 12. Derivative instruments (continued)

##### *Derivatives not designated as hedging instruments (continued)*

###### Total equity return swap (continued)

On August 13, 2012 the Company entered into a total equity return swap agreement with Goldman Sachs International in order to minimize earnings volatility related to ADBV Long-Term Incentive Plan. Under the agreement effective as from August 20, 2012, the Company receives (pays) the appreciation (depreciation), plus any dividends, on a notional number of Class A shares (2,272,551 at the inception) over a reference price of approximately \$13.77 per share. The Company in turn pays interests at 3-month LIBOR plus 380 basis points (330 basis points at the inception) over a USD notional amount (\$31,290 at the inception). The Company may, prior to maturity of the agreement and subject to certain limitations, reduce the notional number of Class A shares underlying the total equity return swap transaction. The counterparty can terminate the swap agreement if (i) the average of the Company's stock price for any three consecutive exchange business days is less than \$7.57; or (ii) on any day, there is a decline of 10% or more in the price with respect to the closing price of the preceding business day and the price per share at such time is less than 8.95. The agreement will mature no later than September 2014.

During fiscal year 2013 the Company reduced the notional number of class A shares underlying the total equity return swap transaction by 1,250,000 shares (equivalent to a notional amount of \$17,211). The Company paid \$1,731 as settlement of these share reductions (including interests and fees) during fiscal year 2013.

The Company has not designated the swap as a hedge under ASC Topic 815. Rather, the Company marks the swap to market and records the impact of the equity portion in "General and administrative expenses" in the Company's consolidated statement of income. As a result, the adjustments to the value of the swap tend to offset the adjustments to the carrying value of ADBV Long-Term Incentive Plan liability derived from changes in the Company's stock price, and there is no significant impact on the Company's consolidated statement of income. The interest portion is recorded within "Net interest expense" in the Company's consolidated statement of income.

At December 31, 2013 the fair market value of the total equity return swap amounted to \$1,378 payable (\$3,952 at December 31, 2012). During fiscal years 2013 and 2012, the Company recorded a gain of \$630 and a loss of \$4,111, respectively, within "General and administrative expenses" and a loss of \$533 and \$159, respectively, within "Net interest expense" in connection with this agreement. In addition, during fiscal years 2013 and 2012, the Company paid interests amounting to \$746 and \$318, respectively in connection with this agreement.

##### *Derivatives designated as hedging instruments*

###### Forward contracts

In August and October 2010, the Company entered into various forward contracts maturing in 2011 to hedge a portion of the foreign exchange risk associated with the forecasted imports of Chile for fiscal year 2011. Pursuant to the agreements, during 2011 the Company purchased a total amount of \$11,878 at a weighted-average forward rate of 500.4 Chilean pesos per U.S. dollar.

In November 2011, the Company entered into various forward contracts maturing in 2012 to hedge a portion of the foreign exchange risk associated with the forecasted imports of Peru. Pursuant to the agreements, during fiscal year 2012 the Company purchased a total amount of \$3,600 at a weighted-average forward rate of 2.76 Peruvian soles per US dollar.

In January and February 2012, the Company entered into various forward contracts maturing in 2012 to hedge a portion of the foreign exchange risk associated with the forecasted imports of Colombia and Chile. Pursuant to the agreements, during fiscal year 2012 the Company purchased a total amount of \$8,226 at an average forward rate of 1,855.8 Colombian pesos per U.S. dollar, and a total amount of \$11,435 at an average forward rate of 507.3 Chilean pesos per US dollar, respectively.

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**12. Derivative instruments (continued)***Derivatives designated as hedging instruments (continued)*Forward contracts (continued)

In January and February 2013, the Company entered into various forward contracts maturing in 2013 to hedge a portion of the foreign exchange risk associated with the forecasted imports of Colombia, Chile, Peru and Uruguay. Pursuant to the agreements, the Company purchased a total amount of \$2,908 at an average forward rate of 1,805.25 Colombian pesos per US dollar, a total amount of \$6,800 at an average forward rate of 486.27 Chilean pesos per US dollar, a total amount of \$1,925 at an average forward rate of 2.56 Peruvian soles per US dollar and a total amount of \$6,000 at an average forward rate of 20.07 Uruguayan pesos, respectively.

In October 2013, the Company entered into various forward contracts maturing in 2014 to hedge a portion of the foreign exchange risk associated with the forecasted imports of Colombia and Chile. Pursuant to the agreements, the Company will purchase a total amount of \$11,160 at an average forward rate of 1,932.12 Colombian pesos per U.S. dollar during the first semester of 2014 and will purchase a total amount of \$8,134 at an average forward rate of 513.38 Chilean pesos per U.S. dollar during fiscal year 2014.

The Company has designated cash flow hedges that encompass the variability of functional-currency-equivalent cash flows attributable to foreign exchange risks related to the settlement of the foreign-currency-denominated payables resulting from the forecasted purchases (hedges over 90% of the purchases in Chile for 2011; hedges over 60%, 49% and 77% of the purchases in Peru, Colombia and Chile, respectively, for 2012; hedges over 70% of the forecasted purchases in Colombia between February and June 2013, 57% of the forecasted purchases in Chile between February and December 2013, 50% of the forecasted purchases in Peru between February and December 2013 and 49% of the forecasted purchases in Uruguay between March and December 2013; hedges over 79.7% of the forecasted purchases in Colombia for the first and second quarter of 2014 and 75.0%, 50.0%, 30.0% and 30.0% of the forecasted purchases in Chile for the first, second, third and fourth quarter of 2014, respectively). The effect of the hedges result in fixing the cost of goods acquired (i.e. the net settlement or collection adjusts the cost of inventory paid to the suppliers). The forward contracts are carried at their fair market value in the consolidated balance sheets, with changes reported within the "Accumulated other comprehensive losses" component of shareholders' equity. As of December 31, 2013, the fair market value of the outstanding derivatives represented a \$383 net receivable (\$nil at December 31, 2012). The Company made net collections (payments) totaling \$628, \$(949) and \$(451) during fiscal years 2013, 2012 and 2011, respectively, as a result of the net settlements of these derivatives. In addition, the Company recorded a \$1,011 unrealized net gain, a \$901 unrealized net loss and a \$131 unrealized net gain within the "Accumulated other comprehensive losses" component of shareholders' equity during fiscal years 2013, 2012 and 2011, respectively.

Cross-currency interest rate swaps

On April 24, 2012, the Company entered into a cross-currency swap agreement with Bank of America to hedge the cash flows of a portion of the 2016 Notes issued. Pursuant to this agreement, the Company received interests at a fixed rate of 10.25% over a notional amount of 70 million of Brazilian reais and paid interests at a fixed rate of 4.90% over a notional amount of \$37,433. This agreement matures on July 13, 2016 with exchange of principal.

The Company designated the cross-currency interest rate swap as a cash flow hedge in accordance with ASC Topic 815. Therefore, the agreement was carried at its fair market value in the consolidated balance sheet, with changes reported within the "Accumulated other comprehensive losses" component of shareholders' equity. The Company reclassified the effective portion of the hedge into income as adjustments to foreign exchange results and net interest expense.

At December 31, 2012, the fair market value of the swap agreement totaled \$3,666 payable. During fiscal years 2013 and 2012, the Company recorded net unrealized losses of \$294 and \$3,294, respectively, within "Accumulated other comprehensive losses", of which \$1,436 and \$2,152, respectively, were reclassified from "Accumulated other comprehensive losses" into income as a result of the hedge relationship. The Company collected \$1,828 and \$372 of net interest from the counterparty during fiscal years 2013 and 2012. On October 4, 2013, the Company settled this swap agreement before its maturity for \$9,975. As a result, the Company recorded a loss from the early settlement amounting to \$4,187, which was included within "Loss from derivative instruments" in the income statement.

## Arcos Dorados Holdings Inc.

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#### 12. Derivative instruments (continued)

##### *Derivatives designated as hedging instruments (continued)*

##### Cross-currency interest rate swaps (continued)

On November 7, 2013, the Company entered into a cross-currency interest swap agreement with JP Morgan Chase Bank, N.A., to hedge all the variability in a portion (53.08%) of the principal and interest collections of its BRL intercompany loan receivable with ADBV. All the terms of the swap agreement match the terms of the BRL intercompany loan receivable. Pursuant to this agreement, the Company receives interests at a fixed rate of 4.38% over a notional amount of 47.3 million of US dollars and pays Brazilian reais interests at a fixed rate of 13 % over a notional amount of R\$ 108 million on March 31 and September 30 of each year. This agreement matures on September 29, 2023 with exchange of principal.

The Company has designated the cross-currency interest rate swap as a cash flow hedge in accordance with ASC Topic 815. Therefore, the agreement is carried at its fair market value in the consolidated balance sheet, with changes reported within the "Accumulated other comprehensive losses" component of shareholders' equity. The Company reclassifies the effective portion of the hedge into income as adjustments to foreign exchange results and net interest expense.

At December 31, 2013, the fair market value of the swap agreement totaled \$180 payable. During the fiscal year 2013, the Company recorded net unrealized losses of \$180, within "Accumulated other comprehensive losses", of which a gain of \$972, was reclassified from "Accumulated other comprehensive losses" into income as a result of the hedge relationship.

##### Additional disclosures

The following table presents the fair values of derivative instruments included in the consolidated balance sheets as of December 31, 2013 and 2012:

Type of Derivative	Balance Sheets Location	Asset (Liability) Derivatives	
		Fair Value	
		2013	2012
Derivatives designated as hedging instruments under ASC Topic 815 Derivatives and Hedging			
Forward contracts	Other receivables	\$ 383	\$ -
Cross-currency interest rate swap (i)	Derivative instruments	(180)	(3,666)
		<b>203</b>	<b>(3,666)</b>
Derivatives not designated as hedging instruments under ASC Topic 815 Derivatives and Hedging			
Total equity return swap (ii)	Derivative instruments	\$ (1,378)	\$ (3,952)
		<b>(1,378)</b>	<b>(3,952)</b>
<b>Total derivative instruments</b>		<b>\$ (1,175)</b>	<b>\$ (7,618)</b>

- (i) At December 31, 2013, disclosed in the consolidated balance sheet as follows: \$490 as a non-current asset and \$670 as a current liability. At December 31, 2012, disclosed in the consolidated balance sheet as follows: \$1,731 as a current asset and \$5,397 as a non-current liability.
- (ii) Disclosed in the consolidated balance sheet as a current liability.

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#### 12. Derivative instruments (continued)

##### Additional disclosures (continued)

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2013 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)(i)	Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)(ii)
Forward contracts	\$ 1,011	\$ (628)	\$ -
Settled cross-currency interest rate swap	(294)	1,436	(4,187)
Outstanding cross-currency interest rate swap	(180)	(972)	-
<b>Total</b>	<b>\$ 537</b>	<b>\$ (164)</b>	<b>\$ (4,187)</b>

- (i) The gain recognized in income related to forward contracts was recorded as an adjustment to food and paper. The net loss recognized in income related to the cross-currency interest rate swaps is disclosed in the consolidated income statement as follows: a loss of \$921 as an adjustment to foreign exchange results and a gain of \$457 as an adjustment to net interest expense.
- (ii) Related to the loss incurred in connection with the settlement of the cross-currency interest rate swap agreement before its maturity. This result is recorded within "Loss from derivative instruments" in the Company's consolidated statement of income.

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivative instruments
Total equity return swap (iii)	\$ 97
Others (iv)	46
<b>Total</b>	<b>\$ 143</b>

- (iii) A \$630 gain is recorded within "General and administrative expenses" and a \$533 loss within "Net interest expense" in the Company's consolidated statement of income.

- (iv) These results are recorded within "Loss from derivative instruments" in the Company's consolidated statement of income.

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2012 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)(i)	Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)
Forward contracts	\$ (901)	\$ 949	\$ -
Cross-currency interest rate swap	(3,294)	2,152	-
<b>Total</b>	<b>\$ (4,195)</b>	<b>\$ 3,101</b>	<b>\$ -</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 12. Derivative instruments (continued)

##### Additional disclosures (continued)

- (i) The loss recognized in income related to forward contracts was recorded as an adjustment to food and paper. The net loss recognized in income related to the cross-currency interest rate swap is disclosed in the consolidated income statement as follows: a loss of \$3,314 as an adjustment to foreign exchange results and a gain of \$1,162 as an adjustment to net interest expense.

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivative instruments
Bond swaps (i)	\$ (1,738)
Total equity return swap (ii)	(4,270)
Others (i)	847
<b>Total</b>	<b>\$ (5,161)</b>

- (i) These results are recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.  
(ii) A \$4,111 loss is recorded within “General and administrative expenses” and a \$159 loss within “Net interest expense” in the Company’s consolidated statement of income.

The following tables present the pretax amounts affecting income and other comprehensive income for the fiscal year ended December 31, 2011 for each type of derivative relationship:

Derivatives in Cash Flow Hedging Relationships	Gain (Loss) Recognized in Accumulated OCI on Derivative (Effective Portion)	(Gain) Loss Reclassified from Accumulated OCI into Income (Effective Portion)	Gain (Loss) Recognized in Income on Derivative (Amount Excluded from Effectiveness Testing and Ineffective Portion)
Forward contracts	\$ 131	\$ 451	\$ -
<b>Total</b>	<b>\$ 131</b>	<b>\$ 451</b>	<b>\$ -</b>

The loss recognized in income was recorded as an adjustment to food and paper.

Derivatives Not Designated as Hedging Instruments	Gain (Loss) Recognized in Income on Derivative instruments (i)
Cross-currency interest rate swaps and Mirror swaps	\$ (9,732)
Bond swaps	1,464
Forwards	(1,256)
Others	287
<b>Total</b>	<b>\$ (9,237)</b>

- (i) These results are recorded within “Loss from derivative instruments” in the Company’s consolidated statement of income.

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### Notes to the Consolidated Financial Statements

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#### 13. Operating lease agreements

At December 31, 2013, the Company was the lessee at 2,180 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 vary between 10 and 20 years and, in many cases, provide for rent escalations and renewal options, with certain leases providing purchase options. Escalations terms vary by reporting unit, with examples including fixed-rent escalations, escalations based on an inflation index, and fair value adjustments. The timing of these escalations generally ranges from annually to every five years. According to rental terms, the Company pays a monthly rental expense based on the greater of a fixed rent or a certain percentage of the Company's gross sales. 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 non-cancelable leases covering certain offices and warehouses.

In March 2010, the Company entered into an aircraft operating lease agreement for a term of 8 years, which provides for quarterly payments of \$690. The agreement includes a purchase option at the end of the lease term at fair market value and also an early purchase option at a fixed amount of \$26,685 at maturity of the 24<sup>th</sup> quarterly payment. The Company was required to make a cash deposit of \$5,325 as collateral for the obligations assumed under this agreement.

At December 31, 2013, future minimum payments required under existing operating leases with initial terms of one year or more are:

	Restaurant	Other	Total
2014	\$ 148,558	\$ 8,019	\$ 156,577
2015	137,536	6,987	144,523
2016	125,352	5,795	131,147
2017	114,213	5,325	119,538
2018	100,593	2,612	103,205
Thereafter	\$ 497,740	4,454	502,194
<b>Total minimum payment</b>	<b>\$ 1,123,992</b>	<b>\$ 33,192</b>	<b>\$ 1,157,184</b>

The following table provides detail of rent expense for fiscal years 2013, 2012 and 2011:

	2013	2012	2011
Company-operated restaurants (i)	\$ 153,538	\$ 140,014	\$ 129,135
Franchised restaurants (ii)	48,911	44,457	41,252
<b>Total rent expense</b>	<b>\$ 202,449</b>	<b>\$ 184,471</b>	<b>\$ 170,387</b>

(i) Included within the caption "Occupancy and other operating expenses" in the consolidated statements of income.

(ii) Included within the caption "Franchised restaurants – occupancy expenses" in the consolidated statements of income.

The following table provides a breakdown detail of rent expense between minimum and contingent rentals for fiscal years 2013, 2012 and 2011:

	2013	2012	2011
Minimum rentals	\$ 126,329	\$ 117,006	\$ 121,533
Contingent rentals based on sales	76,120	67,465	48,854
<b>Total rent expense</b>	<b>\$ 202,449</b>	<b>\$ 184,471</b>	<b>\$ 170,387</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 14. Franchise arrangements

Individual franchise arrangements generally include a lease and a license and provide for payment of initial fees as well as continuing rent and service fees (royalties) to the Company based upon a percentage of sales with minimum rent payments. The Company's franchisees are granted the right to operate a restaurant using the McDonald's system and, in most cases, the use of a restaurant facility, generally for a period of 20 years. Franchisees pay related occupancy costs including property taxes, insurance and maintenance. Pursuant to the MFAs, the Company pays initial fees and continuing service fees for franchised restaurants to McDonald's Corporation. Therefore, the margin for franchised restaurants is primarily comprised of rental income net of occupancy expenses (depreciation for owned property and equipment and/or rental expense for leased properties).

At December 31, 2013 and 2012, net property and equipment under franchise arrangements totaled \$191,422 and \$211,139, respectively (including land of \$58,976 and \$63,839, respectively).

Revenues from franchised restaurants for fiscal years 2013, 2012 and 2011 consisted of:

	2013	2012	2011
Rent	\$ 171,859	\$ 161,591	\$ 152,380
Initial fees (i)	929	780	514
Royalty fees (ii)	639	652	627
<b>Total</b>	<b>\$ 173,427</b>	<b>\$ 163,023</b>	<b>\$ 153,521</b>

(i) Disclosed net of initial fees paid to McDonald's Corporation for \$1,150, \$882 and \$518 in 2013, 2012 and 2011, respectively.

(ii) Disclosed net of royalties fees paid to McDonald's Corporation for \$69,933, \$65,756 and \$60,261 in 2013, 2012 and 2011, respectively.

At December 31, 2013, future minimum rent payments due to the Company under existing franchised agreements are:

	Owned sites	Leased sites	Total
2014	\$ 21,899	\$ 20,053	\$ 41,952
2015	20,508	17,505	38,013
2016	18,363	15,124	33,487
2017	16,401	13,992	30,393
2018	13,565	13,052	26,617
Thereafter	70,099	60,996	131,095
<b>Total</b>	<b>\$ 160,835</b>	<b>\$ 140,722</b>	<b>\$ 301,557</b>

#### 15. Income taxes

The Company's operations are conducted by its foreign subsidiaries in Latin America and the Caribbean. The foreign subsidiaries are incorporated under the laws of their respective countries and as such the Company is taxed in such foreign countries.

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#### 15. Income taxes (continued)

Statutory tax rates in the countries in which the Company operates for fiscal years 2013, 2012 and 2011 were as follows:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Puerto Rico	20%	20%	30%
Argentina, Martinique, French Guyana, Guadeloupe, St Croix, St. Thomas, Aruba and Curacao	35%	35%	35%
Brazil and Venezuela	34%	34%	34%
Colombia	34%	33%	33%
Costa Rica, Peru and Mexico	30%	30%	30%
Panamá, Uruguay, Trinidad and Tobago and Netherlands	25%	25%	25%
Ecuador	22%	23%	24%
Chile	20%	20%	20%

Income tax expense for fiscal years 2013, 2012 and 2011 consisted of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Current income tax expense	\$ 33,609	\$ 32,147	\$ 47,485
Deferred income tax expense (benefit)	9,113	14,228	(2,882)
<b>Income tax expense</b>	<b>\$ 42,722</b>	<b>\$ 46,375</b>	<b>\$ 44,603</b>

Income tax expense for fiscal years 2013, 2012 and 2011 differed from the amounts computed by applying the Company's weighted-average statutory income tax rate to pre-tax income as a result of the following:

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Pre-tax income	\$ 96,594	\$ 160,963	\$ 160,403
Weighted-average statutory income tax rate (i)	31.92%	35.20%	32.35%
Income tax expense at weighted-average statutory tax rate on pre-tax income	30,833	56,659	51,890
<b>Permanent differences:</b>			
Change in valuation allowance	39,621	(7,660)	(20,962)
Non-deductible expenses	13,500	22,258	28,783
Tax deductible goodwill in Brazil and other tax benefits (ii)	(26,948)	(18,789)	(21,640)
Withholding income taxes on intercompany transactions	3,121	3,437	9,038
Tax inflation adjustment	(20,041)	(10,983)	(3,471)
Expiration of tax loss carryforwards	-	1,017	1,298
Others	2,636	436	(333)
<b>Income tax expense</b>	<b>\$ 42,722</b>	<b>\$ 46,375</b>	<b>\$ 44,603</b>

(i) Weighted-average statutory income tax rate is calculated based on the lump-sum of the income before taxes by country multiplied by the prevailing statutory income tax rate, divided by the consolidated income before taxes.

(ii) In November 2010, the Company completed the corporate reorganization of its companies in Brazil that was commenced on December 29, 2008. Among other corporate synergies, the reorganization resulted in contribution of the shares of the Brazilian operating entities to a new holding company and generated a tax deductible goodwill amounting to \$310 million. The goodwill is deductible in Brazil for income tax purposes through its amortization in a period of 60 months starting in December 2010 following the merger of the Brazilian entities. The Company did not recognize any deferred tax asset for this benefit following the exemption in ASC 740-10-25-3.e. applicable to intercompany transfers. Therefore, the tax benefit is being recognized when realized on the tax return and applied to reduce income tax expenses.

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#### 15. Income taxes (continued)

The tax effects of temporary differences that give rise to the Company's deferred tax assets and liabilities at December 31, 2013 and 2012 are presented below:

	<u>2013</u>	<u>2012</u>
Tax loss carryforwards (i)	\$ 276,468	\$ 267,826
Purchase price allocation adjustment	74,349	92,715
Property and equipment – tax inflation adjustment	41,212	39,290
Other accrued payroll and other liabilities	20,941	15,452
Share-based compensation programs	6,532	9,679
Provision for contingencies	2,809	9,447
Other deferred tax assets	20,880	20,185
Property and equipment – difference in depreciation rates	(41,087)	(54,383)
Other deferred tax liabilities (ii)	(12,499)	(16,769)
Valuation allowance (iii)	(270,057)	(236,563)
<b>Net deferred tax asset</b>	<b>\$ 119,548</b>	<b>\$ 146,879</b>

(i) As of December 31, 2013, the Company and its subsidiaries had accumulated operating tax loss carryforwards amounting to \$986,727. These operating tax loss carryforwards expire as follows:

	<u>2013</u>
Fiscal year 2014	\$ 5,293
Fiscal year 2015	357
Fiscal year 2016	26,954
Fiscal year 2017	89,318
Fiscal year 2018	3,657
Thereafter	367,022
Without expiration terms	494,126
	<b>\$ 986,727</b>

(ii) Primarily related to intangible assets and foreign currency exchange gains.

(iii) In assessing the realization of deferred income tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized.

Balance sheets classification of deferred taxes at December 31, 2013 and 2012 is as follows: current deferred tax assets of \$27,974 in 2013 and \$22,178 in 2012; non-current deferred tax assets of \$97,687 in 2013 and \$133,708 in 2012; and non-current deferred tax liabilities of \$6,113 in 2013 and \$9,007 in 2012.

Deferred income taxes have not been recorded for temporary differences related to investments in certain foreign subsidiaries. These temporary differences were approximately \$216.2 million at December 31, 2013 and consisted of undistributed earnings considered permanently invested in subsidiaries. Determination of the deferred income tax liability on these unremitted earnings is not practicable because such liability, if any, is dependent on circumstances existing if and when remittance occurs.

As of December 31, 2013 and 2012, the Company's gross unrecognized tax benefits totaled \$1,697 and \$1,554 (including interests and penalties), respectively, that would favorably affect the effective tax rate if resolved in the Company's favor. The Company is regularly under audit in multiple tax jurisdictions. It is reasonably possible that, as a result of audit progression within the next 12 months, there may be 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 the unrecognized tax benefit balance, the Company believes that the liabilities that are recorded are appropriate and adequate as determined under ASC 740. The Company is generally no longer subject to income tax examinations by tax authorities for years prior to 2007.

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#### 16. Share-based compensation

##### ADBV Long-Term Incentive Plan

During 2008, the Company implemented a long-term incentive plan to reward employees for increases in the fair value of the Company's stock subsequent to the date of grant. In accordance with this plan, in fiscal years 2008, 2009 and 2010 the Company granted units (called "CADs") to certain employees, pursuant to which the employees are entitled to receive, when vested, a cash payment equal to the appreciation in fair value over the base value. The awards vest over a requisite service period of five years as follows: 40% at the second anniversary of the date of grant and 20% at each of the following three years. The exercise right is cumulative and, once such right becomes exercisable, it may be exercised in whole or in part during quarterly window periods until the date of termination, which occurs at the fifth anniversary of the date of grant. Exercisable outstanding awards at the date of termination are automatically settled by the Company.

The Company recognizes compensation expense related to these benefits on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The accrued liability is remeasured at the end of each reporting period until settlement. Effective December 31, 2010 the Company changed the method of measuring its liability awards from the intrinsic value method (i.e. difference between the current fair value and the base value) to a fair value method using the Black & Scholes model. The current fair value for purposes of determining the intrinsic value was based on a formula determined and approved by the Company's Board of Directors. At December 31, 2010 the Company considered the estimated initial public offering price per class A share (\$16.50) in determining the fair value of the awards because the Company's Board of Directors decided that on a going forward basis the fair value would be based on the market price instead of the formula that had previously been used to value such awards.

The following variables and assumptions have been used by the Company for purposes of measuring its liability awards at December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Current price (i)	12.12	11.96
Weighted-average base value of outstanding units	6.76	6.22
Expected volatility (ii)	32.3%	37.3%
Dividend yield	2.0%	2.0%
Risk-free interest rate	0.1%	0.4%
Expected term	last vesting date	last vesting date

- (i) Equal to the quoted market price per share at the end of the year.  
(ii) Based on implied volatility of the Company's class A shares.

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#### 16. Share-based compensation (continued)

##### ADBV Long-Term Incentive Plan (continued)

The following table summarizes the activity under the plan for fiscal years 2013, 2012 and 2011:

	Units	Weighted- average base value	Weighted- average fair value
<b>Outstanding at December 31, 2010</b>	<b>3,534,414</b>	<b>5.54</b>	<b>10.94</b>
Exercised (i)	(525,017)	5.19	
Forfeited	(85,815)	5.02	
<b>Outstanding at December 31, 2011</b>	<b>2,923,582</b>	<b>5.82</b>	<b>14.44</b>
Exercised (ii)	(696,067)	4.61	
Forfeited	(98,294)	5.62	
<b>Outstanding at December 31, 2012</b>	<b>2,129,221</b>	<b>6.22</b>	<b>5.79</b>
Exercised (iii)	(1,022,347)	5.69	
Forfeited	(88,568)	6.32	
<b>Outstanding at December 31, 2013</b>	<b>1,018,306</b>	<b>6.76</b>	<b>5.23</b>
<b>Exercisable at December 31, 2013</b>	<b>451,873</b>	<b>7.46</b>	<b>4.55</b>

- (i) The total amount paid for these exercises was \$9,841.  
(ii) The total amount paid for these exercises was \$5,811. At December 31, 2012 the Company maintained a current payable of \$907 related to these exercises that is disclosed within "accrued payroll and other liabilities" in the Company's balance sheet.  
(iii) The total amount paid for these exercises was \$7,857.

The following table provides a summary of the plan at December 31, 2013:

	Vested (i)	Non-vested (ii)	Total
Number of units outstanding	451,873	566,433	1,018,306
Weighted-average fair market value per unit	4.55	5.78	5.23
Total fair value of the plan	2,057	3,272	5,329
Weighted-average accumulated percentage of service	100	87.57	92.37
Accrued liability (iii)	2,057	2,865	4,922
Compensation expense not yet recognized (iv)	-	407	407

- (i) Related to exercisable awards.  
(ii) Related to awards that will vest between fiscal years 2014 and 2015.  
(iii) The total accrued liability of \$4,922 related to outstanding units is disclosed within "Accrued payroll and other liabilities" in the Company's balance sheet as follows: \$3,620 as a current liability and \$1,302 as a non-current liability.  
(iv) Expected to be recognized in a weighted-average period of 1.1 years.

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#### 16. Share-based compensation (continued)

##### ADBV Long-Term Incentive Plan (continued)

As discussed in Note 12, on August 13, 2012, the Company entered into a total equity return swap agreement to minimize earnings volatility related to these awards. The Company has not designated the swap as a hedge. Rather, the Company marks the swap to market and records the impact of the equity portion in “General and administrative expenses” in the Company’s consolidated statement of income. The adjustments to the value of the swap tend to offset the adjustments to the carrying value of the Company’s Long-Term Incentive Plan liability derived from changes in the Company’s stock price, which are also recorded in “General and administrative expenses”. As a result, there is no significant impact on the Company’s consolidated statement of income as from the effective date of the agreement.

Not including the impact of the total equity return swap agreement, compensation expense (benefit) for the fiscal years 2013, 2012 and 2011 amounted to \$1,875, \$(15,746) and \$19,295, respectively. See Note 12 for a discussion of the impact of the equity return swap agreement on the Company’s consolidated statement of income. Compensation expense is included within “General and administrative expenses” in the consolidated statement of income. Compensation expense for the fiscal year 2011 includes an incremental expense amounting to \$10,526 related to the effect of remeasuring the accrued liability considering the initial quoted market price of \$21.00 as a result of becoming a public company.

The Company recognized \$334, \$4,424 and \$(4,436) of related income tax expense (benefit) during fiscal years 2013, 2012 and 2011, respectively.

##### Award Right granted to the Chief Executive Officer

In addition, during 2008 the Company granted to the Chief Executive Officer an award right pursuant to which he was entitled to receive from the Company a lump sum amount of cash equal to 1% of the fair market value of the Company upon the occurrence of a Liquidity Event (an “Initial Public Offering” or “Change of Control” as defined in the agreement). The award right was subject to a four-year graduated vesting period (25% per year) of continued service as from August 3, 2007.

The Company recognized compensation expense related to this benefit on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The accrued liability was remeasured at the end of each reporting period until settlement, based on the estimated fair value of the Company. The fair value of the Company had been estimated based on a formula determined and approved by the Company’s Board of Directors. Effective December 31, 2010 the Company replaced the formula by the estimated initial public offering price for purposes of measuring the liability award. As a result of the Company’s initial public offering, on April 14, 2011 the Company settled the award in cash for \$34,000.

Compensation expense for fiscal year 2011 amounted to \$2,214. Compensation expense is included within “Other operating expenses, net” in the consolidated statement of income.

##### 2011 Equity Incentive Plan

In March 2011, the Company adopted its Equity Incentive Plan, or 2011 Plan, to attract and retain the most highly qualified and capable professionals and to promote the success of its business. This plan replaces ADBV Long-Term Incentive Plan discussed above, although the awards that have already been granted will remain outstanding until their respective termination dates. Like ADBV Long-Term Incentive Plan, the 2011 Plan is being used to reward certain employees for the success of the Company’s business through an annual award program. The 2011 Plan permits grants of awards relating to class A shares, including awards in the form of shares (also referred to as stock), options, restricted shares, restricted share units, share appreciation rights, performance awards and other share-based awards as will be determined by the Company’s Board of Directors. The maximum number of shares that may be issued under the 2011 Plan is 2.5% of the Company’s total outstanding class A and class B shares immediately following its initial public offering.

## Arcos Dorados Holdings Inc.

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#### 16. Share-based compensation (continued)

##### 2011 Equity Incentive Plan (continued)

The Company made a special grant of stock options and restricted share units in 2011 in connection with its initial public offering. Both types of special awards vest as follows: 1/3 on each of the second, third and fourth anniversaries of the grant date. The Company also made recurring grants of stock options and restricted share units in each of the fiscal years 2011, 2012 and 2013. Both types of these recurring annual awards vest as follows: 40% on the second anniversary of the date of grant and 20% on each of the following three anniversaries. For all grants, each stock option granted represents the right to acquire a Class A share at its grant-date fair market value, while each restricted share unit represents the right to receive a Class A share when vested.

The Company utilizes a Black-Scholes option-pricing model to estimate the value of stock options at the grant date. The value of restricted share units is based on the quoted market price of the Company's class A shares at the grant date. The following variables and assumptions have been used by the Company for purposes of measuring its stock options awards at each grant date (on the second quarter of each year):

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Grant-date stock price (i)	14.31	14.35	21.20
Weighted-average strike price	14.31	14.35	21.20
Expected volatility (ii)	38.0%	48.0%	28.6%
Dividend yield	1.7%	1.7%	1.1%
Risk-free interest rate	1.0%	0.8%	3.4%
Expected term	last vesting date	last vesting date	last vesting date

(i) Equal to the quoted market price per Class A share at market-closing of the date of grant.

(ii) Based on implied volatility of the Company's class A shares, except for 2011 which was based on historical 1-year implied volatility of Latin American comparable companies, calculated as the standard deviation on the logarithms of daily price returns, annualized by the squared root of the number of days.

The resulting value of stock options and restricted share units granted was \$1,807 and 3,056, respectively, during the fiscal year 2013; \$3,051 and \$3,030, respectively, during the fiscal year 2012; and \$10,435 and \$21,488, respectively, during the fiscal year 2011.

The Company recognizes stock-based compensation expense on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. The Company recognized stock-based compensation expense in the amount of \$5,782, \$12,900 and \$8,202 during fiscal years 2013, 2012 and 2011, respectively, of which \$1,964, \$7,997 and \$5,703 relates to the special awards granted in connection with the initial public offering. Stock-based compensation expense is included within "General and administrative expenses" in the consolidated statements of income.

The Company recognized \$88, \$2,807 and \$1,690 of related income tax benefits during fiscal years 2103, 2012 and 2011, respectively.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 16. Share-based compensation (continued)

##### 2011 Equity Incentive Plan (continued)

##### *Stock Options*

The following table summarizes the activity of stock options during fiscal years 2013, 2012 and 2011:

	Units	Weighted- average strike price	Weighted- average grant- date fair value
<b>Outstanding at December 31, 2010</b>	-	-	-
2011 IPO special grant	1,046,459	21.20	5.28
2011 annual grant	833,388	21.20	5.892
<b>Outstanding at December 31, 2011</b>	<b>1,879,847</b>	<b>21.20</b>	<b>5.55</b>
2012 annual grant	584,587	14.35	5.22
<b>Outstanding at December 31, 2012</b>	<b>2,464,434</b>	<b>19.58</b>	<b>5.47</b>
2013 annual grant	431,726	14.31	4.19
Forfeitures	(462,272)	19.97	5.41
<b>Outstanding at December 31, 2013</b>	<b>2,433,888</b>	<b>18.57</b>	<b>5.26</b>
<b>Exercisable at December 31, 2013</b>	<b>546,687</b>	<b>21.20</b>	<b>5.59</b>

The following table provides a summary of outstanding stock options at December 31, 2013:

	Vested (i)	Non-vested (ii)	Total
Number of units outstanding	546,687	1,887,201	2,433,888
Weighted-average grant-date fair market value per unit	5.59	5.16	5.26
Total grant-date fair value	3,057	9,735	12,792
Weighted-average accumulated percentage of service	100.0	61.3	70.6
Stock-based compensation recognized in Additional paid-in capital	3,057	5,971	9,028
Compensation expense not yet recognized (iii)	-	3,764	3,764

(i) Related to exercisable awards.

(ii) Related to awards that will vest between fiscal years 2014 and 2018.

(iii) Expected to be recognized in a weighted-average period of 3.1 years.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 16. Share-based compensation (continued)

##### 2011 Equity Incentive Plan (continued)

##### *Restricted Share Units*

The following table summarizes the activity of restricted share units during fiscal years 2013, 2012 and 2011:

	Units	Weighted-average grant-date fair value
<b>Outstanding at December 31, 2010</b>	-	-
2011 IPO special grant	782,137	21.20
2011 annual grant	231,455	21.20
<b>Outstanding at December 31, 2011</b>	<b>1,013,592</b>	<b>21.20</b>
2012 annual grant	211,169	14.35
<b>Outstanding at December 31, 2012</b>	<b>1,224,761</b>	<b>20.02</b>
2013 annual grant	213,600	14.31
Partial vesting of 2011 grants (i)	(338,014)	21.20
Forfeitures	(196,253)	19.94
<b>Outstanding at December 31, 2013</b>	<b>904,094</b>	<b>18.25</b>
<b>Exercisable at December 31, 2013</b>	<b>-</b>	<b>-</b>

- (i) The Company issued 338,014 Class A shares in connection with this partial vesting. Therefore, accumulated recorded compensation expense totaling \$7,166 was reclassified from "Additional paid-in capital" to "Common Stock" upon issuance.

The following table provides a summary of outstanding restricted share units at December 31, 2013:

Number of units outstanding (i)	904,094
Weighted-average grant-date fair market value per unit	18.25
Total grant-date fair value	16,496
Weighted-average accumulated percentage of service	64.8
Stock-based compensation recognized in Additional paid-in capital	10,690
Compensation expense not yet recognized (ii)	5,806

- (i) Related to awards that will vest between fiscal years 2014 and 2018.  
(ii) Expected to be recognized in a weighted-average period of 3.1 years.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 17. Commitments and contingencies

##### Commitments

The MFAs require the Company and its MF subsidiaries, among other obligations:

- (i) to pay monthly royalties commencing at a rate of approximately 5% of gross sales of the restaurants, substantially consistent with market;
- (ii) to agree with McDonald's on a restaurant opening plan and a reinvestment plan for each three-year period and pay an initial franchise fee for each new restaurant opened; for the three-year period commenced on January 1, 2014 the Company must reinvest an aggregate of at least \$180 million; and open no less than 250 new restaurants
- (iii) to commit to funding a specified Strategic Marketing Plan; and
- (iv) to own (or lease) directly or indirectly, the fee simple interest in all real property on which any franchised restaurant is located.

The Company obtained temporary royalty waivers from McDonald's Corporation for its operations in Venezuela of \$8 million and \$5 million for the full year 2013 and 2012, respectively. On December 2, 2013, the Company obtained an additional temporary royalty waiver of \$18 million for fiscal year 2014.

In addition, the Company maintains standby letters of credit with an aggregate drawing amount of \$80 million in favor of McDonald's Corporation as collateral for the obligations assumed under the MFAs. The letter of credit can be drawn if certain events occur, including the failure to pay royalties. No amounts have been drawn at the date of issuance of these financial statements.

##### Provision for contingencies

The Company has certain contingent liabilities with respect to existing or potential claims, lawsuits and other proceedings, including those involving labor, tax and other matters. At December 31, 2013 the Company maintains a provision for contingencies amounting to \$22,341 (\$27,818 at December 31, 2012), which is disclosed net of judicial deposits amounting to \$7,519 (\$7,219 at December 31, 2012) that the Company was required to make in connection with the proceedings. As December 31, 2013 and 2012, the net amount of \$14,822 and \$20,599 is disclosed as follows: \$1,748 and \$507 as a current liability and \$13,074 and \$20,092 as a non-current liability, respectively. Breakdown of the provision for contingencies is as follows:

	2013	2012
Tax contingencies in Brazil (i)	\$ 2,235	\$ 4,011
Labor contingencies in Brazil (ii)	9,484	14,256
Other (iii)	10,622	9,551
Subtotal	22,341	27,818
Judicial deposits (iv)	(7,519)	(7,219)
<b>Provision for contingencies</b>	<b>\$ 14,822</b>	<b>\$ 20,599</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 17. Commitments and contingencies (continued)

##### Provision for contingencies (continued)

(i) Tax contingencies in Brazil. In 2013 and 2012 it mainly relates to tax on bank account transactions (CPMF), abolished in 2007. In 2011 it was mainly related to VAT special treatment for restaurants in Rio de Janeiro and taxes over the royalty payments. During fiscal year 2011, the Company recorded an accrual of \$19,626, primarily related to a modification in the fiscal authorities' interpretation regarding taxes impacting royalty payments; a reduction in the accrual of \$14,790, corresponding to downwards revisions of the estimated settlement amounts of several claims (including VAT special treatment for restaurants in Rio de Janeiro) based on the opinion of the Company's legal advisors; and a currency translation adjustment amounting to \$(5,218). In addition, the Company made settlements totaling \$8,255. During fiscal year 2012, the Company settled the contingency over royalty payments, paying \$11,473 in cash. In addition, the Company entered into an amnesty program to settle the contingency related to VAT special treatment for restaurants in Rio de Janeiro in 18 equal monthly installments, commencing in May 2012, pursuant to which the Company reclassified \$28,428 to "Accrued payroll and other liabilities" in the consolidated balance sheet. During fiscal year 2012, the Company also recorded an accrual of \$3,770 and a currency translation adjustment amounting to \$(2,327). In addition, during fiscal year 2012 there was an increase of \$458 as a result of certain balance sheet reclassifications. During fiscal year 2013, the Company recorded an accrual of \$13 and a currency translation adjustment amounting to \$(527). In addition, the Company made certain balance sheet reclassifications totaling \$(271) and settlements amounting to \$991 that the Company will recover from McDonald's Corporation.

(ii) Labor contingencies in Brazil. It primarily relates to dismissals in the normal course of business. During fiscal years 2013, 2012 and 2011, the Company recorded accruals of \$12,714, \$10,751 and \$8,211, respectively, primarily related to new dismissal claims and to increases on estimated future costs of outstanding claims; and a currency translation adjustment amounting to \$(1,586), \$(930) and \$(2,240), respectively. In addition, the Company made settlements totaling \$15,900, \$15,211 and \$19,781, respectively.

(iii) Other contingencies. It mainly relates to tax and labor contingencies in other countries. During fiscal years 2013, 2012 and 2011, the Company recorded accruals of \$4,546, \$1,251 and \$4,508, respectively; and a currency translation adjustment amounting \$(2,160), \$(1,195) and \$(1,026), respectively. In addition, the Company made settlements totaling \$2,060, \$736 and \$867, respectively. During fiscal year 2013, the Company made certain balance sheet reclassifications amounting to \$745.

(iv) Judicial deposits. It primarily relates to judicial deposits the Company was required to make in connection with the proceedings in Brazil. During fiscal years 2013, 2012 and 2011, there were a net increase (decrease) amounting to \$300, \$367 and \$(20,521), respectively; including foreign currency translation for \$(1,049), \$(671) and \$(3,911), respectively.

As of December 31, 2013, there are certain matters related to the interpretation of tax law for which there is a possibility that a loss may have been incurred in accordance with ASC 450-20-50-4 within a range of \$13 and \$20 million.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 17. Commitments and contingencies (continued)

##### Provision for contingencies (continued)

In January 2007, several Puerto Rican franchisees filed a lawsuit against McDonald's Corporation and certain subsidiaries which the Company purchased during the acquisition of the LatAm business. The lawsuit originally sought declaratory judgment and damages in the amount of \$11 million plus plaintiffs' attorney fees. In January 2008, the plaintiffs filed an amended complaint that increased the amount of damages sought to \$66.7 million plus plaintiffs' attorney fees. The complaint, as amended, requests that the court declare that the plaintiffs' respective franchise agreements and contractual relationships with McDonald's Corporation, which agreements and relationships were assigned or otherwise transferred to the Company as part of the Acquisition of the LatAm business, are governed by the Dealers' Act of Puerto Rico, or "Law 75", a Puerto Rican law that limits the grounds under which a principal may refuse to renew or terminate a distribution contract. The complaint also seeks preliminary and permanent injunctions to restrict the Company from declining to renew the plaintiffs' agreements except for just cause, and to prohibit the Company from opening restaurants or kiosks within a three-mile radius of a franchisee's restaurant. In September 2008, the Company filed a counter-suit requesting the termination of the franchise agreements with these franchisees due to several material breaches. On December 23, 2010, the commissioner assigned by the Court of First Instance to this case issued a resolution holding that Law 75 applies to the parties' commercial relationship. On July 20, 2011, the Court of First Instance adopted the Commissioner's determination with respect to the application of Law 75. This determination is an interlocutory determination that defines the legislation applicable to the franchisee rights and obligations. Law 75 will be the applicable law during the trial process. After the trial conclusion, the Company can still reiterate in appeal the position that Law 75 does not apply to the franchised agreements. The franchisees will still need to demonstrate and prove that the franchisor has breached their respective contracts. Therefore, no provision has been recorded regarding this lawsuit because the Company believes that a final negative resolution has a low probability of occurrence. Both parties have concluded discovery and the Pretrial Hearing was held on August 30, 2012. This case trial commenced on September 10, 2012 and has been scheduled for several dates since 2012. The Company does not anticipate that the trial hearings will conclude in the first semester of 2014.

Pursuant to Section 9.3 of the Stock Purchase Agreement, McDonald's Corporation indemnifies the Company for certain Brazilian claims as well as for specific and limited claims arising from the Puerto Rican franchisee lawsuit.

At December 31, 2013, the non-current portion of the provision for contingencies includes \$3,696 related to Brazilian claims that are covered by the indemnification agreement. As a result, the Company has recorded a non-current asset in respect of McDonald's Corporation's indemnity in the consolidated balance sheet. The current asset in respect of McDonald's Corporation's indemnity represents the amount of cash to be received as a result of settling certain Brazilian tax contingencies.

#### 18. Disclosures about fair value of financial instruments

As defined in ASC Topic 820 Fair Value Measurement and Disclosures, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The transaction is based on a hypothetical transaction in the principal or most advantageous market considered from the perspective of the market participant that holds the asset or owes the liability. The valuation techniques that can be used under this guidance are the market approach, income approach or cost approach. The market approach uses prices and other information for market transactions involving identical or comparable assets or liabilities, such as matrix pricing. The income approach uses valuation techniques to convert future amounts to a single discounted present amount based on current market conditions about those future amounts, such as present value techniques, option pricing models (e.g. Black-Scholes model) and binomial models (e.g. Monte-Carlo model). The cost approach is based on current replacement cost to replace an asset.

The Company utilizes market data or assumptions that market participants who are independent, knowledgeable and willing and able to transact would use in pricing the asset or liability, including assumptions about risk and the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable. The Company attempts to utilize valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The Company is able to classify fair value balances based on the observance of those inputs. The guidance establishes a formal fair value hierarchy based on the inputs used to measure fair value. The hierarchy gives the highest priority to level 1 measurements and the lowest priority to level 3 measurements, and accordingly, level 1 measurement should be used whenever possible.

## Arcos Dorados Holdings Inc.

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#### 18. Disclosures about fair value of financial instruments (continued)

The three levels of the fair value hierarchy as defined by the guidance are as follows:

Level 1: Valuations utilizing quoted, unadjusted prices for identical assets or liabilities in active markets that the Company has the ability to access. This is the most reliable evidence of fair value and does not require a significant degree of judgment. Examples include exchange-traded derivatives and listed equities that are actively traded.

Level 2: Valuations utilizing quoted prices in markets that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly for substantially the full term of the asset or liability.

Financial instruments that are valued using models or other valuation methodologies are included. Models used should primarily be industry-standard models that consider various assumptions and economic measures, such as interest rates, yield curves, time value, volatilities, contract terms, current market prices, credit risk or other market-corroborated inputs. Examples include most over-the-counter derivatives (non-exchange traded), physical commodities, most structured notes and municipal and corporate bonds.

Level 3: Valuations utilizing significant unobservable inputs provides the least objective evidence of fair value and requires a significant degree of judgment. Inputs may be used with internally developed methodologies and should reflect an entity's assumptions using the best information available about the assumptions that market participants would use in pricing an asset or liability. Examples include certain corporate loans, real-estate and private equity investments and long-dated or complex over-the-counter derivatives.

Depending on the particular asset or liability, input availability can vary depending on factors such as product type, longevity of a product in the market and other particular transaction conditions. In some cases, certain inputs used to measure fair value may be categorized into different levels of the fair value hierarchy. For disclosure purposes under this guidance, the lowest level that contains significant inputs used in valuation should be chosen. Pursuant to ASC 820-10-50, the Company has classified its assets and liabilities into these levels depending upon the data relied on to determine the fair values. The fair values of the Company's derivatives are valued based upon quotes obtained from counterparties to the agreements and are designated as Level 2.

The following fair value hierarchy table presents information about the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2013:

	Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of December 31, 2013
<b>Assets</b>				
Cash equivalents	\$ 62,201	\$ -	\$ -	\$ 62,201
Cross-currency interest rate swap	-	490	-	490
<b>Total Assets</b>	<b>\$ 62,201</b>	<b>490</b>	<b>-</b>	<b>\$ 62,691</b>
<b>Liabilities</b>				
Cross-currency interest rate swap	\$ -	\$ 670	\$ -	\$ 670
Total equity return swap	-	1,378	-	1,378
Long-term incentive plan	-	4,922	-	4,922
<b>Total Liabilities</b>	<b>\$ -</b>	<b>6,970</b>	<b>-</b>	<b>\$ 6,970</b>

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#### 18. Disclosures about fair value of financial instruments (continued)

The derivative contracts were measured based on quotes from the Company's counterparties. Such quotes have been derived using models pricing or discounted cash analysis that incorporate observable market parameters for all significant inputs such as interest yield curves, options volatilities and currency rates and that were observable for substantially the full term of the derivative contracts.

##### Certain financial assets and liabilities not measured at fair value

At December 31, 2013, the fair value of the Company's short-term and long-term debt was estimated at \$819,836, compared to a carrying amount of \$783,447. This fair value was estimated using various pricing models or discounted cash flow analysis that incorporated quoted market prices, and is similar to Level 2 within the valuation hierarchy. The carrying amount for both cash and equivalents and notes receivable approximates fair value.

##### Non-financial assets and liabilities measured at fair value on a nonrecurring basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). At December 31, 2013, no material fair value adjustments or fair value measurements were required for non-financial assets or liabilities, except for those required in connection with the impairment of long-lived assets recognized in Mexico, Puerto Rico and Peru. Refer to Note 3 for more details, including inputs and valuation techniques used to measure fair value of these non-financial assets.

#### 19. Certain risks and concentrations

The Company's financial instruments that are exposed to concentration of credit risk primarily consist of cash and cash equivalents and accounts and notes receivables. Cash and cash equivalents are deposited with various creditworthy financial institutions, and therefore the Company believes it is not exposed to any significant credit risk related to cash and cash equivalents. Concentrations of credit risk with respect to accounts and notes receivables are generally limited due to the large number of franchisees comprising the Company's franchise base.

All the Company's operations are concentrated in Latin America and the Caribbean. As a result, the Company's financial condition and results of operations depend, to a significant extent, on macroeconomic and political conditions prevailing in the region. See Note 21 for additional information pertaining to the Company's Venezuelan operations.

#### 20. Segment and geographic information

The Company is required to report information about operating segments in annual financial statements and interim financial reports issued to shareholders in accordance with ASC Topic 280. Operating segments are components of a company about which separate financial information is available that is regularly evaluated by the chief operating decision maker(s) in deciding how to allocate resources and assess performance. ASC Topic 280 also requires disclosures about the Company's products and services, geographical areas and major customers.

As discussed in Note 1, the Company through its wholly-owned and majority-owned subsidiaries operates and franchises McDonald's restaurants in the food service industry. The Company has determined that its reportable segments are those that are based on the Company's method of internal reporting. The Company manages its business as distinct geographic segments and its operations are divided into four geographical divisions, which as from January 1, 2013 are as follows: Brazil; the Caribbean division, consisting of Aruba, Curacao, Colombia, French Guyana, Guadeloupe, Martinique, Puerto Rico, Trinidad and Tobago, the U.S. Virgin Islands of St. Croix and St. Thomas and Venezuela; the North Latin America division ("NOLAD"), consisting of Costa Rica, Mexico and Panama; and the South Latin America division ("SLAD"), consisting of Argentina, Chile, Ecuador, Peru and Uruguay. The accounting policies of the segments are the same as those described in Note 3.

## Arcos Dorados Holdings Inc.

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#### 20. Segment and geographic information (continued)

In January 2013, the Company made certain organizational changes in the structure of its geographical divisions in order to balance their relative weight in terms of number of restaurants and revenues. As a result of the reorganization effective January 1, 2013, Colombia and Venezuela, which were part of SLAD, became part of the Caribbean division with headquarters located in Colombia. In accordance with ASC 280, Segment Reporting, the Company has restated its comparative segment information based on the new structure of its geographical divisions.

The following table presents information about profit or loss and assets for each reportable segment:

	<b>For the fiscal year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Revenues:</b>			
Brazil	\$ 1,842,324	\$ 1,797,556	\$ 1,890,824
Caribbean division	830,447	754,730	663,981
NOLAD	407,772	384,041	355,265
SLAD	952,767	861,067	747,579
<b>Total revenues</b>	<b>\$ 4,033,310</b>	<b>\$ 3,797,394</b>	<b>\$ 3,657,649</b>
<b>Adjusted EBITDA:</b>			
Brazil	\$ 245,957	\$ 240,954	\$ 289,462
Caribbean division	67,180	69,109	53,754
NOLAD	27,397	26,738	19,551
SLAD	105,495	93,756	77,214
<b>Total reportable segments</b>	<b>446,029</b>	<b>430,557</b>	<b>439,981</b>
Corporate and others (i)	(101,562)	(89,996)	(100,193)
<b>Total adjusted EBITDA</b>	<b>\$ 344,467</b>	<b>\$ 340,561</b>	<b>\$ 339,788</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

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#### 20. Segment and geographic information (continued)

	For the fiscal year ended December 31,		
	2013	2012	2011
<b>Adjusted EBITDA reconciliation:</b>			
<b>Total Adjusted EBITDA</b>	<b>\$ 344,467</b>	<b>\$ 340,561</b>	<b>\$ 339,788</b>
<b>(Less) Plus items excluded from computation that affect operating income:</b>			
Depreciation and amortization	(114,860)	(92,328)	(68,971)
Compensation expense related to the award right granted to our CEO	-	-	(2,214)
Gains from sale of property and equipment	10,326	3,328	7,123
Write-offs of property and equipment	(6,489)	(4,259)	(3,570)
Impairment of long-lived assets	(2,958)	(1,982)	(1,715)
Impairment of goodwill	-	(683)	(2,077)
Incremental compensation expense related to ADBV long-term incentive plan	-	-	(10,526)
Stock-based compensation related to the special awards in connection with the initial public offering under the 2011 Plan	(1,964)	(7,997)	(5,703)
Cash bonus related to the initial public offering	-	-	(1,382)
<b>Operating income</b>	<b>228,522</b>	<b>236,640</b>	<b>250,753</b>
<b>(Less) Plus:</b>			
Net interest expense	(88,156)	(54,247)	(60,749)
Loss from derivative instruments	(4,141)	(891)	(9,237)
Foreign currency exchange results	(38,783)	(18,420)	(23,926)
Other non-operating (expenses) income, net	(848)	(2,119)	3,562
Income tax expense	(42,722)	(46,375)	(44,603)
Net income attributable to non-controlling interests	(18)	(256)	(271)
<b>Net income attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 53,854</b>	<b>\$ 114,332</b>	<b>\$ 115,529</b>
<b>For the fiscal year ended December 31,</b>			
	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Depreciation and amortization:</b>			
Brazil	\$ 57,818	\$ 47,659	\$ 44,503
Caribbean division	28,663	26,164	20,052
NOLAD	28,597	26,628	25,670
SLAD	23,172	18,867	16,000
<b>Total reportable segments</b>	<b>138,250</b>	<b>119,318</b>	<b>106,225</b>
Corporate and others (i)	8,607	7,279	6,536
Purchase price allocation (ii)	(31,997)	(34,269)	(43,790)
<b>Total depreciation and amortization</b>	<b>\$ 114,860</b>	<b>\$ 92,328</b>	<b>\$ 68,971</b>
<b>Property and equipment expenditures:</b>			
Brazil	\$ 127,743	\$ 133,734	\$ 142,111
Caribbean division	99,565	51,972	61,997
NOLAD	32,533	36,759	48,914
SLAD	51,337	69,672	64,256
Others	2,284	2,341	2,581
<b>Total property and equipment expenditures</b>	<b>\$ 313,462</b>	<b>\$ 294,478</b>	<b>\$ 319,859</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 20. Segment and geographic information (continued)

	As of December 31,	
	2013	2012
<b>Total assets:</b>		
Brazil	\$ 907,406	\$ 921,003
Caribbean division	692,689	588,166
NOLAD	412,466	419,545
SLAD	340,795	343,727
<b>Total reportable segments</b>	<b>2,353,356</b>	<b>2,272,441</b>
Corporate and others (i)	114,016	109,636
Purchase price allocation (ii)	(287,113)	(332,914)
<b>Total assets</b>	<b>\$ 2,180,259</b>	<b>\$ 2,049,163</b>

(i) Primarily relates to corporate general and administrative expenses and assets. Corporate general and administrative expenses consist of home office support costs in areas such as facilities, finance, human resources, information technology, legal, marketing, restaurant operations, supply chain and training. Corporate assets primarily include corporate cash and cash equivalents, receivable with an independent logistic operator and guarantee deposits.

(ii) Relates to the purchase price allocation adjustment made at corporate level, which reduces the total assets and the corresponding depreciation and amortization.

The Company's revenues are derived from two sources: sales by Company-operated restaurants and revenues from restaurants operated by franchisees. See Note 3 for more details. All of the Company's revenues are derived from foreign operations.

Long-lived assets consisting of property and equipment totaled \$1,244,311 and \$1,176,350 at December 31, 2013 and 2012, respectively. All of the Company's long-lived assets are related to foreign operations.

#### 21. Venezuelan operations

The Company conducts business in Venezuela where currency restrictions exist, limiting the Company's ability to immediately access cash through repatriations at the government's official exchange rate. The Company's access to these funds remains available for use within this jurisdiction and is not restricted. The official exchange rate is established by the Central Bank of Venezuela and the Venezuelan Ministry of Finance and the acquisition of foreign currency at the official exchange rate by Venezuelan companies to pay foreign debt or dividends is subject to a registration and approval process by the relevant Venezuelan authorities. Since these restrictions are in place, the Company has not been able to access the official exchange rate to pay royalties nor dividends.

In June, 2010, the Central Bank had introduced a regulated foreign currency exchange system (SITME), pursuant to which companies could acquire, with certain limits, U.S. dollars at an exchange rate of 5.30 Venezuelan *Bolívars Fuertes* (VEF) per U.S. dollar. As the Company had access to this system since it was implemented, the Company used such regulated rate to remeasure transactions and balances denominated in local currency.

On February 8, 2013, the Venezuelan government announced the devaluation of its currency, from the preexisting official exchange rate of 4.30 VEF per U.S. dollar to 6.30 VEF per U.S. dollar. The previously available regulated foreign currency exchange system (SITME) with an executed rate of 5.30 VEF per U.S. dollar used by the Company to remeasure transactions and balances denominated in local currency was eliminated. In addition, in March 2013, the Venezuelan government announced the creation of a new alternative currency exchange system called SICAD (Supplementary System for the Administration of Foreign Currency), but applicable only to certain imported products. As a result of these announcements the Company concluded that the new official exchange rate of 6.30 VEF per U.S. dollar is the rate applicable for remeasurement purposes as from February 8, 2013. During fiscal year 2013, the Company recognized a foreign currency exchange loss of \$15,379 as a result of the exchange rate change.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 21. Venezuelan operations (continued)

The SICAD mechanism is an auction that is controlled by the Venezuelan government. For each auction the government indicates which sectors of the economy or products are allowed to participate. Further, the highest bidder is not necessarily the winner of an auction, and even when a bid is accepted the winner typically is not awarded the entire amount requested. When invited to participate, an entity must submit documentation that supports it has a qualifying U.S. dollar liability related to a prospective import transaction. By definition, liabilities related to past import transactions are not eligible to be settled through SICAD. If an entity's bid is accepted, the Central Bank of Venezuela collects VEF from the entity and remits the U.S. dollars directly to the vendor. The publication of the exchange rates of SICAD auctions started in December 2013 as required by the amended related regulation. The rate published for the last two weeks of 2013 was 11.3 VEF per U.S. dollar.

At December 31, 2013, the Company had participated in only two auctions for a total amount of \$1,500, which were executed after year-end. Based on certain factors, including the limited number of SICAD auctions, the Company's limited access to the SICAD exchange, the restrictions placed on eligible participants and transactions, the amount of USD available for purchase through the auctions process, and the historical lack of official information about the resulting SICAD rate, the Company concluded that it would not be appropriate to use rates coming from the SICAD exchange system for financial reporting purposes at December 31, 2013.

In November 2013, the Venezuelan government established a transitional protection regime for tenants of property used for commercial, industrial or production activities, which regulates the leasing relations and stipulates that the price of the monthly rental may not exceed an amount equal to VEF 250 per square meter. Considering the decrease in revenues from franchised restaurants would be higher than the decrease in rental expense related to Company-operated restaurants, this new regulation is expected to negatively impact the Company's operating results.

Revenues and operating income of the Venezuelan operations were \$415,932 and \$43,939, respectively, for fiscal year 2013; \$349,570 and \$45,164, respectively, for fiscal year 2012; and \$278,639 and \$31,789, respectively, for fiscal year 2011.

During fiscal years 2013, 2012 and 2011, the Company performed, through its subsidiaries in the Netherlands and the USA, several transactions in promissory notes amounting to VEF 41.0 million, 119.7 million and 50.0 million, respectively, pursuant to which it acquired \$1,955, \$13,189 and \$5,535, respectively. As a result of these transactions, the Company recognized exchange losses amounting to \$4,553, \$9,382 and \$3,899 during fiscal years 2013, 2012 and 2011, respectively.

In addition to exchange controls, the Venezuelan market is subject to price controls, which limits the Company's ability, without a government pre-approval, to increase prices to offset the impact of continuing high inflation on product, labor and other operating costs. The Company continues to closely monitor developments in this dynamic environment, to assess evolving business risks and actively manage its operations in Venezuela.

See Note 27 for details of changes occurred in regulation after year-end.

#### 22. Shareholders' equity

##### Authorized capital

At December 31, 2010, the Company was authorized to issue a maximum of 400,000 shares, consisting of 240,000 class A shares and 160,000 class B shares with a par value of \$1,000 each.

On February 22, 2011, effective as of March 8, 2011, the Company increased the maximum number of shares it is authorized to issue to an unlimited number of shares of no par value each.

On March 16, 2011, the Company limited the maximum number of shares it is authorized to issue to 500,000,000, consisting of 420,000,000 Class A shares and 80,000,000 Class B shares of no par value each.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 22. Shareholders' equity (continued)

##### Issued and outstanding capital

At December 31, 2010, the Company had issued and outstanding 234,000 class A shares and 156,000 class B shares, with a total value \$377,546.

On March 14, 2011, the Company's Board of Directors approved a 620.21-for-1.00 stock split of the outstanding shares in order to reduce the unit price per share and improve its marketability in connection with the initial public offering. As a result of the stock split, the Company distributed 241,492,966 additional shares to its existing shareholders on a pro-rata basis. After the stock split, the issued and outstanding shares increased to 241,882,966, consisting of 145,129,780 class A shares and 96,753,186 class B shares with no par value. Immediately after the stock split and effective as of March 16, 2011, the Company's Board of Directors approved the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares) in connection with the split-off the Axis business described in Note 23.

On April 14, 2011, the Company went public through an initial public offering of its Class A shares in the New York Stock Exchange. As a result of the offering, the Company issued 9,529,412 Class A shares at a price of \$17.00 per share. Net proceeds from the offering totaled \$152,281.

As a result, at December 31, 2011 and 2012, the Company had 209,529,412 shares issued and outstanding with no par value, consisting of 129,529,412 class A shares and 80,000,000 class B shares.

During fiscal year 2013, the Company issued 338,014 Class A shares in connection with the partial vesting of restricted share units under the 2011 Equity Incentive Plan. Therefore, at December 31, 2013 the Company had 209,867,426 shares issued and outstanding with no par value, consisting of 129,867,426 Class A shares and 80,000,000 Class B shares.

##### Rights, privileges and obligations

Holders of Class A shares are entitled to one vote per share and holders of Class B shares are entitled to five votes per share. Except with respect to voting, the rights, privileges and obligations of the Class A shares and Class B shares are *pari passu* in all respects, including with respect to dividends and rights upon liquidation of the Company.

##### Distribution of dividends

The Company can only make distributions to the extent that immediately following the distribution, its assets exceed its liabilities and the Company is able to pay its debts as they become due.

During fiscal years 2013, 2012 and 2011, the Company declared dividend distributions totaling \$50,036, \$50,036 and \$50,027, respectively. One installment of the 2013 distribution amounting to \$12,509 was pending of payment at year-end.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 22. Shareholders' equity (continued)

##### Accumulated Other Comprehensive Losses, net of tax

The following table sets forth information with respect to the components of "Accumulated other comprehensive losses" as of December 31, 2013 and their related activity during the three-years in the period then ended:

	Foreign currency translation	Unrealized results on cash flow hedges	Unrecognized prior service cost of post- employment benefits	Total Accumulated other comprehensive income (loss)
<b>Balances at December 31, 2010</b>	<b>(98,035)</b>	<b>(629)</b>	-	<b>(98,664)</b>
Other comprehensive losses before reclassifications	(50,307)	131	-	(50,176)
Net losses reclassified from accumulated other comprehensive losses to net income (i)	-	451	-	451
Net current-period other comprehensive (losses) income	(50,307)	582	-	(49,725)
<b>Balances at December 31, 2011</b>	<b>(148,342)</b>	<b>(47)</b>	-	<b>(148,389)</b>
Other comprehensive losses before reclassifications	(8,125)	(4,195)	(1,213)	(12,320)
Net losses reclassified from accumulated other comprehensive losses to net income (ii)	-	3,101	-	1,888
Net current-period other comprehensive (losses) income	(8,125)	(1,094)	(1,213)	(10,432)
<b>Balances at December 31, 2012</b>	<b>(156,467)</b>	<b>(1,141)</b>	<b>(1,213)</b>	<b>(158,821)</b>
Other comprehensive losses before reclassifications	(60,669)	537	-	(60,132)
Net losses reclassified from accumulated other comprehensive losses to net income (iii)	-	(164)	382	218
Net current-period other comprehensive (losses) income	(60,669)	373	382	(59,914)
<b>Balances at December 31, 2013</b>	<b>(217,136)</b>	<b>(768)</b>	<b>(831)</b>	<b>(218,735)</b>

(i) The net losses reclassified from "Accumulated other comprehensive losses" to net income related to cash flow hedges amounting to \$451 are disclosed in the consolidated statement of income within "Food and paper".

(ii) The net losses reclassified from "Accumulated other comprehensive losses" to net income related to cash flow hedges amounting to \$3,101 are disclosed in the consolidated statement of income as follows: a \$949 loss within "Food and paper"; a \$3,314 loss within "Foreign currency exchange results" and a \$1,162 gain within "Net interest expense". The net gains reclassified from "Accumulated other comprehensive losses" to net income related to post-employment benefits amounting to \$1,213 are disclosed in the consolidated statement of income as follows: \$399 within "Payroll and employee benefits"; \$88 within "General and administrative expense" and \$1,350 within "Other operating expense, net". These charges are disclosed net of a gain of \$624 of "income taxes expense".

(iii) The net gains reclassified from "Accumulated other comprehensive losses" to net income related to cash flow hedges amounting to \$164 are disclosed in the consolidated statement of income as follows: a \$628 gain within "Food and paper"; a \$921 loss within "Foreign currency exchange results" and a \$457 gain within "Net interest expense". The net losses reclassified from "Accumulated other comprehensive losses" to net income related to post-employment benefits amounting to \$382 are disclosed in the consolidated statement of income as follows: \$397 within "Payroll and employee benefits"; \$82 within "General and administrative expense"; \$75 within "Other operating expense, net" and a \$25 in accrued payroll and other liabilities. These charges are disclosed net of a gain of \$197 gain in "Income tax expense".

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 23. Split-off of Axis Business

On March 14, 2011, effective as of March 16, 2011, the Company's Board of Directors approved the split-off of certain subsidiaries of the Company that operate the distribution centers in Argentina, Chile, Colombia, Mexico and Venezuela (the "Axis Business"). The split-off was performed through the redemption of 41,882,966 shares (25,129,780 class A shares and 16,753,186 class B shares). As consideration for the redemption, the Company transferred to its shareholders its equity interests in the operating subsidiaries of the Axis Business totaling a net book value of \$15,428 and an equity contribution that was made to the Axis holding company amounting to \$29,830. This transaction did not have a material impact on the Company's consolidated financial statements.

Presented below is supplemental information about the net assets of the Axis Business that were deconsolidated as a result of the split-off:

	<b>2011</b>
Cash and cash equivalents	\$ 35,425
Other receivables	33,506
Inventories	27,686
Prepaid expenses and other current assets	3,211
Property and equipment, net	10,190
Deferred income taxes	4,225
Accounts payable	(53,868)
Income taxes payable	(1,181)
Other taxes payable	(2,148)
Accrued payroll and other liabilities	(8,479)
Intercompany payable	(3,309)
<b>Net book value</b>	<b>\$ 45,258</b>

#### 24. Earnings per share

The Company is required to present basic earnings per share and diluted earnings per share in accordance with ASC Topic 260. Earnings per share are based on the weighted average number of shares outstanding during the period after consideration of the dilutive effect, if any, for common stock equivalents, including stock options and restricted share units. Basic earnings per common share are computed by dividing net income available to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per common share are computed by dividing net income by the weighted average number of shares of common stock outstanding and dilutive securities outstanding during the period under the treasury method.

The following table sets forth the computation of basic and diluted net income per common share attributable to Arcos Dorados Holdings Inc. for all years presented:

	<b>For the fiscal year ended December 31,</b>		
	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income attributable to Arcos Dorados Holdings Inc. available to common shareholders	\$ 53,854	\$ 114,332	\$ 115,529
Weighted-average number of common shares outstanding - Basic	209,754,176	209,529,412	215,420,271
Incremental shares from assumed exercise of stock options (a)	-	-	-
Incremental shares from vesting of restricted share units	344,968	248,646	126,184
Weighted-average number of common shares outstanding - Diluted	210,099,144	209,778,058	215,546,455
<b>Basic net income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 0.26</b>	<b>\$ 0.55</b>	<b>\$ 0.54</b>
<b>Diluted net income per common share attributable to Arcos Dorados Holdings Inc.</b>	<b>\$ 0.26</b>	<b>\$ 0.55</b>	<b>\$ 0.54</b>

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013

Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 24. Earnings per share (continued)

(a) Options to purchase shares of common stock were outstanding during fiscal years 2013, 2012 and 2011. See Note 16 for details. These options were not included in the computation of diluted earnings per share because their inclusion would have been anti-dilutive.

#### 25. Related party transactions

On March 14, 2011, effective as of March 16, 2011, the Company's Board of Directors approved the split-off of certain subsidiaries of the Company that operate the distribution centers in Argentina, Chile, Colombia, Mexico and Venezuela (the "Axis Business"). As a result, the Axis Business is no longer consolidated, representing a related party under common control. The Company has entered into a master commercial agreement with Axis on arm's length terms pursuant to which Axis provides the Company distribution services in Argentina, Chile, Colombia, Mexico and Venezuela. On November 9, 2011 the Company entered into a revolving loan agreement as a creditor with Axis Distribution B.V., a holding company of the Axis Business, for a total amount of \$12 million at an interest rate of LIBOR plus 6%, maturing on November 7, 2016. As of December 31, 2013, Axis Distribution B.V. had borrowed \$9,000 (\$7,000 at December 31, 2012) from the Company in connection with this revolving loan agreement. The related receivable is included within "Miscellaneous" in the Company's consolidated balance sheet.

The following table summarizes the outstanding balances between the Company and the Axis Business as of December 31, 2013 and 2012:

	As of December 31,	
	2013	2012
Accounts and notes receivables	\$ 2,754	\$ 1,999
Other receivables	16,773	73,664
Miscellaneous	9,664	7,081
Accounts payable	17,694	5,514

The following table summarizes the transactions between the Company and the Axis Business for the fiscal years ended December 31, 2013, 2012 and 2011:

	Fiscal years ended December 31,		
	2013	2012	2011(i)
Food and paper (ii)	\$ 319,456	\$ 321,413	\$ 320,020
Occupancy and other operating expenses	10,327	9,795	10,970

(i) Includes nine months of operations as a result of the Split-off described in Note 23.

(ii) Includes \$48,340 of logistics service fees and \$271,116 of suppliers purchases managed through Axis for fiscal year ended December 31, 2013; \$41,853 and \$279,560, respectively, for fiscal year ended December 31, 2012; and \$26,628 and \$293,392, respectively, for the fiscal year ended December 31, 2011.

In addition, as of December 31 2012 the Company maintained guarantee deposits for the benefit of certain of Axis' suppliers in the amount of \$2,292, consisting of payments made to these suppliers as collateral for the outstanding obligations of Axis to these suppliers.

As of December 31, 2013 and 2012, the Company had notes receivable totaling \$4,696 and \$5,123, respectively, other receivables totaling \$2,404 and \$2,763, respectively and accounts payable with Lacoop, A.C. and Lacoop II, S.C. totaling \$1,155 and \$2,689, respectively.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 26. Valuation and qualifying accounts

The following table presents the information required by Rule 12-09 of Regulation S-X in regards to valuation and qualifying accounts for each of the periods presented:

Description	Balance at beginning of period	Additions (i)	Deductions (ii)	Translation	Balance at end of period
<b>Year ended December 31, 2013:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 4,023	\$ 2,687	\$ (1,473)	\$ (139)	\$ 5,098
Valuation allowance on deferred tax assets	236,563	43,563	(3,942)	(6,127)	270,057
Reported as liabilities:					
Provision for contingencies	20,599	17,273	(19,833)	(3,217)	14,822
<b>Total</b>	<b>\$ 261,185</b>	<b>\$ 63,523</b>	<b>\$ (25,248)</b>	<b>\$ (9,483)</b>	<b>\$ 289,977</b>
<b>Year ended December 31, 2012:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 6,390	\$ 2,065	\$ (4,682)	\$ 250	\$ 4,023
Valuation allowance on deferred tax assets	223,775	-	(3,378)	16,166	236,563
Reported as liabilities:					
Provision for contingencies	65,036	16,355	(57,011)	(3,781)	20,599
<b>Total</b>	<b>\$ 295,201</b>	<b>\$ 18,420</b>	<b>\$ (65,071)</b>	<b>\$ 12,635</b>	<b>\$ 261,185</b>
<b>Year ended December 31, 2011:</b>					
Deducted from assets accounts:					
Allowance for doubtful accounts	\$ 4,794	\$ 1,931	\$ (52)	\$ (283)	\$ 6,390
Valuation allowance on deferred tax assets	220,182	-	(20,962)	24,555	223,775
Reported as liabilities:					
Provision for contingencies	64,347	53,869	(48,607)	(4,573)	65,036
<b>Total</b>	<b>\$ 289,323</b>	<b>\$ 55,800</b>	<b>\$ (69,621)</b>	<b>\$ 19,699</b>	<b>\$ 295,201</b>

(i) Additions in valuation allowance in deferred tax assets are charged to income tax benefit.

Additions in provision for contingencies are explained as follows:

Fiscal year 2013 – Relate to the accrual of \$17,273. See Note 17 for details.

Fiscal year 2012 – Relate to the accrual of \$15,897 and to certain balance sheet reclassifications amounting to \$458. See Note 17 for details.

Fiscal year 2011 - Relate to the accrual of \$32,345 and to a decrease in judicial deposits for \$21,524 as disclosed in Note 17.

(ii) Deductions in valuation allowance in deferred tax assets are charged to income tax expenses.

Deductions in provision for contingencies are explained as follows:

Fiscal year 2013 – Correspond to the settlements and reclassifications amounting to \$18,876 and \$957, respectively, as discussed in Note 17.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 26. Valuation and qualifying accounts (continued)

Fiscal year 2012 – Correspond to the decrease in the provision as a result of entering into an amnesty program for \$28,428, to settlements totaling \$27,420 and to reclassifications amounting to \$1,163, as discussed in Note 17.

Fiscal year 2011 – Correspond to the settlements and reductions discussed in Note 17, as well as to an increase in judicial deposits for \$4,914.

#### 27. Subsequent events

##### Dividends

On January 3, 2014 the Company paid the 2013 cash dividend installment that was pending of payment at year-end disclosed in Note 22 amounting to \$12,509.

On March 7, 2014, the Company announced a dividend distribution to its shareholders amounting to \$50,036, with respect to its results of operations for the fiscal year 2013, which will be paid in four equal installments of \$12,509 each; on April 1, 2014; July 1, 2014; October 1, 2014 and January 2, 2015.

##### Short-term and long-term debt

On January 6, 2014, the Company entered into a loan agreement with *Itaú Unibanco S.A.* amounting to \$25,000. This loan matures on May 6, 2014 and accrues interest at an annual rate of 2.75%.

On January 10, 2014, the Company paid interests related to 2016 Notes amounting to \$14,548.

On February 12, 2014, the Company entered into a loan agreement with *Itaú Unibanco S.A.* amounting to \$4,000. This loan matures on March 13, 2014 and accrues interest at an annual rate of 2.25%.

##### Venezuelan operations

On January 23, 2014, effective on January 24, 2014, the government of Venezuela announced the creation of a new institution governing exchange rate control called the Foreign Trade Center (CENCOEX), which will gradually take over all the attributes and responsibilities of the Currency Administration Commission (CADIVI). Based on announcements made by the Venezuelan government, there would only be access to U.S. dollars at a rate of 6.30 VEF per U.S. dollar for the food and others industries deemed a priority, which as of today have not been fully defined. Imports of other products could be included in SICAD auctions depending on the related industry.

On the other hand, Exchange Agreement N°25 issued on January 23, 2014, establishes that payments related to foreign investments and royalties, among others, will be made at the SICAD exchange rate. However, there are still uncertainties about the liquidity of the SICAD program and the Company's access to U.S. dollars through this mechanism. The most recent transactions executed through SICAD auctions have been at an exchange rate ranging from 11.0 to 11.8 VEF per US dollar.

As a result of these announcements, the Company will reassess the exchange rate used for remeasurement purposes at the date of the 2014 first quarter financial statements based on any new available information. Should the Company conclude that the SICAD rate is the most appropriate rate the Company would record a foreign exchange loss in its income statement related to the remeasurement of the net monetary asset position held in VEF. At December 31, 2013, using the official exchange rate of VEF 6.30 per U.S. dollar, the Company's net monetary asset position was \$24.0 (including \$44.2 of cash and cash equivalents).

As part of the January 2014 announcements, the Venezuelan government also issued a new regulation, establishing a maximum profit margin for companies and maximum prices for certain goods and services. At this time, it is unclear how these new regulations might affect the Company's operations in Venezuela. The Company continues to closely monitor developments in this dynamic environment.

## Arcos Dorados Holdings Inc.

### Notes to the Consolidated Financial Statements

As of December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013  
Amounts in thousands of US dollars, except for share data and as otherwise indicated

#### 27. Subsequent events (continued)

##### Venezuelan operations (continued)

On February 19, 2014, the Venezuelan government issued a new decree which would allow the purchase of foreign exchange currencies, through authorized foreign exchange operators, offered by individuals and companies, the Central Bank of Venezuela and other public entities authorized by the Ministry of Finance. The purchase/sale of foreign currency through this mechanism would be regulated by “Foreign Exchange Agreements” to be issued by the Venezuelan government. At the date of issuance of these financial statements, the regulation that should establish the details of how such mechanism would work has not yet been issued.

##### Exchange market developments in 2014 in Argentina

During January 2014 the Argentinean local currency depreciated against the U.S. dollar by approximately 23%, from 6.52 Argentinean Pesos per U.S. dollar as of December 31, 2013 to 8.02 Argentinean Pesos per U.S. dollar as of January 31, 2014. Had the abovementioned devaluation occurred on December 31, 2013, the reported net assets would have decreased approximately by \$13.5 million, impacting the “Accumulated other comprehensive losses” component of shareholders’ equity for \$15.7 million and recognizing a foreign exchange gain for \$2.2 million.

**ARCOS DORADOS HOLDINGS INC.**  
as Issuer

**THE SUBSIDIARY GUARANTORS**  
named herein

**CITIBANK N.A.**  
as Trustee, Registrar, Paying Agent and Transfer Agent

and

**BANQUE INTERNATIONALE À LUXEMBOURG, SOCIÉTÉ ANONYME**  
as Luxembourg Paying Agent

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**INDENTURE**

**Dated as of September 27, 2013**

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**6.625% NOTES DUE 2023**

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INDENTURE, dated as of September 27, 2013, among Arcos Dorados Holdings Inc., a British Virgin Islands business company (the “Company”), the Subsidiary Guarantors named herein (as defined below), Citibank, N.A., a national banking association as trustee (the “Trustee”), registrar (the “Registrar”), paying agent and transfer agent, and Banque Internationale à Luxembourg, *société anonyme*, as Luxembourg paying agent (the “Luxembourg Paying Agent”).

Each party agrees as follows for the benefit of the other parties and of the Holders of the Initial Notes and any Additional Notes (in each case as defined herein):

ARTICLE I  
DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.1      Definitions.

“Acquired Indebtedness” means Indebtedness of a Person or any of its subsidiaries existing at the time such Person becomes a Subsidiary of the Company or at the time it merges or consolidates with the Company or any of its Subsidiaries or is assumed in connection with the acquisition of assets from such Person. Acquired Indebtedness will be deemed to have been Incurred at the time such Person becomes a Subsidiary or at the time it merges or consolidates with the Company or a Subsidiary or at the time such Indebtedness is assumed in connection with the acquisition of assets from such Person.

“Additional Amounts” has the meaning set forth under Section 3.12.

“Additional Note Board Resolutions” means resolutions duly adopted by the Board of Directors of the Company and delivered to the Trustee in an Officers’ Certificate providing for the issuance of Additional Notes.

“Additional Note Supplemental Indenture” means a supplement to this Indenture duly executed and delivered by the Company and the Trustee pursuant to Article IX providing for the issuance of Additional Notes.

“Additional Notes” means any additional Notes as specified in the relevant Additional Note Board Resolutions or Additional Note Supplemental Indenture issued therefor in accordance with this Indenture.

“Affiliate” means, with respect to any specified Person, any other Person who directly or indirectly through one or more intermediaries controls, or is controlled by, or is under common control with, such specified Person. Solely for purposes of this definition, the term “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this definition, the terms “controlling,” “controlled by” and “under common control with” have correlative meanings.

“Agent Members” has the meaning assigned to it in Section 2.7(b).

“Attributable Debt” means (i) with respect to a Sale and Lease-Back Transaction relative to any property, at the time of determination, the present value of the total net amount of rent required to be paid under such lease during the remaining term thereof (including any period for which such lease has been extended), discounted at the applicable rate of interest set forth or implicit in the terms of such lease (or, if not practicable to determine such rate, the weighted average interest rate per annum borne by the securities of all series then outstanding under this Indenture) and (ii) in the case of any lease which is terminable by the lessee upon the payment of a penalty, the net amount of such lease shall be the lesser of (x) the net amount determined assuming termination upon the first date such lease may be terminated (in which case the net amount shall also include the amount of the penalty, but shall not include any rent that would be required to be paid under such lease subsequent to the first date upon which it may be terminated) or (y) the net amount determined assuming no such termination.

“Authenticating Agent” has the meaning assigned to it in Section 2.2(d).

“Authorized Agent” has the meaning assigned to it in Section 11.6(d).

“Bankruptcy Law” means Title 11, U.S. Code or any similar U.S. federal or state law or non-U.S. law for the relief of debtors, including the Insolvency Act, 2003 of the British Virgin Islands.

“Bankruptcy Law Event of Default” means:

- (1) the Company or any Subsidiary, or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, pursuant to or under or within the meaning of any Bankruptcy Law:
  - (a) commences a voluntary case or proceeding;
  - (b) consents to the making of a Bankruptcy Order in an involuntary case or proceeding or consents to the commencement of any case against it (or them);
  - (c) consents to the appointment of a custodian, receiver, liquidator, assignee, trustee, *síndico*, *conciliador*, sequestrator or similar official of it (or them) or for all or any substantial part of its property;
  - (d) makes a general assignment for the benefit of its (or their) creditors;
  - (e) files an answer or consent seeking reorganization or relief;
  - (f) admits in writing its inability to pay its (or their) debts generally; or
  - (g) consents to the filing of a petition in bankruptcy;

(2) a court of competent jurisdiction in any involuntary case or proceeding enters a Bankruptcy Order against the Company, or any Subsidiary, or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, or of all or any substantial part of the property of the Company, or any Subsidiary, or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, and such Bankruptcy Order remains unstayed and in effect for 60 consecutive days; or

(3) a custodian, receiver, liquidator, assignee, trustee, *síndico, conciliador*, sequestrator or similar official is appointed out of court with respect to the Company, or any Subsidiary, or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary, or with respect to all or any substantial part of the assets or properties of the Company, or any Subsidiary, or group of Subsidiaries that, taken together, would constitute a Significant Subsidiary.

“Bankruptcy Order” means any court order made in a proceeding pursuant to or within the meaning of any Bankruptcy Law, containing an adjudication of bankruptcy or insolvency, or providing for liquidation, receivership, winding-up, dissolution, suspension of payments, reorganization or similar proceedings, or appointing a custodian of a debtor or of all or any substantial part of a debtor’s property, or providing for the staying, arrangement, adjustment or composition of indebtedness or other relief of a debtor.

“Board of Directors” means, with respect to any Person, the board of directors or similar governing body of such Person or any duly authorized committee thereof.

“Board Resolution” means, with respect to any Person, a copy of a resolution certified by the Secretary or an Assistant Secretary of such Person to have been duly adopted by the Board of Directors of such Person and to be in full force and effect on the date of such certification, and delivered to the Trustee.

“Brazilian Master Franchisee” means Arcos Dourados Comércio de Alimentos Ltda., or any successor to its rights and obligations under the Second Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald’s Latin America and Arcos Dourados Comércio de Alimentos Ltda., as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Business Day” means a day, other than a Saturday, a Sunday, or a legal holiday or a day on which commercial banks and foreign exchange markets are authorized or obligated to close in the City of New York.

“Call Option Closing Date” means the date on which the equity interests of the Master Franchisee or the Brazilian Master Franchisee are transferred to McDonald’s upon McDonald’s exercise of the McDonald’s Call Option and the Call Option Price in respect thereof is paid by McDonald’s to the Company.

“Call Option Price” means the price payable by McDonald’s to the Company upon exercise by McDonald’s of the McDonald’s Call Option in respect of the equity interests of the Master Franchisee or the Brazilian Master Franchisee.

“Call Option Redemption Event” means the occurrence of the Call Option Closing Date and the payment of the Call Option Price by McDonald’s to the Company, but only with respect to the Master Franchisee and/or the Brazilian Master Franchisee.

“Capital Stock” means, with respect to any Person, any and all shares, interests, rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated and whether or not voting) of equity of such Person, including each class of Common Stock, Preferred Stock, limited liability interests or partnership interests, but excluding any debt securities convertible into such equity.

“Capitalized Lease Obligations” means, as to any Person, the obligations of such Person under a lease that are required to be classified and accounted for as capital lease obligations under GAAP. For purposes of this definition, the amount of such obligations at any date will be the capitalized amount of such obligations at such date, determined in accordance with GAAP.

“Cash Equivalents” means:

- (1) U.S. dollars, or money in the local currency of any country in which the Company or any of its Subsidiaries operates;
- (2) marketable direct obligations issued by, or unconditionally guaranteed by, the United States government or issued by any agency thereof and backed by the full faith and credit of the United States, in each case maturing within one year from the date of acquisition thereof;
- (3) marketable direct obligations issued by any state of the United States of America or any political subdivision of any such state or any public instrumentality thereof or any country recognized by the United States of America maturing within one year from the date of acquisition thereof and, at the time of acquisition, having one of the three highest ratings obtainable from either S&P or Moody’s or any successor thereto;
- (4) commercial paper outstanding at any time issued by any Person that is organized under the laws of the United States of America, any state thereof or any Latin American country recognized by the United States and rated P-1 or better from Moody’s or A-1 or better from S&P or, with respect to Persons organized outside of the United States, a local market credit rating at least “BBB-” (or the then equivalent grade) by S&P and the equivalent rating by Moody’s and in each case with maturities of not more than 360 days from the date of acquisition thereof;
- (5) demand deposits, certificates of deposit, overnight deposits and time deposits with maturities of one year or less from the date of acquisition, bankers’ acceptances with maturities not exceeding one year and overnight bank deposits, in each case, with any commercial bank that is organized under the laws of the United States of America, any state thereof or any foreign country recognized by the United States and at the time of acquisition thereof has capital and surplus in excess of \$500,000,000 (or the foreign currency equivalent thereof) and a rating of P-1 or better from Moody’s or A-1 or better from S&P or, with respect to a commercial bank organized outside of the United

States, a local market credit rating of at least “BBB-” (or the then equivalent grade) by S&P and the equivalent rating by Moody’s, or with government owned financial institution that is organized under the laws of any of the countries in which the Company’s Subsidiaries conduct business;

(6) insured demand deposits made in the ordinary course of business and consistent with the Company’s or its Subsidiaries’ customary cash management policy in any domestic office of any commercial bank organized under the laws of the United States of America or any state thereof;

(7) repurchase obligations with a term of not more than 360 days for underlying securities of the types described in clauses (2), (3) and (4) above entered into with any financial institution meeting the qualifications specified in clause (5) above;

(8) substantially similar investments denominated in the currency of any jurisdiction in which the Company or any of its Subsidiaries conducts business of issuers whose country’s credit rating is at least “BBB-” (or the then equivalent grade) by S&P and the equivalent rating by Moody’s; and

(9) investments in money market funds which invest at least 95% of their assets in securities of the types described in clauses (1) through (8) above.

“Certificated Note” means any Note issued in fully-registered certificated form (other than a Global Note), which shall be substantially in the form of Exhibit A, with appropriate legends as specified in Section 2.8 and Exhibit A.

“Change of Control” means the occurrence of one or more of the following events:

(1) The Permitted Holders cease to be the “beneficial owners” (as defined in Rules 13d-3 and 13d-5 under the Exchange Act) of 30.0% of the voting power of the Voting Stock of the Company (including any Surviving Entity), the Master Franchisee or the Brazilian Franchisee;

(2) individuals appointed by the Permitted Holders cease for any reason to constitute a majority of the members of the Board of Directors of the Company, the Master Franchisee or the Brazilian Franchisee;

(3) the sale, conveyance, assignment, transfer, lease or other disposition of all or substantially all of the assets of the Company, the Master Franchisee or the Brazilian Franchisee determined on a consolidated basis, to any “person” (as defined in Sections 13d and 14d under the Exchange Act), whether or not otherwise in compliance with the Indenture, other than a Permitted Holder; or

(4) the approval by the holders of Capital Stock of the Company, the Master Franchisee or the Brazilian Franchisee of any plan or proposal for the liquidation or dissolution of the Company, the Master Franchisee or the Brazilian Franchisee, whether or not otherwise in compliance with the Indenture.

“Change of Control Notice” means notice of a Change of Control Offer made pursuant to Section 3.7, which shall be sent to each record Holder as shown on the Note Register within 30 days following the date upon which a Change of Control Repurchase Event occurred, with a copy to the Trustee, in the manner provided for in Section 11.1 and which notice shall govern the terms of the Change of Control Offer and shall state:

- (1) that a Change of Control Repurchase Event has occurred, the circumstances or events causing such Change of Control Repurchase Event and that a Change of Control Offer is being made pursuant to Section 3.7, and that all Notes that are timely tendered shall be accepted for payment;
- (2) the Change of Control Payment, and the Change of Control Payment Date;
- (3) that any Notes or portions thereof not tendered or accepted for payment shall continue to accrue interest;
- (4) that, unless the Company defaults in the payment of the Change of Control Payment with respect thereto, all Notes or portions thereof accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest from and after the Change of Control Payment Date;
- (5) that any Holder electing to have any Notes or portions thereof purchased pursuant to a Change of Control Offer shall be required to tender such Notes, with the form entitled “Option of Holder to Elect Purchase” on the reverse of such Notes completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date;
- (6) that any Holder shall be entitled to withdraw such election if the Paying Agent receives, not later than the close of business on the third Business Day preceding the Change of Control Payment Date, a facsimile transmission or letter, setting forth the name of the Holder, the principal amount of Notes delivered for purchase, and a statement that such Holder is withdrawing such Holder’s election to have such Notes or portions thereof purchased pursuant to the Change of Control Offer;
- (7) that any Holder electing to have Notes purchased pursuant to the Change of Control Offer must specify the principal amount that is being tendered for purchase, which principal amount must be U.S.\$100,000 or an integral multiple of U.S.\$1,000 in excess thereof;
- (8) that any Holder of Certificated Notes whose Certificated Notes are being purchased only in part shall be issued new Certificated Notes equal in principal amount to the unpurchased portion of the Certificated Note or Notes surrendered, which unpurchased portion shall be equal in principal amount to U.S.\$100,000 or an integral multiple of U.S.\$1,000 in excess thereof;
- (9) that the Trustee shall return to the Holder of a Global Note that is being purchased in part, such Global Note with a notation on the schedule of increases and

decreases thereof adjusting the principal amount thereof to be equal to the unpurchased portion of such Global Note;

(10) that, in the event that Holders of not less than 95% of the aggregate principal amount of the Outstanding Notes accept a Change of Control Offer and the Company or a third party purchases all of the Notes held by such Holders, the Company shall have the right, upon prior notice, to redeem all of the Notes that remain outstanding in accordance with Section 3.7(e); and

(11) any other information necessary to enable any Holder to tender Notes and to have such Notes purchased pursuant to Section 3.7.

“Change of Control Offer” has the meaning assigned to it in Section 3.7(a).

“Change of Control Payment” has the meaning assigned to it in Section 3.7.

“Change of Control Payment Date” means a Business Day no earlier than 30 days nor later than 60 days subsequent to the date on which the Change of Control Notice is mailed (other than as may be required by applicable law);

“Change of Control Repurchase Event” means the occurrence of both a Change of Control and a Rating Downgrade Event.

“Commodity Agreement” means, with respect to any Person, any commodity swap agreement, commodity cap agreement, commodity collar agreement, commodity or raw material futures contract or any other agreement as to which such Person is a party designed to manage commodity risk of such Person.

“Common Stock” means, with respect to any Person, any and all shares, interests or other participations in, and other equivalents (however designated and whether voting or non-voting) of such Person’s common equity interests, whether outstanding on the Issue Date or issued after the Issue Date, and includes, without limitation, all series and classes of such common equity interests.

“Company” means the party named as such in the introductory paragraph to this Indenture and its successors and assigns, including any Surviving Entity.

“Company Order” has the meaning assigned to it in Section 2.2(c).

“Consolidated Net Tangible Assets” means the total consolidated assets of the Company and its Subsidiaries, as shown on the most recent balance sheet of the Company provided to the Trustee pursuant to Section 3.10 (or required to be provided thereunder), less (1) all current liabilities of the Company and its Subsidiaries after eliminating (a) all intercompany items between the Company and any of its Subsidiaries or between Subsidiaries and (b) all current maturities of long-term Indebtedness; and (2) all goodwill, patents, tradenames, trademarks, copyrights, franchises, experimental expenses, organization expenses and any other amounts classified as intangible assets in accordance with GAAP; all calculated in accordance with GAAP and calculated on a pro forma basis to give effect to any acquisition or disposition of

companies, divisions, lines of businesses or operations by the Company and its Subsidiaries subsequent to such date and on or prior to the date of determination.

“Corporate Trust Office” means the principal office of the Trustee at which at any time its corporate trust business shall be administered, which office at the date hereof is located at (a) 480 Washington Boulevard, 30<sup>th</sup> Floor, Jersey City, New Jersey 07310, Attention: Global Transaction Services, Arcos Dorados, for Note transfer purposes and presentment of the Notes for final payment thereon, and (b) 388 Greenwich Street, 14th Floor, New York, NY 10013, Attention: Global Transaction Services—Arcos Dorados Holdings Inc., Fax 212-816-5527, for all other purposes, or such other address as the Trustee may designate from time to time by notice to the Holders and the Company, or the principal corporate trust office of any successor Trustee (or such other address as such successor Trustee may designate from time to time by notice to the Holders and the Company).

“Covenant Defeasance” has the meaning assigned to it in Section 8.1(c).

“Credit Agreement” means the Amended and Restated Credit Agreement, dated as of October 22, 2008, among the Company, various lenders, Deutsche Bank Trust Company Americas, as administrative agent and collateral agent, and Santander Investment Securities Inc., as lead arranger and book runner.

“Currency Agreement” means, with respect to any Person, any foreign exchange contract, currency swap agreement or other similar agreement as to which such Person is a party designed solely to hedge foreign currency risk of such Person.

“Default” means an event or condition the occurrence of which is, or with the lapse of time or the giving of notice or both would be, an Event of Default.

“Defaulted Interest” has the meaning assigned to it in paragraph 1 of the Form of Reverse Side of Note contained in Exhibit A.

“Distribution Compliance Period” means, (i) with respect to any Regulation S Global Note, issued on the Issue Date or the First Reopening Date, the period beginning on the Issue Date or First Reopening Date, as the case may be and ending on November 20, 2013, or (ii) with Regulation S Global Note issued on any date subsequent to the First Reopening Date, the 40 consecutive days beginning on and including the later of (a) the day on which any Notes represented thereby are offered to persons other than distributors (as defined in Regulation S under the Securities Act) pursuant to Regulation S and (b) the issue date for such Notes.

“DTC” means The Depository Trust Company, its nominees and their respective successors and assigns, or such other depository institution hereinafter appointed by the Company that is a clearing agency registered under the Exchange Act.

“ECOFIN” has the meaning assigned to it in Section 2.3(d).

“Event of Default” has the meaning assigned to it in Section 6.1.

“Exchange Act” means the U.S. Securities Exchange Act of 1934, as amended, or any successor statute or statutes thereto.

“Excluded Subsidiary” has the meaning assigned to it in Section 10.5.

“Fair Market Value” means, with respect to any asset, the price (after taking into account any liabilities relating to such assets) which could be negotiated in an arm’s-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction; *provided* that the Fair Market Value of any such asset or assets will be determined conclusively by the Board of Directors of the Company acting in good faith, and will be evidenced by a Board Resolution.

“First Reopening Date” means October 9, 2013.

“Fitch” means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

“Franchise Documents” means the Master Franchise Agreements and any other documents pursuant to which the Company or any of its Subsidiaries has acquired the right to operate any franchised restaurant in Argentina, Aruba, Brazil, Chile, Colombia, Costa Rica, Curacao, Ecuador, French Guiana, Guadeloupe, Martinique, Mexico, Panama, Peru, Puerto Rico, Trinidad and Tobago, Uruguay, Venezuela and the U.S. Virgin Islands of St. Thomas and St. Croix, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“GAAP” means generally accepted accounting principles in effect in the United States.

“Global Note” means any Note issued in fully-registered certificated form to DTC (or its nominee), as depositary for the beneficial owners thereof, which shall be substantially in the form of Exhibit A, with appropriate legends as specified in Section 2.8 and Exhibit A.

“Hedging Obligations” means the obligations of any Person pursuant to any Interest Rate Agreement, Currency Agreement or Commodity Agreement.

“Holder” means the Person in whose name a Note is registered in the Note Register.

“Incur” means, with respect to any Indebtedness or other obligation of any Person, to create, issue, incur (including by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such Indebtedness (and “Incurrence” and “Incurred” will have meanings correlative to the foregoing).

“Indebtedness” means, with respect to any Person, without duplication:

- (1) the principal amount (or, if less, the accreted value) of all obligations of such Person for borrowed money;

- (2) the principal amount (or, if less, the accreted value) of all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;
- (3) all Capitalized Lease Obligations of such Person;
- (4) all obligations of such Person issued or assumed as the deferred purchase price of property, all conditional sale obligations and all obligations under any title retention agreement (but excluding trade accounts payable in the ordinary course of business);
- (5) all reimbursement obligations in respect of letters of credit, banker's acceptances or similar credit transactions (except to the extent Incurred in the ordinary course of business and such obligation is satisfied within 20 Business Days of Incurrence);
- (6) guarantees and other contingent obligations of such Person in respect of Indebtedness referred to in clauses (1) through (5) above and clause (8) below;
- (7) all Indebtedness of any other Person of the type referred to in clauses (1) through (6) above which is secured by any Lien on any property or asset of such Person, the amount of such Indebtedness being deemed to be the lesser of the Fair Market Value of such property or asset and the amount of the Indebtedness so secured; and
- (8) all net obligations under Hedging Obligations of such Person (the amount of any such obligations to be equal at any time to the termination value of such agreement or arrangement giving rise to such obligation that would be payable by such Person at such time).

The amount of Indebtedness of any Person at any date will be the outstanding balance at such date of all unconditional obligations as described above and the maximum liability, upon the occurrence of the contingency giving rise to the obligation, of any contingency obligations at such date.

“Indenture” means this Indenture, as amended or supplemented from time to time, including the Exhibits hereto, and any supplemental indenture hereto.

“Initial Notes” means any of the Company’s 6.625% Notes due 2023 Payable in U.S. Dollars issued on the Issue Date, and any replacement Notes issued therefor in accordance with this Indenture.

“Initial Purchasers” means (i) with respect to the Initial Notes issued on the Issue Date, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC and (ii) with respect to each issuance of Additional Notes, the Persons purchasing such Additional Notes under the related purchase agreement.

“Interest Payment Date” means the stated due date of an installment of interest on the Notes as specified in the Form of Face of Note contained in Exhibit A.

“Interest Rate Agreement” means, with respect to any Person, any interest rate protection agreement (including, without limitation, interest rate swaps, caps, floors, collars, derivative instruments and similar agreements) and/or other types of hedging agreements designed solely to hedge interest rate risk of such Person.

“Issue Date” means the date of this Indenture (being the original issue date of Notes hereunder).

“L/C Documents” means the Letter of Credit, the Letter of Credit Agreement, the L/C Security Documents and each other agreement, instrument or document delivered in connection with the foregoing, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“L/C Security Documents” means the Security Agreement dated as of August 3, 2007 made by the Subsidiaries of the Company party thereto and the Pledge Agreement dated as of August 3, 2007 made by the Subsidiaries of the Company party thereto, in each case to secure the obligations under the Letter of Credit Agreement.

“Legal Defeasance” has the meaning assigned to it in Section 8.1(b).

“Legal Holiday” has the meaning assigned to it in Section 11.5.

“Letter of Credit” means the irrevocable standby letter of credit issued on August 3, 2007, for the account of the Company and the subsidiary guarantors identified thereto, for the benefit of McDonald’s Latin America, pursuant to the Letter of Credit Agreement.

“Letter of Credit Agreement” means the Letter of Credit Reimbursement Agreement, dated as of August 3, 2007, between the Company and Credit Suisse, Cayman Islands Branch, as issuing bank.

“Lien” means any lien, mortgage, deed of trust, pledge, security interest, charge or encumbrance of any kind (including any conditional sale or other title retention agreement, any lease in the nature thereof and any agreement to give any security interest); *provided* that the lessee in respect of a Capitalized Lease Obligation or Sale and Leaseback Transaction will be deemed to have Incurred a Lien on the property leased thereunder; *provided* that in no event shall an operating lease be deemed to constitute a Lien.

“Luxembourg” means the Grand Duchy of Luxembourg.

“Luxembourg Paying Agent” means the party named as such in the introductory paragraph of this Indenture until such party resigns or is removed by the Company from such role; *provided* that, if such party is replaced by a successor in accordance with the terms of this Indenture, “Luxembourg Paying Agent” shall thereafter mean such successor.

“Master Franchise Agreements” means the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald’s Latin America, the Company and the other parties thereto, and the Second Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald’s Latin America and Arcos

Dourados Comércio de Alimentos Ltda., as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Master Franchisee” means LatAm, LLC, or any successor to its rights and obligations under the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald’s Latin America, the Company and the other parties thereto, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“McDonald’s” means McDonald’s Corporation and its Subsidiaries.

“McDonald’s Call Option” means the “Call Option” referred to in the Master Franchise Agreements.

“McDonald’s Deposit” shall mean any cash and investments, in an aggregate amount not to exceed \$15,000,000, serving as credit support to obligations owing by the Company and the Subsidiary Guarantors to McDonald’s Latin America under the Franchise Documents.

“McDonald’s Deposit Pledge Agreement” means documentation, pursuant to which a lien in favor of McDonald’s Latin America is granted over the McDonald’s Deposit (and to the extent perfection of such lien is by “control” as provided in Section 9-314 of the Uniform Commercial Code, any related control agreements in customary form providing for such perfection).

“McDonald’s Foreign Pledge Agreements” means, collectively, the pledge agreements listed on Schedule I to this Indenture.

“McDonald’s Latin America” means McDonald’s Latin America, LLC, a limited liability company organized under the laws of the State of Delaware.

“McDonald’s Mortgage” means any mortgages granted in favor of McDonald’s Latin America on Secured Restricted Real Estate, in each case securing obligations owing to McDonald’s Latin America under the Amended and Restated Master Franchise Agreement, dated as of November 10, 2008, among McDonald’s Latin America, the Company and the other parties thereto, as the same may be amended, restated, supplemented or otherwise modified from time to time, in an aggregate amount not to exceed the undrawn portion of the Letter of Credit on the date of termination thereof.

“McDonald’s Security Documents” means the McDonald’s U.S. Stock Pledge Agreement, dated as of August 3, 2008, made by Arcos Dorados B.V. and the other parties thereto in favor of McDonald’s Latin America, the McDonald’s Foreign Pledge Agreements and the McDonald’s Deposit Pledge Agreement and any other agreement, instrument or document under which any Lien is granted to secure obligations under the Franchise Documents, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Maturity Date” means, when used with respect to any Note, the date on which the principal of such Note becomes due and payable as therein or herein provided, whether at

Stated Maturity or by declaration of acceleration, call for redemption, exercise of the repurchase right or otherwise.

“Moody’s” means Moody’s Investors Service, Inc., or any successor thereto.

“Non-U.S. Person” means a person who is not a U.S. person, as defined in Regulation S.

Trustee.  
“Note Custodian” means the custodian with respect to any Global Note appointed by DTC, or any successor Person thereto, and shall initially be the

“Note Register” has the meaning assigned to it in Section 2.3(a).

“Notes” means, collectively, the Initial Notes and any Additional Notes issued under this Indenture.

Notes.  
“Offering Memorandum” means the Company’s offering memorandum dated September 24, 2013, used in connection with the Original Offering of

“Officer” means, when used in connection with any action to be taken by the Company or Subsidiary, the Chairman of the Board, the Chief Executive Officer, the Chief Operating Officer, the Chief Financial Officer, the Director of Corporate Finance, the Chief Legal Officer, the Treasurer or any Assistant Treasurer and the Secretary or any Assistant Secretary (or, in each case, the officers of the Company with equivalent positions).

“Officers’ Certificate” means, when used in connection with any action to be taken by the Company or Subsidiary, a certificate signed by two Officers of the Company or such Subsidiary, and delivered to the Trustee.

“Opinion of Counsel” means a written opinion of counsel, who may be an employee of or counsel for the Company (except as otherwise provided in this Indenture), obtained at the expense of the Company, a Surviving Entity or a Subsidiary, and who is reasonably acceptable to the Trustee.

“Original Offering of Notes” means the original private offering of the Initial Notes, which were issued on the Issue Date.

“Outstanding” means, as of the date of determination, all Notes theretofore authenticated and delivered under this Indenture, *except*:

- (1) Notes theretofore canceled by the Trustee or delivered to the Trustee for cancellation;
- (2) Notes, or portions thereof, for the payment, redemption or, in the case of a Change of Control Offer, purchase of, which money in the necessary amount has been theretofor deposited with the Trustee or any Paying Agent (other than the Company or an Affiliate of the Company) in trust or set aside and segregated in trust by the Company or an Affiliate of the Company (if the Company or such Affiliate of the Company is acting

as Paying Agent) for the Holders of such Notes; *provided* that, if Notes (or portions thereof) are to be redeemed or purchased, notice of such redemption or purchase has been duly given pursuant to this Indenture or provision therefor reasonably satisfactory to the Trustee has been made;

(3) Notes which have been surrendered pursuant to Section 2.10 or in exchange for or in lieu of which other Notes have been authenticated and delivered pursuant to this Indenture, other than any such Notes in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Notes are held by a protected purchaser in whose hands such Notes are valid obligations of the Company; and

(4) Soley to the extent provided Article VIII, Notes which are subject to Legal Defeasance or Covenant Defeasance as provided in Article VIII;

*provided, however*, that in determining whether the Holders of the requisite aggregate principal amount of the Outstanding Notes have given any request, demand, authorization, direction, notice, consent or waiver hereunder, Notes owned by the Company or any other obligor under the Notes or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent or waiver, only Notes which a Trust Officer of the Trustee actually knows to be so owned shall be so disregarded. Notes so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Notes and that the pledgee is not the Company or any other obligor upon the Notes or any Affiliate of the Company or of such other obligor.

"Paying Agent" has the meaning assigned to it in Section 2.3(a).

"Permitted Business" means the business or businesses conducted by the Company and its Subsidiaries as of the Issue Date and any business ancillary or complementary thereto.

"Permitted Holders" means (1) Woods W. Staton and any Related Party of Mr. Staton and (2) any Person both the Capital Stock and the Voting Stock of which (or in the case of a trust, the beneficial interests in which) are owned directly or indirectly 51% or more by Persons specified in clause (1).

"Permitted Liens" means any of the following Liens:

(1) Liens existing on the Issue Date and any extension, renewal or replacement thereof;

(2) statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, suppliers, materialmen, repairmen and other Liens imposed by law incurred in the ordinary course of business for sums not yet delinquent or being contested in good faith, if such reserve or other appropriate provision, if any, as shall be required by GAAP shall have been made in respect thereof;

(3) (a) licenses, sublicenses, leases or subleases granted by the Company or any of its Subsidiaries to other Persons not materially interfering with the conduct of the business of the Company or any of its Subsidiaries and (b) any interest or title of a lessor, sublessor or licensor under any lease or license agreement permitted by the Indenture to which the Company or any Subsidiary is a party;

(4) Liens Incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business consistent with past practice in connection therewith, or to secure the performance of tenders, statutory obligations, surety and appeal bonds, customs duties, bids, leases, government performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);

(5) Liens upon specific items of inventory or other goods and proceeds of any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(6) Liens on patents, trademarks, service marks, trade names, copyrights, technology, know-how and processes to the extent such Liens arise from the granting of license to use such patents, trademarks, service marks, trade names, copyrights, technology, know-how and processes to any Person in the ordinary course of business of the Company or any of its Subsidiaries;

(7) Liens securing reimbursement obligations with respect to commercial letters of credit which encumber documents and other property relating to such letters of credit and products and proceeds thereof;

(8) Liens encumbering deposits made to secure obligations arising from statutory, regulatory, contractual, or warranty requirements of the Company or a Subsidiary, including rights of offset and set-off;

(9) Liens for taxes, assessments or other governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings, *provided* that appropriate reserves required pursuant to GAAP have been made in respect thereof;

(10) encumbrances, ground leases, easements or reservations of, or rights of others for, licenses, rights of way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning, building codes or other restrictions (including, without limitation, minor defects or irregularities in title and similar encumbrances) as to the use of real properties or liens incidental to the conduct of the business of such Person or to the ownership of its properties which do not in the aggregate materially adversely affect the value of said properties or materially impair their use in the operation of the business of such Person;

(11) deposits in the ordinary course of business securing liability for reimbursement obligations of insurance carriers providing insurance to the Company or its Subsidiaries and any Liens thereon;

(12) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been duly initiated for the review of such judgment have not been finally terminated or the period within which such proceeding may be initiated has not expired;

(13) Liens arising solely by virtue of any statutory or common law provisions relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository institution;

(14) Liens securing Hedging Obligations;

(15) Liens to secure any Refinancing Indebtedness which is Incurred to Refinance any Indebtedness which has been secured by a Lien permitted under the covenant described under Section 3.8 not incurred pursuant to clause (18) or (20); *provided* that such new Liens:

(a) are no less favorable to the Holders of Notes and are not more favorable to the lienholders with respect to such Liens than the Liens in respect of the Indebtedness being Refinanced; and

(b) do not extend to any property or assets other than the property or assets securing the Indebtedness Refinanced by such Refinancing Indebtedness;

(16) Liens securing Indebtedness or other obligations of a Subsidiary owing to the Company or another Subsidiary;

(17) Liens securing Acquired Indebtedness not incurred in connection with, or in anticipation or contemplation of, the relevant acquisition, merger or consolidation; *provided* that

(a) such Liens secured such Acquired Indebtedness at the time of and prior to the Incurrence of such Acquired Indebtedness by the Company or a Subsidiary and were not granted in connection with, or in anticipation of the Incurrence of such Acquired Indebtedness by the Company or a Subsidiary; and

(b) such Liens do not extend to or cover any property of the Company or any Subsidiary other than the property that secured the Acquired Indebtedness prior to the time such Indebtedness became Acquired Indebtedness of the Company or a Subsidiary and are no more favorable to the lienholders than the Liens securing the Acquired Indebtedness prior to the Incurrence of such Acquired Indebtedness by the Company or a Subsidiary;

(18) purchase money Liens securing Purchase Money Indebtedness or Capitalized Lease Obligations Incurred to finance the acquisition or leasing of property of the Company or a Subsidiary used in a Permitted Business; *provided that*:

(a) the related Purchase Money Indebtedness does not exceed the cost of such property and will not be secured by any property of the Company or any Subsidiary other than the property so acquired; and

(b) the Lien securing such Indebtedness will be created within 365 days of such acquisition;

(19) Liens securing an amount of Indebtedness outstanding at any one time (together with any Sale and Lease-Back Transaction (as defined below) that would otherwise be prohibited by Section 3.9 of this Indenture) not to exceed the greater of (a) U.S.\$175,000,000 (or the equivalent in other currencies) or (b) 15% of Consolidated Net Tangible Assets;

(20) Liens under the L/C Documents;

(21) Liens in favor of McDonald's Latin America created pursuant to the McDonald's Security Documents and the McDonald's Mortgages; and

(22) the interest of McDonald's Latin America, as franchisor under the Franchise Documents.

"Person" means an individual, partnership, limited partnership, corporation, company, limited liability company, unincorporated organization, trust or joint venture, or a governmental agency or political subdivision thereof.

"Preferred Stock" means, with respect to any Person, any Capital Stock of such Person that has preferential rights over any other Capital Stock of such Person with respect to dividends, distributions or redemptions or upon liquidation.

"Private Placement Legend" has the meaning assigned to it in Section 2.8(b).

"Purchase Money Indebtedness" means Indebtedness Incurred for the purpose of financing all or any part of the purchase price, or other cost of construction or improvement of any property; *provided that* the aggregate principal amount of such Indebtedness does not exceed such purchase price or cost, including any Refinancing of such Indebtedness that does not increase the aggregate principal amount (or accreted amount, if less) thereof as of the date of the Refinancing.

"QIB" means any "qualified institutional buyer" (as defined in Rule 144A).

"Rating Agency" means (1) each of Fitch, Moody's and S&P; and (2) if any of Fitch, Moody's or S&P ceases to rate the Notes or fails to make a rating of the Notes publicly available for reasons outside of our control, a "nationally recognized statistical rating

organization” within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act, selected by us as a replacement agency for Fitch, Moody’s or S&P, as the case may be.

“Rating Downgrade Event” means the rating on the Notes is lowered from their rating then in effect as a result of any event or circumstance comprised of or arising as a result of, or in respect of, a Change of Control (or pending Change of Control) by at least two of the Rating Agencies on any date during the period (the “Trigger Period”) from the date of the public announcement by the Issuer of a Change of Control (or pending Change of Control) until the end of the 60-day period following public announcement by the Issuer of the consummation of a Change of Control (which Trigger Period shall be extended following the consummation of the Change of Control so long as the rating of the Notes is under publicly announced consideration for possible downgrade by any of the Rating Agencies). In the event that less than two Rating Agencies are providing a rating for the Notes at the commencement of any Trigger Period, then a “Rating Downgrade Event” shall be deemed to have occurred during that Trigger Period. Notwithstanding the foregoing, no Rating Downgrade Event will be deemed to have occurred as a result of any event or circumstance comprised of or arising as a result of, or in respect of, a Change of Control unless and until such Change of Control has actually been consummated.

“Record Date” has the meaning assigned to it in the Form of Face of Note contained in Exhibit A.

“Redemption Date” means, with respect to any redemption of Notes, the date fixed for such redemption pursuant to this Indenture and the Notes.

“Refinance” means, in respect of any Indebtedness, to issue any Indebtedness in exchange for or to refinance, replace, defease or refund such Indebtedness in whole or in part. “Refinanced” and “Refinancing” have correlative meanings.

“Refinancing Indebtedness” means Indebtedness of the Company or any Subsidiary issued to Refinance any other Indebtedness of the Company or a Subsidiary so long as the aggregate principal amount (or initial accreted value, if applicable) of such new Indebtedness as of the date of such proposed Refinancing does not exceed the aggregate principal amount (or initial accreted value, if applicable) of the Indebtedness being Refinanced plus the amount of any premium required to be paid under the terms of the instrument governing such Indebtedness and the amount of reasonable expenses incurred by the Company in connection with such Refinancing;

“Registrar” has the meaning assigned to it in Section 2.3(a).

“Regulation S” means Regulation S under the Securities Act or any successor regulation.

“Regulation S Global Note” has the meaning assigned to it in Section 2.1(e).

“Related Party” means, with respect to any Person, (1) any Subsidiary, spouse, descendant or other immediate family member (which includes any child, stepchild, parent, stepparent, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law) (in the case of an individual), of such Person, (2) any estate, trust, corporation,

partnership or other entity, the beneficiaries and stockholders, partners or owners of which consist solely of one or more Permitted Holders referred to in clause (1) of the definition thereof and /or such other Persons referred to in the immediately preceding clause (1), or (3) any executor, administrator, trustee, manager, director or other similar fiduciary of any Person referred to in the immediately preceding clause (2), acting solely in such capacity.

“Restricted Note” means any Initial Note (or beneficial interest therein) or any Additional Note (or beneficial interest therein), until such time as:

(1) such Note is a Regulation S Global Note and the Distribution Compliance Period therefor has terminated; or

(2) the Private Placement Legend therefor has otherwise been removed pursuant to Section 2.9(d) or, in the case of a beneficial interest in a Global Note, such beneficial interest has been exchanged for an interest in a Global Note not bearing a Private Placement Legend.

“Rule 144” means Rule 144 under the Securities Act (or any successor rule).

“Rule 144A” means Rule 144A under the Securities Act (or any successor rule).

“Rule 144A Global Note” has the meaning assigned to it in Section 2.1(d).

“Securities Act” means the U.S. Securities Act of 1933, as amended.

“Special Record Date” has the meaning assigned to it in Section 2.13(a).

“Sale and Leaseback Transaction” means any direct or indirect arrangement with any Person or to which any such Person is a party providing for the leasing to the Company or a Subsidiary of any property, whether owned by the Company or any Subsidiary at the Issue Date or later acquired, which has been or is to be sold or transferred by the Company or such Subsidiary to such Person or to any other Person by whom funds have been or are to be advanced on the security of such Property.

“S&P” means Standard & Poor’s Rating Service or any successor thereto.

“Secured Restricted Real Estate” means the real estate listed on Schedule II to this Indenture.

“Senior Indebtedness” means the Notes and the Subsidiary Guarantees and any other Indebtedness of the Company or any Subsidiary Guarantor that ranks equal in right of payment with the Notes or the relevant Subsidiary Guarantee, as the case may be.

“Significant Subsidiary” means a Subsidiary of the Company that would constitute a “Significant Subsidiary” of the Company in accordance with Rule 1-02 under Regulation S-X under the Securities Act in effect on the Issue Date.

“Stated Maturity” means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

“Subsidiary” means, with respect to any Person, any other Person of which such Person owns, directly or indirectly, more than 50% of the voting power of the other Person’s outstanding Voting Stock.

“Subsidiary Guarantee” means the unconditional guarantee, on a joint and several basis, of the full and prompt payment of all obligations of the Company under this Indenture and the Notes, in accordance with the terms of Article X.

“Subsidiary Guarantor” means the Subsidiaries signatories to this Indenture on the Issue Date and any that execute Supplemental Indentures hereto after the Issue Date.

“Surviving Entity” has the meaning set forth under Section 4.1(a).

“Transfer Agent” has the meaning assigned to it in Section 2.3(a).

“Transparency Directive” has the meaning assigned to it in Section 3.11.

“Trustee” means the party named as such in the introductory paragraph of this Indenture until a successor replaces it in accordance with the terms of this Indenture and, thereafter, means the successor.

“Trust Officer” means, when used with respect to the Trustee, any officer within the corporate trust department (or any successor group of the Trustee) of the Trustee, or to whom any corporate trust matter is referred because of such person’s knowledge of and familiarity with the particular subject, in each case having direct responsibility for the administration of this Indenture.

“Unlevered Subsidiary” means any Subsidiary that has not more than \$10.0 million of outstanding Indebtedness Incurred after the Issue Date.

“U.S. Government Obligations” means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable or redeemable at the issuer’s option.

“U.S. Dollars” or “U.S.\$” means such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts.

“Venezuelan Subsidiary” means any direct or indirect Subsidiary of the Company that generates more than 50% of its revenues or holds more than 50% of its total assets in Venezuela.

“Voting Stock” means, with respect to any Person, securities of any class of Capital Stock of such Person then outstanding and normally entitled to vote in the election of members of the Board of Directors (or equivalent governing body) of such Person. The term “normally entitled” means without regard to any contingency.

Section 1.2 Rules of Construction. Unless the context otherwise requires:

- (1) a term has the meaning assigned to it;
- (2) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;
- (3) “or” is not exclusive;
- (4) “including” means including without limitation;
- (5) words in the singular include the plural and words in the plural include the singular;
- (6) references to the payment of principal of the Notes shall include applicable premium, if any;
- (7) references to payments on the Notes shall include Additional Amounts payable on the Notes, if any;
- (8) all references to Sections or Articles refer to Sections or Articles of this Indenture;
- (9) references to any law are to be construed as including all statutory and regulatory provisions or rules consolidating, amending, replacing, supplementing or implementing such law; and
- (10) the term “obligor,” when used with respect to the Notes, means the Company and any other obligor as of the date of this Indenture.

ARTICLE II

THE NOTES

Section 2.1 Form and Dating.

(a) The Initial Notes are being originally issued by the Company on the Issue Date. The Notes shall be issued in fully registered certificated global form without coupon, and in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. The Notes and the certificate of authentication shall be substantially in the form of Exhibit A.

(b) The terms and provisions of the Notes, the form of which is in Exhibit A, shall constitute, and are hereby expressly made, a part of this Indenture, and, to the extent applicable, the Company and the Trustee, by their execution and delivery of this Indenture expressly agree to such terms and provisions and to be bound thereby. Except as otherwise expressly permitted in this Indenture, all Notes shall be identical in all respects. Notwithstanding any differences among them, all Notes issued under this Indenture shall vote and consent together on all matters as one class.

(c) The Notes may have notations, legends or endorsements as specified in Section 2.8 or as otherwise required by law, stock exchange rule or DTC rule or usage. The Company and the Trustee shall approve the form of the Notes and any notation, legend or endorsement on them. Each Note shall be dated the date of its authentication.

(d) Notes originally offered and sold to QIBs in reliance on Rule 144A shall be represented by a single permanent global certificate (which may be subdivided) without interest coupons (each, a "Rule 144A Global Note").

(e) Notes originally offered and sold outside the United States of America in reliance on Regulation S shall be represented by a single permanent global certificate (which may be subdivided) without interest coupons (each, a "Regulation S Global Note").

Section 2.2 Execution and Authentication.

(a) An Officer shall sign the Notes for the Company by manual or facsimile signature. If an Officer whose signature is on a Note no longer holds that office at the time the Trustee authenticates the Note, the Note shall be valid nevertheless.

(b) A Note shall not be valid until an authorized signatory of the Trustee manually authenticates the Note. The signature of the Trustee on the certificate of authentication on a Note shall be conclusive evidence that such Note has been duly and validly authenticated and issued under this Indenture.

(c) At any time and from time to time after the execution and delivery of this Indenture, the Trustee shall authenticate and make available for delivery Notes upon a written order of the Company signed by an Officer of the Company (the "Company Order"). A

Company Order shall specify the amount of the Notes to be authenticated and the date on which such original issue of Notes is to be authenticated.

(d) The Trustee may appoint an agent (the “Authenticating Agent”) reasonably acceptable to the Company to authenticate the Notes. Unless limited by the terms of such appointment, any such Authenticating Agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by the Authenticating Agent.

(e) In case a Surviving Entity has executed an indenture supplemental hereto with the Trustee pursuant to Article IV, any of the Notes authenticated or delivered prior to such transaction may, from time to time, at the request of the Surviving Entity, be exchanged for other Notes executed in the name of the Surviving Entity with such changes in phraseology and form as may be appropriate, but otherwise identical to the Notes surrendered for such exchange and of like principal amount; and the Trustee, upon Company Order of the Surviving Entity, shall authenticate and deliver Notes as specified in such order for the purpose of such exchange. If Notes shall at any time be authenticated and delivered in any new name of a Surviving Entity pursuant to this Section 2.2 in exchange or substitution for or upon registration of transfer of any Notes, such Surviving Entity, at the option of the Holders but without expense to them, shall provide for the exchange of all Notes at the time Outstanding for Notes authenticated and delivered in such new name.

Section 2.3 Registrar, Transfer Agent and Paying Agent.

(a) The Company shall maintain an office or agency in the Borough of Manhattan, City of New York, and, as long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and the rules of such Exchange so require, in Luxembourg (which office or agency may be, in the case of presentment or surrender of the Notes for registration of transfer or for exchange and presentment for payment, the Corporate Trust Office of the Trustee or an Affiliate of the Trustee), where Notes may be presented or surrendered for registration of transfer or for exchange (the “Registrar” and “Transfer Agent” respectively) and where Notes may be presented for payment (the “Paying Agent”). The Registrar shall keep a register of the Notes and of their transfer and exchange (the “Note Register”). The Company may have one or more co-Registrars and one or more additional paying agents or transfer agents. The terms “Paying Agent” and “Transfer Agent” include any additional paying agent and any additional transfer agent, as the case may be.

(b) The Company shall enter into an appropriate agency agreement with any Registrar, Paying Agent or co-Registrar not a party to this Indenture. The agreement shall implement the provisions of this Indenture that relate to such agent. The Company shall notify the Trustee of the name and address of each such agent. If the Company fails to maintain a Registrar or Paying Agent, the Trustee shall act as such and shall be entitled to appropriate compensation therefor pursuant to Section 7.7. The Company may act as Paying Agent, Registrar, co-Registrar or Transfer Agent.

(c) The Company initially appoints the Trustee as Registrar, Paying Agent and Transfer Agent (and the Trustee hereby accepts such appointment), until such time as

another Person is appointed as such, and Banque Internationale à Luxembourg, société anonyme, as Luxembourg Paying Agent (and Banque Internationale à Luxembourg, société anonyme, hereby accepts such appointment), until such time as another Person is appointed as such.

(d) The Company shall, to the extent permitted by law, ensure that it maintains a Paying Agent in a Member State of the European Union that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC or any other Directive implementing the conclusions of the European Union Council of Economic and Finance (“ECOFIN”) council meeting of November 26-27, 2000 on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, such Directive.

(e) The Company may change the Registrar, Paying Agent and Transfer Agent without notice to Holders.

Section 2.4 Paying Agent to Hold Money in Trust. The Company shall require each Paying Agent (other than the Trustee) to agree that such Paying Agent shall hold in trust separate and apart from, and not commingle with any other properties, for the benefit of Holders or the Trustee all money held by such Paying Agent for the payment of principal of or interest on the Notes (whether such money has been distributed to it by the Company or any other obligor of the Notes) in accordance with the terms of this Indenture and shall notify the Trustee in writing of any Default by the Company or any Subsidiary Guarantor (or any other obligor on the Notes) in making any such payment. If the Company or an Affiliate of the Company or any Subsidiary Guarantor acts as Paying Agent, it shall segregate the money held by it as Paying Agent and hold it as a separate trust fund. The Company at any time may require a Paying Agent (other than the Trustee) to pay all money held by it to the Trustee and to account for any funds disbursed by such Paying Agent. The Paying Agent shall not hold any money under this Indenture in the British Virgin Islands, nor will the Paying Agent under this Indenture be a British Virgin Islands entity at any time. Upon complying with this Section 2.4, the Paying Agent (if other than the Company) shall have no further liability for the money delivered to the Trustee. Upon any proceeding under any Bankruptcy Law with respect to the Company or any Affiliate of the Company or any Subsidiary Guarantor, if the Company, a Subsidiary Guarantor or such Affiliate, is then acting as Paying Agent, the Trustee shall replace the Company, such Subsidiary Guarantor or such Affiliate as Paying Agent.

The receipt by the Paying Agent or the Trustee from the Company of each payment of principal, interest and/or other amounts due in respect of the Notes in the manner specified herein and on the date on which such amount of principal, interest and/or other amounts are then due, shall satisfy the obligations of the Company herein and under the Notes to make such payment to the Holders on the due date thereof; *provided, however*, that the liability of any Paying Agent hereunder shall not exceed any amounts paid to it by the Company, or held by it, on behalf of the Holders under this Indenture. Notwithstanding the preceding sentence or any other provision of this Indenture to the contrary, the Company shall indemnify the Holders in the event that there is subsequent failure by the Trustee or any Paying Agent to pay any amount due in respect of the Notes in accordance with the Notes and this Indenture as shall result in the receipt by the Holders of such amounts as would have been received by them had no such failure occurred.

Section 2.5 CUSIP and ISIN Numbers. In issuing the Notes, the Company may use CUSIP and ISIN numbers (if then generally in use) and, if so, the Trustee shall use CUSIP and ISIN numbers in notices of redemption as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company shall promptly notify the Trustee in writing of any initial CUSIP and/or ISIN numbers and any change in the CUSIP or ISIN numbers.

Section 2.6 Holder Lists. The Registrar shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of Holders. If the Trustee is not the Registrar, the Company shall furnish to the Trustee, in writing at least seven Business Days before each Interest Payment Date and at such other times as the Trustee may reasonably request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of Holders.

Section 2.7 Global Note Provisions.

(a) Each Global Note initially shall: (i) be registered in the name of DTC or the nominee of DTC; (ii) be delivered to the Note Custodian; and (iii) bear the appropriate legend, as set forth in Section 2.8 and Exhibit A. Any Global Note may be represented by more than one certificate. The aggregate principal amount of each Global Note may from time to time be increased or decreased by adjustments made on the records of the Note Custodian, as provided in this Indenture.

(b) Members of, or participants in, DTC ("Agent Members") shall have no rights under this Indenture with respect to any Global Note held on their behalf by DTC or by the Note Custodian under such Global Note, and DTC may be treated by the Company, the Trustee, the Paying Agent and the Registrar and any of their agents as the absolute owner of such Global Note for all purposes whatsoever. Notwithstanding the foregoing, nothing herein shall prevent the Company, the Trustee, the Paying Agent or the Registrar or any of their agents from giving effect to any written certification, proxy or other authorization furnished by DTC. The registered Holder of a Global Note may grant proxies and otherwise authorize any person, including Agent Members and persons that may hold interests through Agent Members, to take any action that a Holder is entitled to take under this Indenture or the Notes.

(c) Except as provided below, owners of beneficial interests in Global Notes shall not be entitled to receive Certificated Notes. Global Notes shall be exchangeable for Certificated Notes only in the following limited circumstances:

(i) DTC notifies the Company that it is unwilling or unable to continue as depository for such Global Note or DTC ceases to be a clearing agency registered under the Exchange Act, at a time when DTC is required to be so registered in order to act as depository, and in each case a successor depository is not appointed by the Company within 90 days of such notice;

(ii) the Company executes and delivers to the Trustee and Registrar an Officers' Certificate stating that such Global Note shall be so exchangeable; or

(iii) an Event of Default has occurred and is continuing with respect to the Notes.

In connection with the exchange of an entire Global Note for Certificated Notes pursuant to this Section 2.7(c), such Global Note shall be deemed to be surrendered to the Trustee for cancellation, and the Company shall execute, and upon Company Order the Trustee shall authenticate and deliver, to each beneficial owner identified by DTC in exchange for its beneficial interest in such Global Note, an equal aggregate principal amount of Certificated Notes of authorized denominations.

Section 2.8 Legends.

(a) Each Global Note shall bear the legend specified therefor in Exhibit A on the face thereof.

(b) Each Restricted Note shall bear the private placement legend specified therefor in Exhibit A on the face thereof (the "Private Placement Legend").

Section 2.9 Transfer and Exchange.

The following provisions shall apply with respect to any proposed transfer of an interest in a Rule 144A Global Note that is a Restricted Note:

(a) If (1) the owner of a beneficial interest in a Rule 144A Global Note wishes to transfer such interest (or portion thereof) to a Non-U.S. Person pursuant to Regulation S and (2) such Non-U.S. Person wishes to hold its interest in the Notes through a beneficial interest in the Regulation S Global Note, subject to the rules and procedures of DTC, upon receipt by the Note Custodian and Registrar of:

(i) instructions from the Holder of the Rule 144A Global Note directing the Note Custodian and Registrar to credit or cause to be credited a beneficial interest in the Regulation S Global Note equal to the principal amount of the beneficial interest in the Rule 144A Global Note to be transferred; and

(ii) a certificate in the form of Exhibit C from the transferor,

the Note Custodian and Registrar shall increase the Regulation S Global Note and decrease the Rule 144A Global Note by such amount in accordance with the foregoing.

(b) If the owner of a beneficial interest in a Regulation S Global Note wishes to transfer such interest (or any portion thereof) to a QIB pursuant to Rule 144A prior to the expiration of the Distribution Compliance Period therefor, subject to the rules and procedures of DTC, upon receipt by the Note Custodian and Registrar of:

(i) instructions from the Holder of the Regulation S Global Note directing the Note Custodian and Registrar to credit or cause to be credited a beneficial interest in the Rule 144A Global Note equal to the principal amount of the beneficial interest in the Regulation S Global Note to be transferred; and

(ii) a certificate in the form of Exhibit B duly executed by the transferor,

the Note Custodian and Registrar shall increase the Rule 144A Global Note and decrease the Regulation S Global Note by such amount in accordance with the foregoing.

(c) Other Transfers. Any transfer of Restricted Notes not described in Section 2.9 (other than a transfer of a beneficial interest in a Global Note that does not involve an exchange of such interest for a Certificated Note or a beneficial interest in another Global Note, which must be effected in accordance with applicable law and the rules and procedures of DTC, but is not subject to any procedure required by this Indenture) shall be made only upon receipt by the Company, the Trustee and the Registrar of such Opinions of Counsel, certificates and/or other information reasonably required by and satisfactory to it in order to ensure compliance with the Securities Act or in accordance with Section 2.9(d).

(d) Use and Removal of Private Placement Legends. Upon the registration of transfer, exchange or replacement of Notes (or beneficial interests in a Global Note) not bearing (or not required to bear upon such registration of transfer, exchange or replacement) a Private Placement Legend, the Note Custodian and Registrar shall exchange such Notes (or beneficial interests) for beneficial interests in a Global Note (or Certificated Notes if they have been issued pursuant to Section 2.7(c)) that does not bear a Private Placement Legend. Upon the transfer, exchange or replacement of Notes (or beneficial interests in a Global Note) bearing a Private Placement Legend, the Note Custodian and Registrar shall deliver only Notes (or beneficial interests in a Global Note) that bear a Private Placement Legend unless:

(i) such Notes (or beneficial interests) are transferred pursuant to Rule 144 upon delivery to the Registrar of a certificate of the transferor in the form of Exhibit D and an Opinion of Counsel reasonably satisfactory to the Registrar;

(ii) a transfer of such Notes is made pursuant to an effective Shelf Registration Statement, in which case the Private Placement Legend shall be removed from such Note so transferred at the request of the Holder; or

(iii) in connection with such registration of transfer, exchange or replacement the Registrar shall have received an Opinion of Counsel addressed to it, the Trustee and the Company and other evidence reasonably satisfactory to the Company to the effect that neither such Private Placement Legend nor the related restrictions on transfer are required in order to maintain compliance with the provisions of the Securities Act.

The Private Placement Legend on any Rule 144A Global Note shall be removed only at the option of the Company. The Private Placement Legend on any Regulation S Global Note shall be removed at the request of the Holder after the Distribution Compliance Period therefore has

ended. The Holder of a Global Note may exchange an interest therein for an equivalent interest in a Global Note not bearing a Private Placement Legend (other than a Regulation S Global Note) upon transfer of such interest pursuant to any of clauses (i) through (iv) of this Section 2.9(d).

(e) Consolidation of Global Notes. Nothing in this Indenture shall provide for the consolidation of any Notes with any other Notes unless they constitute, as determined pursuant to an Opinion of Counsel, the same classes of securities for U.S. federal income tax purposes.

(f) Retention of Documents. The Registrar shall retain copies of all letters, notices and other written communications received pursuant to this Article II. The Company shall have the right to inspect and make copies of all such letters, notices or other written communications at any reasonable time upon the giving of reasonable written notice to the Registrar.

(g) Execution, Authentication of Notes, etc.

(i) Subject to the other provisions of this Section 2.9 when Notes are presented to the Registrar or a co-Registrar with a request to register the transfer of such Notes or to exchange such Notes for an equal principal amount of Notes of other authorized denominations, the Registrar or co-Registrar shall register the transfer or make the exchange as requested if its requirements for such transaction are met; *provided* that any Notes presented or surrendered for registration of transfer or exchange shall be duly endorsed or accompanied by a written instrument of transfer in form satisfactory to the Company and to the Registrar or co-Registrar, duly executed by the Holder thereof or his attorney duly authorized in writing. To permit registrations of transfers and exchanges and subject to the other terms and conditions of this Article II, the Company shall execute and upon Company Order the Trustee shall authenticate Certificated Notes and Global Notes at the Registrar's or co-Registrar's request.

(ii) No service charge shall be made to a Holder for any registration of transfer or exchange, but the Company, the Registrar, or the Trustee may require payment of a sum sufficient to cover any transfer tax, assessment, or similar governmental charge payable in connection therewith (other than any such transfer taxes, assessments or similar governmental charges payable upon exchange or transfer pursuant to Section 3.7).

(iii) The Registrar or co-Registrar shall not be required to register the transfer of or exchange of any Note for a period beginning: (1) 15 days before the mailing of a notice of an offer to repurchase or redeem Notes and ending at the close of business on the day of such mailing; or (2) 15 days before an Interest Payment Date and ending on such Interest Payment Date.

(iv) Prior to the due presentation for registration of transfer of any Note, the Company, the Trustee, the Paying Agent, the Registrar or any co-Registrar may deem and treat the person in whose name a Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Note

and for all other purposes whatsoever, whether or not such Note is overdue, and none of the Company, the Trustee, the Paying Agent, the Registrar or any co-Registrar shall be affected by notice to the contrary.

(v) All Notes issued upon any registration of transfer or exchange pursuant to the terms of this Indenture shall evidence the same debt and shall be entitled to the same benefits under this Indenture as the Notes surrendered upon such registration of transfer or exchange.

(vi) The Registrar shall be entitled to request such evidence reasonably satisfactory to it documenting the identity and/or signatures of the transferor and the transferee.

(h) No Obligation of the Trustee.

(i) The Trustee shall have no responsibility or obligation to any beneficial owner of an interest in a Global Note, a member of, or a participant in, DTC or other Person with respect to the accuracy of the records of DTC or its nominee or of any participant or member thereof, with respect to any ownership interest in the Notes or with respect to the delivery to any participant, member, beneficial owner or other Person (other than DTC) of any notice (including any notice of redemption) or the payment of any amount or delivery of any Notes (or other security or property) under or with respect to such Notes. All notices and communications to be given to the Holders and all payments to be made to Holders in respect of the Notes shall be given or made only to or upon the order of the registered Holders (which shall be DTC or its nominee in the case of a Global Note). The rights of beneficial owners in any Global Note shall be exercised only through DTC subject to the applicable rules and procedures of DTC. The Trustee may conclusively rely and shall be fully protected in conclusively relying upon information furnished by DTC with respect to its members, participants and any beneficial owners.

(ii) The Trustee shall have no obligation or duty to monitor, determine or inquire as to compliance with any restrictions on transfer or exchange imposed under this Indenture or under applicable law with respect to any transfer or exchange of any interest in any Note (including any transfers between or among DTC participants, members or beneficial owners in any Global Note) other than to require delivery of such certificates and other documentation or evidence as are expressly required by, and to do so if and when expressly required by, the express terms of this Indenture, to examine the same to determine if it substantially complies on its face as to form with the express requirements hereof, and to notify the party delivering the same if the certificate does not so comply.

Section 2.10 Mutilated, Destroyed, Lost or Stolen Notes.

(a) If a mutilated Note is surrendered to the Registrar or if the Holder of a Note claims that the Note has been lost, destroyed or wrongfully taken and if the requirements of Section 8-405 of the Uniform Commercial Code of the State of New York are met, the Company

shall execute and upon Company Order the Trustee shall authenticate a replacement Note if the Holder satisfies any other reasonable requirements of the Trustee. If required by the Trustee or the Company, such Holder shall furnish an affidavit of loss and indemnity bond sufficient in the judgment of the Company and the Trustee to protect the Company, the Trustee, the Paying Agent, the Registrar and any co-Registrar from any loss that any of them may suffer if a Note is replaced, and, in the absence of notice to the Company or a Trust Officer of the Trustee that such Note has been acquired by a protected purchaser (as defined in Section 8-303 of the Uniform Commercial Code of the State of New York), the Company shall execute and upon Company Order the Trustee shall authenticate and make available for delivery, in exchange for any such mutilated Note or in lieu of any such destroyed, lost or stolen Note, a new Note of like tenor and principal amount, bearing a number not contemporaneously Outstanding.

(b) Upon the issuance of any new Note under this Section 2.10, the Company, the Trustee and the Registrar may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Company's counsel, the Trustee and its counsel) in connection therewith.

(c) In case any mutilated, destroyed or wrongfully taken Note has become or is about to become due and payable, the Company may, in its discretion, pay such Notes instead of issuing a new Note in replacement thereof.

(d) Every new Note issued pursuant to this Section 2.10 in exchange for any mutilated Note, or in lieu of any destroyed, lost or stolen Note, shall constitute an original additional contractual obligation of the Company and any other obligor upon the Notes, and shall be entitled to all benefits of this Indenture equally and proportionately with any and all other Notes duly issued hereunder.

(e) The provisions of this Section 2.10 shall be exclusive and shall be in lieu of, to the fullest extent permitted by applicable law, all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Notes.

Section 2.11 Temporary Notes. Until definitive Notes are ready for delivery, the Company may execute and upon Company Order the Trustee shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of definitive Notes but may have variations that the Company considers appropriate for temporary Notes. Without unreasonable delay, the Company shall prepare and execute and upon Company Order the Trustee shall authenticate definitive Notes. After the preparation of definitive Notes, the temporary Notes shall be exchangeable for definitive Notes upon surrender of the temporary Notes at any office or agency maintained by the Company for that purpose and such exchange shall be without charge to the Holder. Upon surrender for cancellation of any one or more temporary Notes, the Company shall execute and upon Company Order the Trustee shall authenticate and make available for delivery in exchange therefor one or more definitive Notes representing an equal principal amount of Notes. Until so exchanged, the Holder of temporary Notes shall in all respects be entitled to the same benefits under this Indenture as a Holder of definitive Notes.

Section 2.12 Cancellation. The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and the Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel and dispose of cancelled Notes in accordance with its customary procedures or return to the Company all Notes surrendered for registration of transfer, exchange, payment or cancellation. Subject to Section 2.10, the Company may not issue new Notes to replace Notes it has paid or delivered to the Trustee for cancellation for any reason other than in connection with a transfer or exchange upon Company Order.

Section 2.13 Defaulted Interest. When any installment of interest becomes Defaulted Interest, such installment shall forthwith cease to be payable to the Holders in whose names the Notes were registered on the Record Date applicable to such installment of interest. Defaulted Interest (including any interest on such Defaulted Interest) may be paid by the Company, at its election, as provided in Section 2.13(a) or Section 2.13(b).

(a) The Company may elect to make payment of any Defaulted Interest (including any interest on such Defaulted Interest) to the Holders in whose names the Notes are registered at the close of business on a special record date for the payment of such Defaulted Interest (a "Special Record Date"), which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Holders entitled to such Defaulted Interest as provided in this Section 2.13(a). Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest, which shall be not more than 15 calendar days and not less than ten calendar days prior to the date of the proposed payment and not less than ten calendar days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be sent, first-class mail, postage prepaid, to each Holder at such Holder's address as it appears in the registration books of the Registrar, not less than ten calendar days prior to such Special Record Date. Notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor having been mailed as aforesaid, such Defaulted Interest shall be paid to the Holders in whose names the Notes are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to Section 2.13(b).

(b) Alternatively, the Company may make payment of any Defaulted Interest (including any interest on such Defaulted Interest) in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Section 2.13(b) such manner of payment shall be deemed practicable by the Trustee.

Section 2.14 Additional Notes. The Company may, from time to time, subject to compliance with any other applicable provisions of this Indenture, without the consent of the

Holders, create and issue pursuant to this Indenture Additional Notes having terms and conditions set forth in Exhibit A identical to those of the Initial Notes, except that Additional Notes:

- (a) may have a different issue price, issue date and, if applicable, date from which the interest shall accrue from the Initial Notes;
- (b) may have a different amount of interest payable on the first Interest Payment Date after issuance than is payable on the Initial Notes; and
- (c) may have terms specified in the Additional Note Board Resolution or Additional Note Supplemental Indenture for such Additional Notes making appropriate adjustments to this Article II and Exhibit A (and related definitions) applicable to such Additional Notes in order to conform to and ensure compliance with the Securities Act (or other applicable securities laws).

ARTICLE III  
COVENANTS

Section 3.1 Payment of Notes.

(a) The Company shall pay the principal of and interest (including Defaulted Interest) on the Notes in U.S. Dollars on the dates and in the manner provided in the Notes and in this Indenture. Prior to 11:00 a.m. (New York City time) on the Business Day prior to each Interest Payment Date and the Maturity Date, the Company shall deposit with the Paying Agent in immediately available funds U.S. Dollars sufficient to make cash payments due on such Interest Payment Date or Maturity Date, as the case may be. If the Company or an Affiliate of the Company is acting as Paying Agent, the Company or such Affiliate shall, prior to 11:00 a.m. (New York City time) on each Interest Payment Date and the Maturity Date, segregate and hold in trust U.S. Dollars sufficient to make cash payments due on such Interest Payment Date or Maturity Date, as the case may be. Principal and interest shall be considered paid on the date due if on such date the Trustee or the Paying Agent (other than the Company or an Affiliate of the Company) holds in accordance with this Indenture U.S. Dollars designated for and sufficient to pay all principal and interest then due and the Trustee or the Paying Agent, as the case may be, is not prohibited from paying such money to the Holders on that date pursuant to the terms of this Indenture. Notwithstanding the foregoing, the Company may elect to make the payments of interest by check mailed to the registered Holders at their registered addresses.

(b) If a Holder of Certificated Notes in an aggregate principal amount of at least U.S.\$1,000,000 has given wire transfer instructions to the Company and the Trustee, the Trustee, as Paying Agent, shall make all principal and interest payments on those Notes in accordance with such instructions.

(c) Notwithstanding anything to the contrary contained in this Indenture, the Company may, to the extent it is required to do so by law, deduct or withhold income or other

similar taxes imposed by the United States of America from principal or interest payments hereunder.

Section 3.2 Maintenance of Office or Agency.

(a) The Company shall maintain each office or agency required under Section 2.3 where Notes may be presented or surrendered for registration of transfer or for exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of any such office or agency.

(b) The Company may also from time to time designate one or more other offices or agencies (in or outside of The City of New York) where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind any such designation; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in The City of New York or, so long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and the rules of such Exchange so require, in Luxembourg, for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and any change in the location of any such other office or agency.

Section 3.3 Corporate Existence. Subject to Article IV, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence and good standing under the BVI Business Companies Act, 2004.

Section 3.4 Payment of Taxes. The Company shall pay or discharge or cause to be paid or discharged, before the same shall become delinquent, all taxes, assessments and governmental charges (including stamp or other issuance or transfer taxes) or duties levied or imposed upon the Company or any Subsidiary or for which it or any of them are otherwise liable, or upon the income, profits or property of the Company or any Subsidiary, and the Company shall reimburse the Trustee and Holders for any fines, penalties or other fees they are required to pay as a result of the failure by the Company or any Subsidiary to pay or discharge any of the abovementioned taxes, assessments and government charges; *provided, however*, that, other than with respect to any taxes or duties described herein that would become payable by the Trustee or the Holders in the event the Company or any Subsidiary fails to pay such taxes or duties, the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment or charge whose amount, applicability or validity is being contested in good faith by appropriate proceedings and for which appropriate reserves, if necessary (in the good faith judgment of management of the Company), are being maintained in accordance with GAAP or where the failure to effect such payment shall not have a material adverse effect upon the financial condition of the Company and its Subsidiaries, taken as a whole, or on the performance of the Company's obligations hereunder.

Section 3.5 Further Instruments and Acts. The Company and each Subsidiary Guarantor shall execute and deliver such further instruments and do such further acts as may be reasonably necessary or proper or as may be required by applicable law to carry out more effectively the purpose of this Indenture.

Section 3.6 Waiver of Stay, Extension or Usury Laws. The Company and each Subsidiary Guarantor covenants (to the fullest extent permitted by applicable law) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay or extension law or any usury law or other law that would prohibit or forgive the Company or such Subsidiary Guarantor from paying all or any portion of the principal of or interest on the Notes as contemplated herein, wherever enacted, now or at any time hereafter in force, or which may affect the covenants or the performance of this Indenture. The Company and each Subsidiary Guarantor hereby expressly waives (to the fullest extent permitted by applicable law) all benefit or advantage of any such law, and covenants that it shall not hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law had been enacted.

Section 3.7 Change of Control.

(a) Upon the occurrence of a Change of Control Repurchase Event, the Company shall provide a Change of Control Notice and make an offer to purchase Notes (the "Change of Control Offer"), pursuant to which the Company shall be required, if requested by any Holder, to purchase all or a portion (in integral multiples of U.S.\$1,000, *provided* that the principal amount of such Holder's Note shall not be less than U.S.\$100,000) of such Holder's Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon through the purchase date (the "Change of Control Payment").

(b) On the Business Day immediately preceding the Change of Control Payment Date, the Company will, to the extent lawful, deposit with the Paying Agent funds in an amount equal to the Change of Control Payment, in respect of all Notes or portions thereof so tendered.

(c) On the Change of Control Payment Date, the Company shall, to the extent lawful:

(i) accept for payment all Notes or portions thereof properly tendered and not withdrawn pursuant to the Change of Control Offer; and

(ii) deliver or cause to be delivered to the Trustee the Notes so accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions thereof being purchased by the Company.

(d) If only a portion of a Note is purchased pursuant to a Change of Control Offer, a new Note in a principal amount equal to the portion thereof not purchased shall be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note shall be made, as appropriate). Notes (or portions thereof) purchased pursuant to a Change of Control Offer shall be cancelled and cannot be reissued.

(e) The Company shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other applicable securities laws and regulations thereunder in connection with the purchase of Notes in connection with a Change of Control Offer. To the extent that the provisions of any applicable securities laws or regulations conflict with this Section 3.7, the

Company shall comply with such securities laws and regulations and shall not be deemed to have breached its obligations under this Indenture by doing so.

(f) The Company shall not be required to make a Change of Control Offer upon a Change of Control Repurchase Event if (i) a third party makes the Change of Control Offer in compliance with the conditions and requirements of this Indenture and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (ii) prior to the date the Change of Control Offer is required to be made, the Company has given notice of redemption in respect of all of the Outstanding Notes in accordance with this Indenture.

(g) The provisions of this Section 3.7 shall be applicable whether or not any other provisions of this Indenture are applicable. The obligation of the Company to make an offer to purchase the Notes as a result of the occurrence of a Change of Control Repurchase Event may be waived or modified at any time prior to the occurrence of such Change of Control Repurchase Event with the written consent of Holders of a majority in principal amount of the Notes.

Section 3.8 Limitation on Liens.

The Company shall not, and shall not cause or permit any of its Subsidiaries to, directly or indirectly, Incur any Liens of any kind (except for Permitted Liens) against or upon any of their respective properties or assets, whether owned on the Issue Date or acquired after the Issue Date, or any proceeds therefrom, to secure any Indebtedness, unless contemporaneously therewith effective provision is made to secure the Notes, the Subsidiary Guarantees and all other amounts due under the Indenture equally and ratably with such Indebtedness (or, in the event that such Indebtedness is subordinated in right of payment to the Notes or the Subsidiary Guarantees prior to such Indebtedness) with a Lien on the same properties and assets securing such Indebtedness for so long as such Indebtedness is secured by such Lien.

Section 3.9 Limitation on Sale and Lease-Back Transactions.

(a) The Company shall not, and shall not permit any of its Subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any property of such Person, unless either:

(i) the Company or that Subsidiary would be entitled pursuant to Section 3.8 of this Indenture (including any exception to the restrictions set forth therein) to issue, assume or guarantee Indebtedness secured by a Lien on any such property at least equal in amount to the Attributable Debt with respect to such Sale and Lease-Back Transaction, without equally and ratably securing the Notes, or

(ii) the Company or that Subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the property so leased, to (1) the retirement, within 12 months after the effective date of the Sale and Lease-Back Transaction, of any of the Company's

Indebtedness ranking at least *pari passu* with the Notes or Indebtedness of any Subsidiary, in each case owing to a Person other than the Company or any of its Subsidiaries or (2) to the acquisition, purchase, construction or improvement of real property or personal property used or to be used by the Company or any of its Subsidiaries in the ordinary course of business.

- (b) These restrictions will not apply to:
  - (i) transactions providing for a lease term, including any renewal, of not more than three years; and
  - (ii) transactions between the Company and any of its Subsidiaries or between the Company's Subsidiaries.

Section 3.10 Reports to Holders.

(a) If at any point the Company is no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, so long as any Notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Company will furnish to the Holders of the Notes and to prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

(b) If at any point the Company is no longer subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, the Company will furnish or cause to be furnished to the Trustee in English (for distribution only to the Holders of Notes upon their request):

(i) within 90 days after the end of the first, second and third quarters of the Company's fiscal year (commencing with the quarter ending immediately following the Company no longer being subject to such reporting requirements), quarterly unaudited financial statements (consolidated) prepared in accordance with GAAP of the Company for such period; and

(ii) within 120 days after the end of the fiscal year of the Company (commencing with the first fiscal year ending immediately following the Company no longer being subject to such reporting requirements), annual audited financial statements (consolidated) prepared in accordance with GAAP of the Company for such fiscal year and a report on such annual financial statements by the Auditors.

(c) Delivery of such reports, information and documents to the Trustee is for informational purposes only and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Company's compliance with any of its covenants hereunder (as to which the Trustee is entitled to rely exclusively on Officers' Certificates).

Section 3.11 Listing.

(a) In the event that the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, the Company shall use its commercially reasonable efforts to maintain such listing; *provided* that if, as a result of the European Union regulated market amended Directive 2001/34/EC (the “Transparency Directive”) or any legislation implementing the Transparency Directive or other directives or legislation, the Company could be required to publish financial information either more regularly than it otherwise would be required to or according to accounting principles which are materially different from the accounting principles which the Company would otherwise use to prepare its published financial information, the Company may delist the Notes from the Luxembourg Stock Exchange in accordance with the rules of such Exchange and seek an alternative admission to listing, trading and/or quotation for the Notes on a different section of the Luxembourg Stock Exchange or by such other listing authority, stock exchange and/or quotation system inside or outside the European Union as the Board of Directors of the Company may decide.

(b) From and after the date the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and so long as it is required by the rules of such Exchange, all notices to the Holders shall be published in English in accordance with Section 11.1(b).

Section 3.12 Payment of Additional Amounts.

(a) The Company, and each Subsidiary Guarantor, shall, subject to the exceptions set forth below, pay to Holders of the Notes additional amounts (“Additional Amounts”) as may be necessary so that every net payment of interest, premium upon redemption of the Notes or principal to the Holders shall not be less than the amount provided for in the Notes. The term “net payment” means the amount that the Company, any Subsidiary Guarantor or a Paying Agent pays any Holder after deducting or withholding an amount for or on account of any present or future taxes, duties, assessments or other governmental charges imposed with respect to that payment by the British Virgin Islands or any jurisdiction where the Company or any Subsidiary Guarantor is incorporated, resident or doing business for tax purposes or from or through which any payment in respect of the Notes is made by the paying agent or the Company, or any political subdivision thereof (a “Relevant Jurisdiction”), or by any taxing authority of a Relevant Jurisdiction.

(b) The Company, and each Subsidiary Guarantor, shall not pay Additional Amounts to any Holder for or solely on account of any of the following:

(i) any present or future taxes, duties, assessments or other governmental charges that would not have been imposed but for any present or former connection between the Holder (or a fiduciary, settlor, beneficiary, member or shareholder of the Holder) and the Relevant Jurisdiction (other than the mere receipt of a payment or the ownership or holding of a Note);

(ii) any estate, inheritance, capital gains, excise, personal property tax, sales, transfer, gift or similar tax, assessment or other governmental charge imposed with respect to the Notes;

(iii) any taxes, duties, assessments or other governmental charges that would not have been imposed but for the failure of the Holder or any other Person to comply with any certification, identification or other reporting requirement concerning the nationality, residence, identity or connection with the Relevant Jurisdiction, for tax purposes, of the Holder or any beneficial owner of the Note if compliance is required by law, regulation or by an applicable income tax treaty to which the Relevant Jurisdiction is a party, as a precondition to exemption from, or reduction in the rate of, the tax, assessment or other governmental charge (including withholding taxes payable on interest payments under the Notes) and the Company has given the Holders at least 30 days' notice that Holders will be required to provide such certification, identification or information;

(iv) any tax, duty, assessment or other governmental charge payable otherwise than by deduction or withholding from payments on or in respect of the Notes;

(v) any present or future taxes, duties, assessments or other governmental charges with respect to a Note presented for payment, where presentation is required, more than 30 days after the date on which the payment became due and payable or the date on which payment thereof is duly provided for, whichever occurs later, except to the extent that the Holder of such Note would have been entitled to such Additional Amounts on presenting such Note for payment on any date during such 30-day period;

(vi) any withholding or deduction that is required to be made pursuant to EC Council Directive 2003/48/EC or any other Directive implementing the conclusions of the ECOFIN Council meeting of November 26-27, 2000 on the taxation of savings income, or any law implementing or complying with, or introduced in order to conform to, such Directive;

(vii) any tax, assessment or other governmental charge required to be withheld by any paying agent from any payment of the principal of, or premium or interest on any Note, if such tax, assessment or other governmental charge results from the presentation of any Note for payment and the payment can be made without such withholding or deduction by the presentation of the Note for payment by at least one other available paying agent of the Company;

(viii) any payment on the Note to a Holder that is a fiduciary, a partnership, a limited liability company or a person other than the sole beneficial owner of any such payment, to the extent that a beneficiary or settlor with respect to such fiduciary, a member of such a partnership, an interestholder in such a limited liability company or the beneficial owner of the payment would not have been entitled to the Additional Amounts had the beneficiary, settlor, member or beneficial owner been the Holder of the Note; or

(ix) in the case of any combination of the items listed above.

(c) Upon request, the Company or any Subsidiary Guarantor, as applicable, shall provide the Trustee with documentation reasonably satisfactory to the Trustee evidencing the payment of taxes in respect of which the Company or such Subsidiary Guarantor has paid any Additional Amount.

(d) Any reference in this Indenture or the Notes to principal, premium, interest or any other amount payable in respect of the Notes by us will be deemed also to refer to any Additional Amount that may be payable with respect to that amount under the obligations referred to in this section.

(e) In the event of any merger or other transaction described and permitted under Section 4.1, all references to the British Virgin Islands, the laws or regulations of the British Virgin Islands, and the political subdivisions or taxing authorities of the British Virgin Islands under this Section 3.12 and under Article IV and Section 5 of Exhibit A will be deemed to also include the jurisdiction of incorporation or tax residence of the Surviving Entity, if different from the British Virgin Islands, and any political subdivision therein or thereof, law or regulations, and any taxing authority of such other jurisdiction or any political subdivision therein or thereof, respectively.

Section 3.13 Compliance Certificates.

(a) Upon the formation, creation or acquisition of any new Subsidiary that is also an Excluded Subsidiary after the Issue Date, the Company shall deliver to the Trustee promptly an Officers' Certificate certifying that such Subsidiary is prevented by local law or the existence of minority shareholders from guaranteeing the Notes.

(b) The Trustee shall not be obligated to monitor or confirm, on a continuing basis or otherwise, the Company's or any other Person's compliance with the covenants described above or with respect to any reports or other documents filed under this Indenture; *provided, however*, that nothing herein shall relieve the Trustee of any obligations to monitor the Company's timely delivery of the reports and certificates described in Section 3.10.

ARTICLE IV

LIMITATION ON MERGER, CONSOLIDATION AND SALE OF ASSETS

Section 4.1 Merger, Consolidation and Sale of Assets.

(a) The Company shall not, in a single transaction or series of related transactions, consolidate or merge with or into any Person (whether or not the Company is the surviving or continuing Person), or sell, assign, transfer, lease, convey or otherwise dispose of (or cause or permit any Subsidiary to sell, assign, transfer, lease, convey or otherwise dispose of) all or substantially all of the Company's properties and assets (determined on a consolidated basis for the Company and its Subsidiaries), to any Person unless:

- (i) either:
  - (1) the Company is the surviving or continuing Person; or

(2) the Person (if other than the Company) formed by such consolidation or into which the Company is merged or the Person which acquires by sale, assignment, transfer, lease, conveyance or other disposition the properties and assets of the Company and of the Company's Subsidiaries substantially as an entirety (the "Surviving Entity"):

(A) is a corporation organized and validly existing under the laws of the British Virgin Islands or the United States of America, any State thereof or the District of Columbia; and

(B) expressly assumes, by supplemental indenture (in form and substance satisfactory to the Trustee), executed and delivered to the Trustee, the due and punctual payment of the principal of, and premium, if any, and interest on all of the Notes and the performance and observance of the covenants of the Notes and the Indenture on the part of the Company to be performed or observed;

(ii) immediately before and immediately after giving effect to such transaction, no Default or Event of Default has occurred or is continuing;

(iii) if the surviving or Continuing Person is not the Company, each Subsidiary Guarantor has confirmed by supplemental indenture that its Subsidiary Guarantee will apply for the obligations of the Surviving Entity in respect of the Indenture and the Notes; and

(iv) the Company or the Surviving Entity has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that the consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if required in connection with such transaction, the supplemental indenture(s), if any, comply with the applicable provisions of the Indenture and that all conditions precedent in the Indenture relating to the transaction have been satisfied.

(b) For purposes of this Section 4.1, the transfer (by lease, assignment, sale or otherwise, in a single transaction or series of transactions) of all or substantially all of the properties or assets of one or more Subsidiaries of the Company, the Capital Stock of which constitutes all or substantially all of the properties and assets of the Company (determined on a consolidated basis for the Company and its Subsidiaries), shall be deemed to be the transfer of all or substantially all of the properties and assets of the Company.

(c) The provisions of Section 4.1(a)(ii) above shall not apply to any merger or consolidation of the Company into an Affiliate of the Company incorporated solely for the purpose of reincorporating the Company in another jurisdiction so long as the Indebtedness of the Company and its Subsidiaries taken as a whole is not increased thereby.

(d) Section 4.1(a), Section 4.1(b) and Section 4.1(c) shall not apply to (i) any transfer of assets between the Company and any Subsidiary and (ii) any transfer of assets among or between Subsidiaries.

(e) Upon any consolidation, combination or merger or any transfer of all or substantially all of the properties and assets of the Company and its Subsidiaries in accordance with this covenant, in which the Company is not the continuing Person, the Surviving Entity formed by such consolidation or into which the Company is merged or to which such conveyance, lease or transfer is made will succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture and the Notes with the same effect as if such Surviving Entity had been named as such and the Company shall be relieved of its obligations under this Indenture and the Notes. For the avoidance of doubt, compliance with this Section 4.1(e) will not affect the obligations of the Company (including a Surviving Entity, if applicable) under Section 3.7 if applicable.

(f) No Subsidiary Guarantor shall consolidate with or merge with or into any Person, or sell, convey, transfer or dispose of, all or substantially all its assets as an entirety or substantially as an entirety, in one transaction or a series of related transactions, to any Person, or permit any Person to merge with or into the Subsidiary Guarantor unless:

(i) the other Person is the Company or any Subsidiary that is a Subsidiary Guarantor or becomes a Subsidiary Guarantor concurrently with the transaction; or

(ii) (1) either (x) the Subsidiary Guarantor is the continuing Person or (y) the resulting, surviving or transferee Person expressly assumes by supplemental indenture all of the obligations of the Subsidiary Guarantor under its Subsidiary Guarantee; and (2) immediately after giving effect to the transaction, no Default has occurred and is continuing; or

(iii) the transaction constitutes a sale or other disposition (including by way of consolidation or merger) of the Subsidiary Guarantor or the sale or disposition of all or substantially all the assets of the Subsidiary Guarantor (in each case other than to the Company or a Subsidiary) otherwise permitted by this Indenture.

## ARTICLE V

### REDEMPTION OF NOTES

Section 5.1 Redemption. The Company may or shall redeem the Notes, as a whole or from time to time in part, subject to the conditions and at the redemption prices specified in the form of Notes in Exhibit A.

Section 5.2 Election to Redeem. In the case of an optional redemption, the Company shall evidence its election to redeem any Notes pursuant to Section 5.1 by a Board Resolution.

Section 5.3 Notice of Redemption.

(a) The Company shall give or cause the Trustee to give notice of redemption, in the manner provided for in Section 11.1, not less than 30 nor more than 60 days prior to the Redemption Date to each Holder of Notes to be redeemed. If the Company itself gives the notice, it shall also deliver a copy to the Trustee.

(b) If the Company elects to have the Trustee give notice of redemption, then the Company shall deliver to the Trustee, at least 45 days prior to the Redemption Date (unless the Trustee is satisfied with a shorter period), an Officers' Certificate requesting that the Trustee request that DTC (in the case of Global Notes) give notice of redemption and setting forth the information required by Section 5.3(c). If the Company elects to have the Trustee give notice of redemption, the Trustee shall give the notice in the name of the Company and at the Company's expense.

(c) All notices of redemption shall state:

(i) the Redemption Date;

(ii) the redemption price and the amount of any accrued interest payable as provided in Section 5.6;

(iii) whether or not the Company is redeeming all Outstanding Notes;

(iv) if the Company is not redeeming all Outstanding Notes, the aggregate principal amount of Notes that the Company is redeeming and the aggregate principal amount of Notes that shall be Outstanding after the partial redemption, as well as the identification of the particular Notes, or portions of the particular Notes, that the Company is redeeming;

(v) if the Company is redeeming only part of a Note, the notice that relates to that Note shall state that on and after the Redemption Date, upon surrender of that Note, the Holder shall receive, without charge, a new Note or Notes of authorized denominations for the principal amount of the Note remaining unredeemed;

(vi) that on the Redemption Date the redemption price and any accrued interest payable to but not including the Redemption Date as provided in Section 5.6 shall become due and payable in respect of each Note, or the portion of each Note, to be redeemed, and, unless the Company defaults in making the redemption payment, that interest on each Note, or the portion of each Note, to be redeemed shall cease to accrue on and after the Redemption Date;

(vii) the place or places where a Holder must surrender the Holder's Notes for payment of the redemption price; and

(viii) the CUSIP or ISIN number, if any, listed in the notice or printed on the Notes, and that no representation is made as to the accuracy or correctness of such CUSIP or ISIN number.

Section 5.4      Selection of Notes to Be Redeemed in Part.

(a)      If fewer than all of the Notes are being redeemed, the Notes to be redeemed shall be selected as follows: (1) if the Notes are listed on an exchange, in compliance with the requirements of such exchange, (2) if the Notes are not so listed but are Global Notes, then by lot or otherwise in accordance with the procedures of DTC or the applicable depository or (3) if the Notes are not so listed and are not Global Notes, on a pro rata basis to the extent practicable, or, if the pro rata basis is not practicable for any reason, by lot or by such other method as the Trustee in its sole discretion shall deem fair and appropriate. In the event of partial redemption or purchase by lot, the particular Notes to be redeemed or purchased shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the redemption date by the Trustee from the then outstanding Notes not previously called for redemption or purchase. The Trustee shall promptly notify the Company in writing of the Notes selected for redemption or purchase. Notes and portions of Notes selected shall be in amounts of \$100,000 and integral multiples of \$1,000 in excess thereof; no Notes of \$100,000 or less shall be redeemed in part, except that if all of the Notes of a Holder are to be redeemed or purchased, the entire outstanding amount of Notes held by such Holder, even if not \$100,000 or a multiple of \$1,000 in excess thereof, shall be redeemed or purchased. Except as provided in the preceding sentence, provisions of this Indenture that apply to Notes called for redemption or purchase also apply to portions of Notes called for redemption or purchase. After the redemption date, upon surrender of a Note to be redeemed in part only, a new Note or Notes in principal amount equal to the unredeemed portion of the original Note, representing the same Indebtedness to the extent not redeemed, shall be issued in the name of the Holder of the Notes upon cancellation of the original Note (or appropriate book entries shall be made to reflect such partial redemption).

(b)      For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to redemption of Notes shall relate, in the case of any Note redeemed or to be redeemed only in part, to the portion of the principal amount of that Note which has been or is to be redeemed.

Section 5.5      Deposit of Redemption Price. Prior to 11:00 a.m. New York City time on the Business Day prior to the relevant Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as Paying Agent, segregate and hold in trust as provided in Section 2.4) an amount of money in immediately available funds sufficient to pay the redemption price and accrued interest on all the Notes that the Company is redeeming on that date.

Section 5.6      Notes Payable on Redemption Date. If the Company, or the Trustee on behalf of the Company, gives notice of redemption in accordance with this Article V, the Notes, or the portion of Notes, called for redemption shall, on the Redemption Date, become due and payable at the redemption price specified in the notice (together with accrued interest, if any, to the Redemption Date) and from and after the Redemption Date (unless the Company shall default in the payment of the redemption price and accrued interest) the Notes, or the portion of Notes, shall cease to bear interest. Upon surrender of any Note for redemption in accordance with the notice, the Company shall pay the Notes at the redemption price, together with accrued interest, if any, to the Redemption Date. If the Company shall fail to pay any Note called for

redemption upon its surrender for redemption, the principal shall, until paid, bear interest from the Redemption Date at the rate borne by the Notes. Upon redemption of any Notes by the Company, the redeemed Notes shall be cancelled and cannot be reissued.

Section 5.7 Unredeemed Portions of Partially Redeemed Note. Upon surrender of a Note that is to be redeemed in part, the Company shall execute, and the Trustee shall authenticate and make available for delivery to the Holder of the Note at the expense of the Company, a new Note or Notes, of any authorized denomination as requested by the Holder, in an aggregate principal amount equal to, and in exchange for, the unredeemed portion of the principal of the Note surrendered; *provided* that each new Note shall be in a principal amount of U.S.\$100,000 or integral multiples of U.S.\$1,000 excess thereof.

## ARTICLE VI

### DEFAULTS AND REMEDIES

#### Section 6.1 Events of Default

(a) Each of the following is an “Event of Default” with respect to the Notes:

(i) default in the payment when due of the principal of or premium, if any, on (including, in each case, any related Additional Amounts) any Notes, including the failure to make a required payment to purchase Notes tendered pursuant to an optional redemption, mandatory redemption or a Change of Control Offer;

(ii) default for 30 days or more in the payment when due of interest (including any related Additional Amounts) on any Notes;

(iii) the failure by the Company or any Subsidiary to comply with any other covenant or agreement contained herein or in the Notes for 60 days or more after written notice to the Company from the Trustee or the Holders of at least 25% in aggregate principal amount of the Outstanding Notes;

(iv) default by the Company or any Significant Subsidiary under any indebtedness for borrowed money which:

(1) is caused by a failure to pay principal of or premium, if any, or interest on such indebtedness for borrowed money prior to the expiration of any applicable grace period provided in such indebtedness for borrowed money on the date of such default; or

(2) results in the acceleration of such indebtedness for borrowed money prior to its Stated Maturity;

and the principal or accreted amount of indebtedness for borrowed money covered by (1) or (2) at the relevant time, (i) in the case of any or all Venezuelan Subsidiaries aggregates U.S.\$50,000,000 (or the equivalent in other currencies) or (ii) in the case of

the Company and all other Significant Subsidiaries (other than any and all Venezuelan Subsidiaries, aggregates U.S.\$40,000,000 (or the equivalent in other currencies) or more;

(v) failure by the Company or any of its Significant Subsidiaries to pay one or more final judgments against any of them, (i) in the case of any and all Venezuelan Subsidiaries aggregating U.S.\$50,000,000 (or the equivalent in other currencies) or (ii) in the case of the Company and all other Significant Subsidiaries (other than any and all Venezuelan Subsidiaries), aggregating U.S.\$40,000,000 (or the equivalent in other currencies) or more, which are not paid, discharged or stayed for a period of 60 days or more (to the extent not covered by a reputable and creditworthy insurance company);

(vi) either Master Franchise Agreement shall, for any reason, be terminated; *provided* that no Call Option Redemption Event shall have occurred;

(vii) the occurrence of a Bankruptcy Law Event of Default; or

(viii) except as permitted herein, any Subsidiary Guarantee is held to be unenforceable or invalid in a judicial proceeding or ceases for any reason to be in full force and effect or any Subsidiary Guarantor denies or disaffirms its obligations under its Subsidiary Guarantee; *provided* that the Subsidiary Guarantee of a Subsidiary Guarantor becoming unenforceable or invalid as a result of a change in law shall not constitute an Event of Default hereunder.

(b) Upon becoming aware of any Default or Event of Default, the Company shall deliver to the Trustee written notice of events which would constitute such Default or Event of Default, the status thereof and what action the Company is taking or proposes to take in respect thereof.

Section 6.2 Acceleration.

(a) If an Event of Default (other than an Event of Default specified in Section 6.1(a)(vi) or Section 6.1(a)(vii) with respect to the Company) has occurred and is continuing, the Trustee or the Holders of at least 25% in principal amount of Outstanding Notes may declare the unpaid principal of and premium, if any, and accrued and unpaid interest on all the Notes to be immediately due and payable by notice in writing to the Company (if given by the Trustee or the Holders) and the Trustee (if given by the Holders) specifying the Event of Default and that it is a "notice of acceleration." If an Event of Default specified in Section 6.1(a)(vi) or Section 6.1(a)(vii) occurs with respect to the Company, then the unpaid principal of and premium, if any, and accrued and unpaid interest on all the Notes shall become immediately due and payable without any declaration or other act on the part of the Trustee or any Holder.

(b) At any time after a declaration of acceleration with respect to the Notes as described in Section 6.2(a), the Holders of a majority in aggregate principal amount of the then Outstanding Notes may rescind and cancel such declaration and its consequences:

(i) if the rescission would not conflict with any judgment or decree;

(ii) if all existing Events of Default have been cured or waived, except nonpayment of principal or interest that has become due solely because of the acceleration;

(iii) to the extent the payment of such interest is lawful, interest on overdue installments of interest and overdue principal, which has become due otherwise than by such declaration of acceleration, has been paid; and

(iv) if the Company has paid the Trustee its compensation and reimbursed the Trustee for its expenses, disbursements and advances outstanding at that time.

No rescission shall affect any subsequent Default or impair any rights relating thereto.

Section 6.3 Other Remedies.

(a) If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal of and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

(b) The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. No remedy is exclusive of any other remedy. All available remedies are cumulative to the extent permitted by law.

Section 6.4 Waiver of Past Defaults. Subject to Section 6.2, the Holders of a majority in aggregate principal amount of the then Outstanding Notes may waive any existing Default or Event of Default hereunder, and its consequences, except a Default in the payment of the principal of, premium, if any, or interest on any Notes.

Section 6.5 Control by Majority. Subject to the provisions of this Indenture and applicable law, the Holders of a majority in aggregate principal amount of the then Outstanding Notes may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee.

Section 6.6 Limitation on Suits.

(a) No Holder of any Notes shall have any right to institute any proceeding with respect hereto or for any remedy hereunder, unless:

(i) such Holder gives to the Trustee written notice of a continuing Event of Default;

(ii) Holders of at least 25% in aggregate principal amount of the then Outstanding Notes make a written request to pursue the remedy;

(iii) such Holders of the Notes provide to the Trustee satisfactory indemnity;

(iv) the Trustee does not comply within 60 days; and

(v) during such 60 day period the Holders of a majority in aggregate principal amount of the then Outstanding Notes do not give the Trustee a written direction which, in the opinion of the Trustee, is inconsistent with the request;

*provided* that a Holder of a Note may institute suit for enforcement of payment of the principal of and premium, if any, or interest on such Note on or after the respective due dates expressed in such Note. Notwithstanding any provision of this Indenture to the contrary, no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb, or prejudice the rights of any other of such Holders (it being understood that the Trustee does not have an affirmative duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Holders).

Section 6.7 Rights of Holders to Receive Payment. Notwithstanding any other provision hereof (including, without limitation, Section 6.6), the right of any Holder to receive payment of principal of or interest on the Notes held by such Holder, on or after the respective due dates, Redemption Dates or repurchase date expressed herein or the Notes, or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 6.8 Collection Suit by Trustee. If an Event of Default specified in Section 6.1(a)(i) and Section 6.1(a)(ii) occurs and is continuing, the Trustee may recover judgment in its own name and as trustee of an express trust against the Company for the whole amount then due and owing (together with applicable interest on any overdue principal and, to the extent lawful, interest on overdue interest) and the amounts provided for in Section 7.7.

Section 6.9 Trustee May File Proofs of Claim, etc.

(a) In case of any judicial proceeding relative to the Company (or any other obligor upon the Notes), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under applicable law in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee may (irrespective of whether the principal of the Notes is then due):

(i) file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee and the Holders under this Indenture and the Notes allowed in any bankruptcy, insolvency, liquidation or other judicial proceedings relative to the Company, any Subsidiary Guarantor or any Subsidiary of the Company or their respective creditors or properties; and

(ii) collect and receive any moneys or other property payable or deliverable in respect of any such claims and distribute them in accordance with this Indenture.

Any receiver, trustee, liquidator, sequestrator (or other similar official) in any such proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, taxes, disbursements and advances of the Trustee, its agent and counsel, and any other amounts due to the Trustee pursuant to Section 7.7.

(b) Nothing in this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder thereof, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.10 Priorities. If the Trustee collects any money or property pursuant to this Article VI, it shall pay out the money or property in the following order:

FIRST: to the Trustee for amounts due under Section 7.7;

SECOND: to Holders for amounts due and unpaid on the Notes for principal and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal and interest, respectively; and

THIRD: to the Company or, to the extent the Trustee collects any amount pursuant to any Subsidiary Guarantee from any Subsidiary Guarantor, to such Subsidiary Guarantor.

The Trustee may, upon notice to the Company, fix a record date and payment date for any payment to Holders pursuant to this Section 6.10.

Section 6.11 Undertaking for Costs. All parties agree, and each Holder by its acceptance of its Notes shall be deemed to have agreed, that in any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section 6.11 does not apply to a suit by the Trustee, a suit by the Company, a suit by a Holder pursuant to Section 6.7 or a suit by Holders of more than 10% in principal amount of Outstanding Notes.

## ARTICLE VII

### TRUSTEE

Section 7.1 Duties of Trustee.

(a) If a Default or an Event of Default has occurred and is continuing, the Trustee shall exercise the rights and powers vested in it by this Indenture and use the same

degree of care and skill in its exercise thereof as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of a Default or an Event of Default:

(i) the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, in the case of any such certificates or opinions, which by any provisions hereof are specifically required to be furnished to the Trustee, the Trustee shall examine such certificates and opinions to determine whether or not they conform to the requirements of this Indenture (it being understood that the Trustee need not confirm or investigate the accuracy of mathematical calculations or other facts stated therein).

except that: (c) The Trustee may not be relieved from liability for its own negligent action, its own negligent failure to act or its own willful misconduct,

(i) this Section 7.1(c) does not limit the effect of Section 7.1(b);

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Trust Officer unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.2, Section 6.5 or Section 6.8 or any other provision of this Indenture.

(d) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company.

(e) Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

(f) No provision hereof shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder or in the exercise of any of its rights or powers, if it shall have reasonable grounds to believe that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it.

(g) Every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Article VII.

(h) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(i) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request, order or direction of any of the Holders unless such Holders shall have offered to the Trustee indemnity and/or security reasonably satisfactory to it against the costs, expenses (including reasonable attorneys' fees and expenses) and liabilities that might be incurred by it in compliance with such request or direction.

Section 7.2 Rights of Trustee.

Subject to Section 7.1:

(a) The Trustee may conclusively rely and shall be fully protected in acting or refraining from acting upon any document, instrument, opinion, direction, order, notice or request reasonably believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in such document, instrument, opinion, direction, order, notice or request.

(b) Before the Trustee acts or refrains from acting at the direction of the Company, it may require an Officers' Certificate, advice of counsel and/or an Opinion of Counsel, and such Officers' Certificate, advice and/or Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken or omitted to be taken by it hereunder. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on an Officers' Certificate, advice of counsel and/or Opinion of Counsel.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith which it believes to be authorized or within its rights or powers; *provided, however*, that the Trustee's conduct does not constitute willful misconduct or negligence.

(e) The Trustee may consult with counsel of its selection, and the advice or opinion of counsel with respect to legal matters relating to this Indenture and the Notes shall be full and complete authorization and protection from liability in respect to any action taken, omitted or suffered by it hereunder in good faith and in accordance with the advice or opinion of such counsel.

(f) The Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled, upon notice to the Company, to examine the books, records and premises of the Company, personally or by agent or attorney at

the sole cost of the Company and shall incur no liability or additional liability of any kind by reason of such inquiry or investigation.

(g) The Trustee shall not be deemed to have notice of any Default or Event of Default (other than payment default under Section 6.1(a)(i) or Section 6.1(a)(ii)) unless a Trust Officer of the Trustee has actual knowledge thereof or unless written notice of any event which is in fact such a Default or Event of Default is received by the Trustee at the Corporate Trust Office of the Trustee, and such notice references the Notes and this Indenture. For purposes of determining the Trustee's responsibility and liability hereunder, whenever reference is made in this Indenture to a Default or Event of Default, such reference shall be construed to refer only to such Default or Event of Default for which the Trustee is deemed to have notice pursuant to this Section 7.2(g).

(h) The rights, privileges, protections, immunities and benefits given to the Trustee, including, without limitation, its right to be indemnified, are extended to, and shall be enforceable by, the Trustee in each of its capacities hereunder, and to each agent, custodian and other Person employed to act hereunder.

(i) In no event shall the Trustee be responsible or liable for special, indirect, or consequential loss or damage of any kind whatsoever (including, without limitation, loss of profit) irrespective of whether the Trustee has been advised of the likelihood of such loss or damage and regardless of the form of action.

(j) The Trustee may request that the Company deliver an Officers' Certificate setting forth the names of individuals and/or titles of officers authorized at such time to take specified actions pursuant to this Indenture, which Officers' Certificate may be signed by any person authorized to sign an Officers' Certificate, including any person specified as so authorized in any such certificate previously delivered and not superseded.

(k) The permissive rights of the Trustee enumerated herein shall not be construed as duties.

(l) The Trustee shall not be responsible or liable for any failure or delay in the performance of its obligations under this Indenture arising out of or caused, directly or indirectly, by circumstances beyond its reasonable control, including without limitation, acts of God; earthquakes; fires; floods; wars; civil or military disturbances; sabotage; epidemics; riots; interruptions, loss or malfunctions of utilities, computer (hardware or software) or communications service, accidents; labor disputes; acts of civil or military authority or governmental actions (it being understood that the Trustee shall use its best efforts to resume performance as soon as practicable under the circumstances).

(m) The Trustee or its Affiliates are permitted to receive additional compensation that could be deemed to be in the Trustee's economic self-interest for (i) serving as investment adviser, administrator, shareholder, servicing agent, custodian or subcustodian with respect to certain of the Cash Equivalents, (ii) using Affiliates to effect transactions in certain Cash Equivalents and (iii) effecting transactions in certain Cash Equivalents. Such compensation is not payable or reimbursable under Section 7.7 of this Indenture.

(n) The Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys.

(o) To the extent permitted by applicable law, the Trustee shall not be required to give any bond or surety in respect of the execution of this Indenture or otherwise.

(p) To help fight the funding of terrorism and money laundering activities, the Trustee will obtain, verify, and record information that identifies individuals or entities that establish a relationship or open an account with the Trustee. The Trustee will ask for the name, address, tax identification number and other information that will allow the Trustee to identify the individual or entity who is establishing the relationship or opening the account. The Trustee may also ask for formation documents such as articles of incorporation, an offering memorandum, or other identifying documents to be provided.

(q) Notwithstanding anything to the contrary herein, any and all communications (both text and attachments) by or from the Trustee that the Trustee in its sole discretion deems to contain confidential, proprietary, and/or sensitive information and sent by electronic mail will be encrypted. The recipient of the email communication will be required to complete a one-time registration process. Information and assistance on registering and using the email encryption technology can be found at the Trustee's secure website [www.citigroup.net/informationsecurity/dataprotect.htm](http://www.citigroup.net/informationsecurity/dataprotect.htm) or by calling (866) 535-2504 (in the U.S.) or (904) 954-6181 at any time.

Section 7.3 Individual Rights of Trustee. The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any of its Affiliates with the same rights it would have if it were not Trustee. Any Paying Agent, Registrar or co-Registrar may do the same with like rights. However, the Trustee must comply with Section 7.10.

Section 7.4 Trustee's Disclaimer. The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes, and it shall not be responsible for any statement of the Company in this Indenture or in any document issued in connection with the sale of the Notes or in the Notes other than the Trustee's certificate of authentication, except that the Trustee represents that it is duly authorized to execute and deliver this Indenture, authenticate the Notes and perform its obligations hereunder.

Section 7.5 Notice of Defaults. If a Default occurs hereunder with respect to the Notes, the Trustee shall promptly give the Holders of the Notes notice of such Default. In addition, if a Default or Event of Default occurs and is continuing and if it is a payment default or a Trust Officer has actual knowledge thereof, or has received written notice thereof pursuant to Section 7.2(g) the Trustee shall mail to each Holder, with a copy to the Company, notice of the Default or Event of Default within 45 days after the occurrence thereof. Except in the case of a Default or Event of Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold the notice if and so long as a committee of its Trust Officers in good faith determines that withholding the notice is in the interests of the Holders.

Section 7.6 Reports by Trustee to Holders. The Trustee shall notify Holders of any Defaults under this Indenture pursuant to Section 7.5. The Company agrees to promptly notify the Trustee whenever the Notes become listed on any stock exchange and of any delisting thereof.

Section 7.7 Compensation and Indemnity.

(a) The Company shall pay to the Trustee from time to time reasonable compensation for its acceptance of this Indenture and services hereunder as the Company and the Trustee shall from time to time agree in writing. The Trustee's compensation shall not be limited by any law on compensation of a trustee of an express trust. The Company shall reimburse the Trustee upon request for all reasonable out-of-pocket expenses incurred or made by it in connection with the performance of its duties under this Indenture, except for any such expense as may arise from the Trustee's negligence, willful misconduct or bad faith. Such expenses shall include the reasonable fees and expenses of the Trustee's agents and counsel.

(b) The Company shall indemnify the Trustee and its officers, directors, employees and agents against any and all loss, damage, claim, liability or expense (including reasonable attorneys' fees and expenses) incurred by it without negligence, willful misconduct or bad faith on its part in connection with the acceptance or administration of this trust and the performance of its duties hereunder, including the costs and expenses of defending themselves (including reasonable attorney's fees and costs) against any claim or liability related to the exercise or performance of any of their powers or duties hereunder and under any other agreement or instrument related thereto. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel; *provided* that the Company shall not be required to pay such fees and expenses if it assumes the Trustee's defense, and, in the reasonable judgment of outside counsel to the Trustee, there is no conflict of interest between the Company and the Trustee in connection with such defense. The Company need not pay for any settlement made without its written consent.

(c) To secure the Company's payment obligations in this Section 7.7, the Trustee shall have a lien prior to the Notes on all money or property held or collected by the Trustee other than money or property held in trust to pay principal of and interest on particular Notes. The Trustee's right to receive payment of any amounts due under this Section 7.7 shall not be subordinate to any other liability or Indebtedness of the Company.

(d) The Company's payment obligations pursuant to this Section 7.7 shall survive the discharge of this Indenture and the resignation or removal of the Trustee. When the Trustee incurs expenses after the occurrence of a Bankruptcy Law Event of Default, the expenses are intended to constitute expenses of administration under any Bankruptcy Law; *provided, however*, that this shall not affect the Trustee's rights as set forth in this Section 7.7 or Section 6.10.

Section 7.8 Replacement of Trustee.

(a) The Trustee may resign at any time by so notifying the Company. In addition, the Holders of a majority in aggregate principal amount of the then Outstanding Notes may remove the Trustee by so notifying the Trustee and may appoint a successor Trustee. Moreover, if the Trustee is no longer eligible pursuant to Section 7.10 to act as such, or does not have a combined capital and surplus of at least U.S.\$50,000,000 as set forth in its most recent published annual report or does not have its corporate trust office in the City of New York, New York, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee. The Company shall remove the Trustee if:

- (i) the Trustee fails to comply with Section 7.10;
- (ii) the Trustee is adjudged bankrupt or insolvent;
- (iii) a receiver or other public officer takes charge of the Trustee or its property; or
- (iv) the Trustee otherwise becomes incapable of acting.

(b) If the Trustee resigns or is removed by the Company or by the Holders of a majority in principal amount of the then Outstanding Notes and such Holders do not reasonably promptly appoint a successor Trustee, or if a vacancy exists in the office of the Trustee for any reason (the Trustee in such event being referred to herein as the retiring Trustee), the Company shall promptly appoint a successor Trustee.

(c) A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon the resignation or removal of the retiring Trustee shall become effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders and, so long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of such Exchange so require, the successor Trustee shall also publish notice as described in Section 11.1. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee, subject to the lien provided for in Section 7.7.

(d) If a successor Trustee does not take office within 30 days after the retiring Trustee resigns or is removed, the retiring Trustee or the Holders of 10% in principal amount of the Outstanding Notes may petition, at the Company's expense, any court of competent jurisdiction for the appointment of a successor Trustee.

(e) If the Trustee fails to comply with Section 7.10, any Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

(f) Notwithstanding the replacement of the Trustee pursuant to this Section 7.8, the Company's obligations under Section 7.7 shall continue for the benefit of the retiring Trustee.

Section 7.9 Successor Trustee by Merger.

(a) If the Trustee consolidates with, merges or converts into, or transfers all or substantially all its corporate trust business or assets to, another corporation or national banking association, the resulting, surviving or transferee corporation without any further act shall be the successor Trustee; *provided* that such Persons shall be otherwise qualified and eligible under this Article VII.

(b) In case at the time such successor or successors to the Trustee shall succeed to the trusts created by this Indenture, any of the Notes shall have been authenticated but not delivered, any such successor to the Trustee may adopt the certificate of authentication of any predecessor trustee, and deliver such Notes so authenticated; and in case at that time any of the Notes shall not have been authenticated, any successor to the Trustee may authenticate such Notes either in the name of any predecessor hereunder or in the name of the successor to the Trustee; and in all such cases such certificates shall have the full force which it is anywhere in the Notes or in this Indenture provided that the certificate of the Trustee shall have.

Section 7.10 Eligibility.

The Trustee shall have a combined capital and surplus of at least U.S.\$50,000,000 as set forth in its most recent published annual report of condition.

Section 7.11 Paying Agent, Registrar and Luxembourg Paying Agent. The rights, protections and immunities granted to the Trustee under this Article VII shall apply *mutatis mutandis* to the Paying Agent, Registrar, any Authenticating Agent and the Luxembourg Paying Agent.

ARTICLE VIII

DEFEASANCE; DISCHARGE OF INDENTURE

Section 8.1 Legal Defeasance and Covenant Defeasance.

(a) The Company may, at its option, at any time, upon compliance with the conditions set forth in Section 8.2, elect to have either Section 8.1(b) or Section 8.1(c) be applied to its obligations with respect to all Outstanding Notes and all obligations of the Subsidiary Guarantors under the Subsidiary Guarantees.

(b) Upon the Company's exercise under Section 8.1(a) of the option applicable to this Section 8.1(b), the Company shall, subject to the satisfaction of the conditions set forth in Section 8.2, be deemed to have paid and discharged the entire indebtedness represented by the Outstanding Notes and Subsidiary Guarantees on the 91<sup>st</sup> day after the deposit specified in Section 8.2(a) (hereinafter, "Legal Defeasance"). For this purpose, Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Indebtedness represented by the Outstanding Notes, which shall thereafter be deemed to be Outstanding only for the purposes of the sections of this Indenture referred to in clause (i) or (ii) of this Section 8.1(b), and the Company shall have been deemed to have satisfied all their other

obligations under such Notes, and hereunder (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions, which shall survive until otherwise terminated or discharged hereunder:

- (i) the rights of Holders to receive solely from the trust described in Section 8.2(a) below, as more fully set forth in such section, payments in respect of the principal of, premium, if any, and interest on the Notes when such payments are due,
- (ii) the Company's obligations with respect to such Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payments,
- (iii) the rights, powers, trusts, duties and immunities of the Trustee as described in Article VII and hereunder and the Company's obligations in connection therewith, and
- (iv) this Article VIII.

Subject to compliance with this Article VIII, the Company may exercise its option under this Section 8.1(b) notwithstanding the prior exercise of its option under Section 8.1(c).

(c) Upon the Company's exercise under Section 8.1(a) of the option applicable to this Section 8.1(c), the Company and its Restricted Subsidiaries shall be, subject to the satisfaction of the applicable conditions set forth in Section 8.2, released and discharged from their obligations under the covenants (including, without limitation, the obligations contained in Section 3.4, Section 3.7, Section 3.8, Section 3.9, Section 3.10, Section 3.11, and Section 3.13 with respect to the Outstanding Notes and the operation of Sections 6.1(a)(iii), (iv), (v), (vi), (vii) but only as it applies to any Restricted Subsidiary, and (viii) shall terminate on and after the date the conditions set forth below are satisfied (hereinafter, "Covenant Defeasance"), and the Notes shall thereafter be deemed not Outstanding for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be Outstanding for all other purposes hereunder (it being understood that such Notes shall not be deemed Outstanding for accounting purposes). For this purpose, such Covenant Defeasance means that, with respect to the Outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event or Default with respect to the Notes or the Subsidiary Guarantees under Section 6.1, but, except as specified above, the remainder hereof and such Notes shall be unaffected thereby.

Section 8.2 Conditions to Defeasance. The Company may exercise its Legal Defeasance option or its Covenant Defeasance option only if:

(a) the Company has irrevocably deposited with the Trustee, in trust, for the benefit of the Holders cash in U.S. Dollars, certain direct non-callable obligations of, or guaranteed by, the United States, or a combination thereof, in such amounts as shall be sufficient

without reinvestment, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, and premium, if any, and interest on the Notes (including Additional Amounts) on the stated date for payment thereof or on the applicable redemption date, as the case may be;

(b) in the case of Legal Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from a nationally recognized law firm in the U.S. reasonably acceptable to the Trustee and independent of the Company to the effect that:

- (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling; or
- (ii) since the Issue Date, there has been a change in the applicable U.S. federal income tax law;

in either case to the effect that, and based thereon such Opinion of Counsel shall state that, the Holders shall not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Legal Defeasance and shall be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of Covenant Defeasance, the Company has delivered to the Trustee an Opinion of Counsel from a nationally recognized law firm in the U.S. reasonably acceptable to the Trustee and independent of the Company to the effect that the Holders shall not recognize income, gain or loss for U.S. federal income tax purposes as a result of such Covenant Defeasance and shall be subject to U.S. federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Default or Event of Default has occurred and is continuing on the date of the deposit pursuant to Section 8.2(a);

(e) the Company has delivered to the Trustee an Officers' Certificate stating that such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under this Indenture or any other material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(f) the Company has delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or any Subsidiary of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company or others;

(g) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Company, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with; and

(h) the Company has delivered to the Trustee an Opinion of Counsel from U.S. counsel reasonably acceptable to the Trustee and independent of the Company to the effect that the trust funds shall not be subject to the effect of any applicable bankruptcy, insolvency, reorganization or similar laws affecting creditors' rights generally.

Section 8.3 Application of Trust Money. The Trustee shall hold in trust U.S. Dollars or U.S. Government Obligations deposited with it pursuant to this Article VIII. It shall apply the deposited money and the U.S. Dollars from U.S. Government Obligations, together with earnings thereon, through the Paying Agent and in accordance with this Indenture to the payment of principal of and interest on the Notes.

Section 8.4 Repayment to Company.

(a) The Trustee and the Paying Agent shall promptly turn over to the Company upon request any excess money or securities held by them upon payment of all the obligations under this Indenture.

(b) Subject to any applicable abandoned property law, the Trustee and the Paying Agent shall pay to the Company upon request any money held by them for the payment of principal of or interest on the Notes that remains unclaimed for two years, and, thereafter, Holders entitled to the money must look to the Company for payment as general creditors.

Section 8.5 Indemnity for U.S. Government Obligations. The Company shall pay and shall indemnify the Trustee against any tax, fee or other charge imposed on or assessed against U.S. Government Obligations or the principal and interest received on such U.S. Government Obligations deposited with the Trustee pursuant to this Article VIII.

Section 8.6 Reinstatement. If the Trustee or Paying Agent is unable to apply any U.S. Dollars or U.S. Government Obligations in accordance with this Article VIII by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the obligations of the Company under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to this Article VIII until such time as the Trustee or Paying Agent is permitted to apply all such U.S. Dollars or U.S. Government Obligations in accordance with this Article VIII; *provided, however*, that, if the Company has made any payment of principal of or interest on any Notes because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the U.S. Dollars or U.S. Government Obligations held by the Trustee or Paying Agent.

Section 8.7 Satisfaction and Discharge. This Indenture shall be discharged and shall cease to be of further effect (except as to surviving rights or registration of transfer or exchange of the Notes, as expressly provided for herein) as to all Outstanding Notes, and the Trustee, on written demand of and at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when:

(a) either:

(i) all the Notes theretofor, authenticated and delivered (except lost, stolen or destroyed Notes which have been replaced or paid and Notes for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust) have been delivered to the Trustee for cancellation; or

(ii) all Notes not theretofor delivered to the Trustee for cancellation have become due and payable and the Company has irrevocably deposited or caused to be deposited with the Trustee funds or U.S. Government Obligations sufficient without reinvestment to pay and discharge the entire Indebtedness on the Notes not theretofor delivered to the Trustee for cancellation, for principal of, premium, if any, and accrued and unpaid interest on the Notes to the date of deposit (in the case of Notes that have become due and payable) or to the maturity or Redemption Date, as the case may be, together with irrevocable instructions from the Company directing the Trustee to apply such funds to the payment;

(b) the Company has paid all other sums payable under this Indenture and the Notes by the Company; and

(c) the Company has delivered to the Trustee an Officers' Certificate stating that all conditions precedent under this Indenture relating to the satisfaction and discharge of this Indenture have been complied with.

## ARTICLE IX

### AMENDMENTS

#### Section 9.1 Without Consent of Holders.

(a) The Company, the Subsidiary Guarantors and the Trustee may amend, modify or supplement this Indenture and the Notes without notice to or consent of any Holder:

- (i) to cure any ambiguity, omission, defect or inconsistency contained in this Indenture or the Notes;
- (ii) to provide for the assumption by a Surviving Entity of the obligations of the Company or a Subsidiary Guarantor under this Indenture;
- (iii) add any place of payment where the principal of or interest on the Notes is payable;
- (iv) to add Subsidiary Guarantees or additional guarantees with respect to the Notes or release the Subsidiary Guarantee in accordance with the terms of this Indenture;
- (v) to secure the Notes;

- Company;
- (vi) to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company;
  - (vii) to provide for the issuance of Additional Notes in accordance with the terms hereof;
  - (viii) to conform the terms of this Indenture, the Subsidiary Guarantees or the Notes with the description thereof set forth in the “Description of the Notes” section of the Offering Memorandum dated September 24, 2013 relating to the Original Offering of Notes;
  - (ix) to evidence the replacement of the Trustee as provided for under this Indenture;
  - (x) if necessary, in connection with any release of any security permitted under this Indenture;
  - (xi) to provide for uncertificated Notes in addition to or in place of certificated Notes; or
  - (xii) to make any other changes which do not adversely affect the rights of any Holder in any material respect.

(b) In formulating its opinion on the foregoing, the Trustee shall be entitled to rely on such evidence as it deems appropriate, including, without limitation, solely on an Opinion of Counsel and an Officers’ Certificate.

(c) After an amendment under this Section 9.1 becomes effective, the Company shall mail to Holders a notice briefly describing such amendment. The failure to give such notice to all Holders, or any defect therein, shall not impair or affect the validity of an amendment under this Section 9.1.

Section 9.2 With Consent of Holders.

(a) Modifications to, amendments of, and supplements to, this Indenture or the Notes not set forth under Section 9.1 may be made with the consent of the Holders of a majority in principal amount of the then Outstanding Notes issued under this Indenture, except that, without the consent of each Holder affected thereby, no amendment may:

- (i) reduce the percentage of the principal amount of the Notes whose Holders must consent to an amendment, supplement or waiver;
- (ii) reduce the rate of or change or have the effect of changing the time for payment of interest on any Notes;
- (iii) change any place of payment where the principal of or interest on the Notes is payable;

(iv) reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor;

(v) make any Notes payable in money other than that stated in the Notes;

(vi) make any change in the provisions of this Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on such Notes on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default;

(vii) amend, change or modify in any material respect any obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control Repurchase Event that has occurred;

(viii) eliminate or modify in any manner the obligations of a Subsidiary Guarantor with respect to its Subsidiary Guarantee, which adversely affects Holders in any material respect, except as contemplated in this Indenture;

(ix) make any change to Section 3.12 that adversely affects the rights of any Holder or amend the terms of the Notes in a way that would result in a loss of exemption from any applicable taxes; or

(x) make any change to the provisions of this Indenture or the Notes that adversely affects the ranking of the Notes (for the avoidance of doubt, a change to the covenants described in Section 3.8 and Section 3.9 does not adversely affect the ranking of the Notes).

Section 9.3 Revocation and Effect of Consents and Waivers.

(a) A consent to an amendment, supplement or waiver by a Holder of a Note shall bind the Holder and every subsequent Holder of that Note or portion of the Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent or waiver is not made on the Note. However, any such Holder or subsequent Holder may revoke the consent or waiver as to such Holder's Note or portion of the Note if the Trustee receives the notice of revocation before the date the amendment, supplement or waiver becomes effective. After an amendment, supplement or waiver becomes effective, it shall bind every Holder, except as otherwise provided in this Article IX. An amendment, supplement or waiver under Section 9.2 shall become effective upon receipt by the Trustee of the requisite number of written consents under Section 9.2.

(b) The Company may, but shall not be obligated to, fix a record date for the purpose of determining the Holders entitled to give their consent or take any other action described above or required or permitted to be taken pursuant to this Indenture. If a record date is fixed, then notwithstanding the immediately preceding paragraph, those Persons who were Holders at such record date (or their duly designated proxies), and only those Persons, shall be

entitled to give such consent or to revoke any consent previously given or to take any such action, whether or not such Persons continue to be Holders after such record date. No such consent shall be valid or effective for more than 90 days after such record date.

Section 9.4 Notation on or Exchange of Notes. If an amendment or supplement changes the terms of a Note, the Trustee may require the Holder of the Note to deliver it to the Trustee. The Trustee may place an appropriate notation on the Note regarding the changed terms and return it to the Holder. Alternatively, if the Company or the Trustee so determines, the Company in exchange for the Note shall execute and upon Company Order the Trustee shall authenticate a new Note that reflects the changed terms. Failure to make the appropriate notation or to issue a new Note shall not affect the validity of such amendment or supplement.

Section 9.5 Trustee to Sign Amendments and Supplements. The Trustee shall sign any amendment or supplement authorized pursuant to this Article IX if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. If it does, the Trustee may but need not sign it. In signing such amendment or supplement the Trustee shall be entitled to receive indemnity reasonably satisfactory to it and to receive, and (subject to Section 7.1 and Section 7.2) shall be fully protected in conclusively relying upon, such evidence as it deems appropriate, including, without limitation, the documents required by Section 11.2 and solely on an Opinion of Counsel and Officers' Certificate, each stating that such amendment or supplement is authorized or permitted hereby.

## ARTICLE X

### SUBSIDIARY GUARANTEES

#### Section 10.1 Subsidiary Guarantees

(a) Each Subsidiary Guarantor hereby fully and unconditionally guarantees on a general unsecured senior basis, as primary obligor and not merely as surety, jointly and severally with each other Subsidiary Guarantor, to each Holder and to the Trustee the full and punctual payment when due, whether at maturity, by acceleration, by redemption or otherwise, of the principal, interest, premium, Additional Amounts, penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the Notes, Subsidiary Guarantees and the Indenture (such guaranteed obligations, the "Guaranteed Obligations"). Each Subsidiary Guarantor further agrees (to the extent permitted by law) that the Guaranteed Obligations may be extended or renewed, in whole or in part, without notice or further assent from it, and that it will remain bound under this Article X notwithstanding any extension or renewal of any Guaranteed Obligation. Each Subsidiary Guarantor hereby agrees to pay, in addition to the amounts stated above, any and all expenses (including reasonable counsel fees and expenses) incurred by the Trustee or the Holders in enforcing any rights under any Subsidiary Guarantee.

(b) Each Subsidiary Guarantor waives presentment to, demand of payment from and protest to the Company of any of the Guaranteed Obligations and also waives notice of protest for nonpayment. Each Subsidiary Guarantor waives notice of any default under the Notes or the Guaranteed Obligations. The obligations of each Subsidiary Guarantor hereunder shall not be affected by (i) the failure of any Holder to assert any claim or demand or to enforce

any right or remedy against the Company or any other Person under this Indenture, the Notes or any other agreement or otherwise; (ii) any extension or renewal of any thereof; (iii) any rescission, waiver, amendment or modification of any of the terms or provisions of this Indenture, the Notes or any other agreement; (iv) the release of any security held by any Holder or the Trustee for the Guaranteed Obligations or any of them; (v) the failure of any Holder to exercise any right or remedy against any other Subsidiary Guarantor; or (vi) any change in the ownership of the Company.

(c) Each Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein constitutes a guarantee of payment when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder to any security held for payment of the Guaranteed Obligations.

(d) Each of the Subsidiary Guarantors further expressly waives irrevocably and unconditionally:

(i) Any right it may have to first require any Holder to proceed against, initiate any actions before a court of law or any other judge or authority, or enforce any other rights or security or claim payment from the Company or any other Person (including any Subsidiary Guarantor or any other guarantor) before claiming from it under this Indenture;

(ii) Any rights to the benefits of *orden*, *excusión*, *división*, *quita* and *espera* arising from Articles 2814, 2815, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2826, 2837, 2839, 2840, 2845, 2846, 2847 and any other related or applicable Articles that are not explicitly set forth herein because of the Subsidiary Guarantor's knowledge thereof, of the *Código Civil Federal* of Mexico and the *Código Civil* of each State of the Mexican Republic and for the Federal District of Mexico;

(iii) Any right to which it may be entitled to have the assets of the Company or any other Person (including any Subsidiary Guarantor or any other guarantor) first be used, applied or depleted as payment of the Company's or the Subsidiary Guarantors' obligations hereunder, prior to any amount being claimed from or paid by any of the Subsidiary Guarantors hereunder; and

(iv) Any right to which it may be entitled to have claims hereunder divided between the Subsidiary Guarantors.

(e) The obligations of each Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than payment of the Guaranteed Obligations in full), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of each Subsidiary Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder to assert any claim or demand or to enforce any remedy under this Indenture, the Notes or any other agreement, by any waiver or

modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Guaranteed Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of such Subsidiary Guarantor or would otherwise operate as a discharge of such Subsidiary Guarantor as a matter of law or equity.

(f) Each Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any of the Guaranteed Obligations is rescinded or must otherwise be restored by any Holder upon the bankruptcy, or reorganization of the Company or otherwise.

(g) In furtherance of the foregoing and not in limitation of any other right which any Holder has at law or in equity against each Subsidiary Guarantor by virtue hereof, upon the failure of the Company to pay any of the Guaranteed Obligations when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, each Subsidiary Guarantor hereby promises to and will, upon receipt of written demand by the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders an amount equal to the sum of:

(i) the unpaid amount of such Guaranteed Obligations then due and owing; and

(ii) accrued and unpaid interest on such Guaranteed Obligations then due and owing (but only to the extent not prohibited by law).

(h) Each Subsidiary Guarantor further agrees that, as between such Subsidiary Guarantor, on the one hand, and the Holders, on the other hand:

(i) the maturity of the Guaranteed Obligations guaranteed hereby may be accelerated as provided in this Indenture for the purposes of its Subsidiary Guarantee herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Guaranteed Obligations guaranteed hereby; and

(ii) in the event of any such declaration of acceleration of such Guaranteed Obligations, such Guaranteed Obligations (whether or not due and payable) shall forthwith become due and payable by such Subsidiary Guarantor for the purposes of its Subsidiary Guarantee.

Section 10.2 Limitation on Liability; Termination, Release and Discharge

(a) The obligations of each Subsidiary Guarantor hereunder shall be limited to the maximum amount as shall, after giving effect to all other contingent and fixed liabilities of such Subsidiary Guarantor and after giving effect to any collections from or payments made by or on behalf of any other Subsidiary Guarantor in respect of the obligations of such other Subsidiary Guarantor under its Subsidiary Guarantee or pursuant to its contribution obligations under this Indenture, result in the Guaranteed Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law.

(b) Each Subsidiary Guarantor shall be released and relieved of its obligations under its Subsidiary Guarantee in the event that:

(i) there is a Legal Defeasance or a Covenant Defeasance of the Notes Pursuant to Article VIII;

(ii) there is a sale or other disposition (including through a consolidation or merger) of Capital Stock of such Subsidiary Guarantor following which such Subsidiary Guarantor is no longer a direct or indirect Subsidiary of the Company;

(iii) there is a sale of all or substantially all of the assets of such Subsidiary Guarantor (including by way of merger, stock purchase, asset sale or otherwise) to a Person that is not (either before or after giving effect to such transaction) the Company or a Subsidiary Guarantor; or

(iv) there is a satisfaction and discharge of this Indenture pursuant to Section 8.7;

*provided*, in each case, such transactions are carried out pursuant to and in accordance with all applicable covenants and provisions hereof.

Section 10.3 Right of Contribution. Each Subsidiary Guarantor that makes a payment or distribution under a Subsidiary Guarantee will be entitled to a contribution from each other Subsidiary Guarantor in a pro rata amount, based on the net assets of each Subsidiary Guarantor determined in accordance with GAAP. The provisions of this Section 10.3 shall in no respect limit the obligations and liabilities of each Subsidiary Guarantor to the Trustee and the Holders and each Subsidiary Guarantor shall remain liable to the Trustee and the Holders for the full amount guaranteed by such Subsidiary Guarantor hereunder.

Section 10.4 No Subrogation. Each Subsidiary Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Guaranteed Obligations until payment in full in cash or Cash Equivalents of all Guaranteed Obligations. If any amount shall be paid to any Subsidiary Guarantor on account of such subrogation rights at any time when all of the Guaranteed Obligations shall not have been paid in full in cash or Cash Equivalents, such amount shall be held by such Subsidiary Guarantor in trust for the Trustee and the Holders, segregated from other funds of such Subsidiary Guarantor, and shall, forthwith upon receipt by such Subsidiary Guarantor, be turned over to the Trustee in the exact form received by such Subsidiary Guarantor (duly endorsed by such Subsidiary Guarantor to the Trustee, if required), to be applied against the Guaranteed Obligations.

Section 10.5 Additional Subsidiary Guarantees

(a) The Company covenants and agrees that, if at any time after the date hereof any Subsidiary of the Company is incorporated, formed or acquired under the laws of Argentina, Brazil, Mexico Puerto Rico or Venezuela, other than an Unlevered Subsidiary, and such Subsidiary is not prevented from becoming a Subsidiary Guarantor because of local laws or the existence of minority shareholders (an “Excluded Subsidiary”), the Company shall, after becoming aware of such event, (i) promptly notify the Trustee in writing of such event and (ii) cause such Subsidiary (an “Additional Subsidiary Guarantor”) concurrently to become a Subsidiary Guarantor on a general unsecured senior basis (promptly following the determination in accordance with the terms of this Indenture that such Subsidiary is a Subsidiary Guarantor) by executing a supplemental indenture substantially in the form of Exhibit E hereto and providing the Trustee with an Officers’ Certificate and to comply in all respects with the provisions of this Indenture and the Notes, as applicable; *provided, however*, that each Additional Subsidiary Guarantor will be automatically and unconditionally released and discharged from its obligations under such additional note guarantee (“Additional Note Guarantee”) only in accordance with Section 10.2; and *provided further* that no Officers’ Certificate shall be required solely pursuant to this Section 10.5(a) on the Issue Date.

(b) The Company shall notify, in accordance with Section 11.1, the Holders of any execution of a supplemental indenture pursuant to and in accordance with Section 10.5(a); *provided* that no notice shall be required solely pursuant to this Section 10.5(b) as a result of the execution of any supplemental indenture pursuant to and in accordance with Section 10.5(a) on the Issue Date.

(c) To the extent otherwise permitted under this Indenture, the Company may form, create or acquire new Subsidiaries under the laws of Argentina, Brazil, Mexico, Puerto Rico or Venezuela that may also be Excluded Subsidiaries, to the extent they are prevented from local law or the existence of minority shareholders from guaranteeing the Notes; *provided* that the Company provides the Trustee with an Officer’s Certificate certifying that such subsidiary is prevented by local law or the existence of minority shareholders from guaranteeing the Notes.

ARTICLE XI

MISCELLANEOUS

Section 11.1 Notices.

(a) Any notice or communication shall be in writing and delivered in Person, by telecopy or mailed by first-class mail, postage prepaid, addressed as follows:

if to the Company or any Subsidiary Guarantor:

Arcos Dorados Holdings Inc.  
Roque Saenz Peña 432, Olivos  
Buenos Aires, Argentina (B1636 FFB)  
Attention: Chief Financial Officer  
Fax No.: +54 11 4711 2094 (2059)

if to the Trustee:

Citibank, N.A.  
480 Washington Boulevard, 30<sup>th</sup> Floor, Jersey City, New Jersey 07310  
Attention: Global Transaction Services, Arcos Dorados  
Fax No.: +1 212-816-5527

if to the Luxembourg Paying Agent:

Banque Internationale à Luxembourg  
69 route d'Esch, L-1470 Luxembourg  
Attention: Transaction Execution Group  
Fax No.: + 352-4590-4227

The Company or the Trustee by notice to the other may designate additional or different addresses for subsequent notices or communications.

(b) From and after the date the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market, and so long as required by the rules of such Exchange, all notices to Holders of Notes shall be published in English:

- (i) in a leading newspaper having a general circulation in Luxembourg; or
- (ii) on the website of the Luxembourg stock exchange at [www.bourse.lu/notices](http://www.bourse.lu/notices).

(c) Notices to Holders of non-Global Notes shall be mailed to them by first-class mail by the Company or, at the Company's request, by the Trustee. Notices to Holders of Global Notes shall be given to DTC in accordance with its applicable procedures.

(d) Notices shall be deemed to have been given on the date of delivery to DTC or mailing, as applicable, or of publication as aforesaid in Section 11.1(b) or, if published on different dates, on the date of the first such publication. In addition, notices shall be delivered to Holders of Notes at their registered addresses.

(e) Any notice or communication mailed to a registered Holder shall be mailed to the Holder at the Holder's address as it appears on the registration books of the Registrar and shall be sufficiently given if so mailed within the time prescribed.

(f) Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders. If a notice or communication is mailed in the manner provided above, it is duly given, whether or not the addressee receives it.

Section 11.2 Certificate and Opinion as to Conditions Precedent. Upon any request or application by the Company to the Trustee to take or refrain from taking any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of the signers, all conditions precedent, if any, provided for in this Indenture relating to the proposed action have been complied with; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee stating that, in the opinion of such counsel, all such conditions precedent have been complied with.

Section 11.3 Statements Required in Officers' Certificate or Opinion of Counsel. Each certificate or opinion, including each Officers' Certificate or Opinion of Counsel with respect to compliance with a covenant or condition provided for in this Indenture shall include:

(a) a statement that the individual making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(d) a statement as to whether or not, in the opinion of such individual, such covenant or condition has been complied with.

In giving an Opinion of Counsel, counsel may rely as to factual matters on an Officers' Certificate or on certificates of public officials.

Section 11.4 Rules by Trustee, Paying Agent and Registrar. The Trustee may make reasonable rules for action by, or a meeting of, Holders. The Registrar and the Paying Agent may make reasonable rules for their functions.

Section 11.5 Legal Holidays. A "Legal Holiday" is a Saturday, a Sunday or other day on which commercial banks and foreign exchange markets are authorized or obligated to be closed in New York City, United States. If a payment date is a Legal Holiday, payment shall be made on the next succeeding Business Day, and no interest shall accrue for the intervening period. If a regular record date is a Legal Holiday, the record date shall not be affected.

Section 11.6 Governing Law, etc.

(a) THIS INDENTURE, THE NOTES AND THE SUBSIDIARY GUARANTEES SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

(b) EACH OF PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING AS BETWEEN THE COMPANY AND THE TRUSTEE (BUT NOT THE HOLDERS OF THE NOTES) ARISING OUT OF OR RELATING TO THIS INDENTURE OR THE NOTES OR THE TRANSACTIONS CONTEMPLATED HEREBY.

(c) Each of the parties hereto:

(i) agrees that any suit, action or proceeding against it arising out of or relating to this Indenture or the Notes, as the case may be, may be instituted in any U.S. federal or New York state court sitting in The City of New York, New York,

(ii) irrevocably submits to the jurisdiction of such courts in any suit, action or proceeding,

(iii) waives, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding, any claim that any suit, action or proceeding in such a court has been brought in an inconvenient forum and any right to the jurisdiction of any other courts to which it may be entitled on account of place of residence or domicile, and

(iv) agrees that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding may be enforced in the courts of the jurisdiction of which it is subject by a suit upon judgment.

(d) The Company and each of the Subsidiary Guarantors has appointed National Registered Agents, Inc. with offices currently at 111 Eighth Avenue, New York, New York 10011, as its authorized agent (the "Authorized Agent") upon whom all writs, process and summonses may be served in any suit, action or proceeding arising out of or based upon this Indenture or the Notes which may be instituted in any New York state or U.S. federal court in The City of New York, New York. The Company and each of the Subsidiary Guarantors represents and warrants that the Authorized Agent has accepted such appointment and has agreed to act as said agent for service of process, and the Company and each Subsidiary Guarantor agree to take any and all action, including the filing of any and all documents, that may be necessary to continue each such appointment in full force and effect as aforesaid so long as the Notes remain outstanding. The Company and each Subsidiary Guarantor agree that the appointment of the Authorized Agent shall be irrevocable so long as any of the Notes remain outstanding or until the irrevocable appointment by the Company and each Subsidiary Guarantor of a successor agent in The City of New York, New York as their authorized agent for such purpose and the acceptance of such appointment by such successor. Service of process upon the Authorized Agent shall be

deemed, in every respect, effective service of process upon the Company and any Subsidiary Guarantor.

(e) To the extent that the Company or any Subsidiary Guarantor has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to itself or any of its property, the Company and each of the Subsidiary Guarantors hereby irrevocably waives and agrees not to plead or claim such immunity in respect of its obligations under this Indenture or the Notes.

(f) Nothing in this Section 11.6 shall affect the right of the Trustee or any Holder of the Notes to serve process in any other manner permitted by law.

Section 11.7 No Recourse Against Others. No past, present or future incorporator, director, officer, employee, shareholder or controlling person, as such, of the Company or any Subsidiary Guarantor shall have any liability for any obligations of the Company under the Notes, this Indenture or any Subsidiary Guarantee or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder shall waive and release all such liability. The waiver and release shall be part of the consideration for issuance of the Notes.

Section 11.8 Successors. All agreements of the Company or any Subsidiary Guarantor in this Indenture and the Notes shall bind its respective successors. All agreements of the Trustee in this Indenture shall bind its successors.

Section 11.9 Duplicate and Counterpart Originals. The parties may sign any number of copies of this Indenture. One signed copy is enough to prove this Indenture. This Indenture may be executed in any number of counterparts, each of which so executed shall be an original, but all of them together represent the same agreement. This Indenture may also be executed in Argentina via the exchange of an offer letter and an acceptance letter, and delivery of such letters shall be effective as delivery of an executed counterpart of this Indenture.

Section 11.10 Severability. In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 11.11 Currency Indemnity.

(a) U.S. Dollars is the sole currency of account and payment for all sums payable by the Company and any Subsidiary Guarantor, under or in connection with the Notes, this Indenture or any Subsidiary Guarantee. Any amount received or recovered in currency other than U.S. Dollars (whether as a result of, or of the enforcement of, a judgment or order of a court of any jurisdiction, in the winding-up or dissolution of the Company, any Subsidiary or otherwise) by any payee in respect of any sum expressed to be due to it from the Company and any Subsidiary Guarantor shall only constitute a discharge of it under the Notes, this Indenture and such Subsidiary Guarantee to the extent of the U.S. Dollars amount which such payee is able to purchase with the amount so received or recovered in that other currency on the date of that receipt or recovery (or, if it is not practicable to make that purchase on that date, on the first date

on which such payee is able to do so). If that U.S. Dollars amount is less than the U.S. Dollars amount expressed to be due to the recipient under the Notes, this Indenture, or the Subsidiary Guarantee, the Company and any Subsidiary Guarantor shall indemnify the recipient against any loss sustained by it in making any such purchase. In any event, the Company and the Subsidiary Guarantors shall indemnify each payee, to the greatest extent permitted under applicable law, against the cost of making any purchase of U.S. Dollars. For the purposes of this Section 11.11, it shall be sufficient for a payee to certify in a satisfactory manner that it would have suffered a loss had an actual purchase of U.S. Dollars been made with the amount received in that other currency on the date of receipt or recovery (or, if a purchase of U.S. Dollars on such date had not been practicable, on the first date on which it would have been practicable) and that the change of the purchase date was needed.

(b) The indemnities of the Company and any Subsidiary Guarantor contained in this Section 11.11, to the extent permitted by law: (i) constitute a separate and independent obligation from the other obligations of the Company and the Subsidiary Guarantors under this Indenture and the Notes; (ii) shall give rise to a separate and independent cause of action against the Company; (iii) shall apply irrespective of any indulgence granted by any Holder of the Notes or the Trustee from time to time; (iv) shall continue in full force and effect notwithstanding any other judgment, order, claim or proof for a liquidated amount in respect of any sum due under this Indenture, the Notes or any Subsidiary Guarantee; and (v) shall survive the termination of this Indenture.

Section 11.12 Table of Contents: Headings. The table of contents and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not intended to be considered a part hereof and shall not modify or restrict any of the terms or provisions hereof.

IN WITNESS WHEREOF, the parties have caused this Indenture to be duly executed as of the date first written above.

ARCOS DORADOS HOLDINGS INC.

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Authorized Signatory

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(Indenture)

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STATE OF NEW YORK        )  
                                      )  
COUNTY OF NEW YORK     )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Authorized Signatory of Arcos Dorados Holdings Inc., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ARCOS DORADOS B.V.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Authorized Signatory

(Indenture)

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Authorized Signatory of Arcos Dorados B.V., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ARCOS DOURADOS COMÉRCIO DE ALIMENTOS LTDA.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dourados Comércio de Alimentos Ltda., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ARCOS DOURADOS RESTAURANTES LTDA.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dourados Restaurantes Ltda., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

---

ARCOS SERCAL INMOBILIARIA, S. DE R.L. DE C.V.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos SerCal Inmobiliaria, S. de R.L. de C.V., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ARCOS SERCAL SERVICIOS, S.A. DE C.V.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos SerCal Servicios, S.A. de C.V., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ARCOS DORADOS PUERTO RICO, INC.

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados Puerto Rico, Inc., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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GOLDEN ARCH DEVELOPMENT CORPORATION

By: /s/ Mariano Tannenbaum

Name: Mariano Tannenbaum

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Golden Arch Development Corporation one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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ALIMENTOS ARCOS DORADOS DE VENEZUELA C.A.

By: /s/ Juan David Bastidas

Name: Juan David Bastidas

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK            )  
                                          )  
COUNTY OF NEW YORK        )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Juan David Bastidas to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Alimentos Arcos Dorados de Venezuela C.A. one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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COMPAÑÍA OPERATIVA DE ALIMENTOS COR, C.A.

By: /s/ Juan David Bastidas

Name: Juan David Bastidas

Title: Attorney-in-Fact

(Indenture)

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 27<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared Juan David Bastidas to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Compañía Operativa de Alimentos COR, C.A. one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Rosemarie Melendez    
Title: Notary Public, State of New York  
No. 01ME5045735  
Qualified in Nassau County  
Certificate Filed in New York County  
Commission Expires Aug. 25, 2015

(Indenture)

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CITIBANK, N.A.,  
as Trustee, Registrar, Paying Agent and Transfer Agent

By: /s/ John Hannon

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Name: John Hannon

Title: Vice President

(Indenture)

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STATE OF NEW YORK        )  
                                      )  
COUNTY OF NEW YORK    )

On this 26<sup>th</sup> day of September, 2013, before me, a notary public within and for said county, personally appeared John Hannon to me personally known who being duly sworn, did say that s/he is the Vice President of Citibank, N.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

By:   /s/ Noreen Iris Santos    
Title: Notary Public, State of New York  
No. #01SA6228750  
Qualified in Nassau County  
Commission Expires Sept. 27, 2014

(Indenture)

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Solely for the purposes of accepting the appointment of Luxembourg Paying Agent together with the rights, protections and immunities granted to the Trustee under Article VII, which shall apply *mutatis mutandis* to the Luxembourg Paying Agent:

Banque Internationale à Luxembourg, société anonyme  
as Luxembourg Paying Agent

By: /s/ Biagio Grasso  
Name: Biagio Grasso  
Title:

By: /s/ Ralph Diseviscourt  
Name: Ralph Diseviscourt  
Title: Assistant Vice President

(Indenture)

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**MCDONALD'S FOREIGN PLEDGE AGREEMENTS**

1. Stock Pledge Agreement (*Contrato de Prenda de Acciones y Cesión Fiduciaria con Fines de Garantía*), dated as of August 3, 2007, among the lenders party to the Credit Agreement, LatAm LLC ("LatAm") and Woods White Staton Welten, as pledgors, Arcos Dorados S.A., McDonald's Latin America, LLC ("McDonald's") and Deutsche Bank Trust Company Americas, as amended, supplemented or otherwise modified to date;
  2. Stock Pledge Agreement (*Contrato de Prenda de Acciones y Cesión Fiduciaria con Fines de Garantía*), dated as of August 3, 2007, among the lenders party to the Credit Agreement, LatAm, Arcos Dorados Caribbean Development Corp. ("ADCDC"), Compañía de Inversiones Inmobiliarias (C.I.I.) S.A. and Deutsche Bank Trust Company Americas, as amended, supplemented or otherwise modified to date;
  3. Second Lien Brazilian Quota Pledge Agreement, dated as of August 3, 2007, among McDonald's, as the pledgee, and LatAm, ADCDC and Arcos Dorados B.V.;
  4. Ratification to Pledge Agreement, dated as of August 3, 2008, made by Arcos Dorados B.V., LatAm and ADCDC in favor of McDonald's (the "McDonald's U.S. Stock Pledge Agreement"), dated on or about August 3, 2007, among LatAm, McDonald's and the other parties to the McDonald's U.S. Stock Pledge Agreement;
  5. Venezuela Share Pledge Agreement, dated as of January 24, 2013, among McDonald's Latin America, LLC, LatAm, Management Operations Company and Administrative Development Company, as amended, supplemented or otherwise modified to date;
  6. McDonald's Aruba Deed of Pledge of Shares, dated on or about August 3, 2007, among McDonald's, LatAm, McDonald's Aruba N.V.;
  7. McDonald's *Contrato de Prenda Abierta sobre Cuotas en Colombia*, dated on or about August 3, 2007, among LatAm, ADCDC and McDonald's;
  8. McDonald's *Contrato de Prenda Abierta sobre Acciones en Colombia*, dated on or about August 3, 2007, among LatAm, ADCDC and McDonald's;
  9. McDonald's Netherlands Antilles Deed of Pledge of Shares, dated on or about August 3, 2007, among McDonald's, LatAm and McDonald's St. Maarten and Curaçao N.V.;
  10. Second Lien Ecuadorian Stock Pledge Agreement, dated on or about August 3, 2007, between LatAm and McDonald's;
  11. McDonald's Panamanian Stock Pledge Agreement, dated on or about August 3, 2007, between LatAm and Eduardo de Alba, as pledgors, and McDonald's, as pledgee;
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12. *Constitución y Preconstitución de Garantía Mobiliaria de Segundo Rango sobre Acciones*, dated on or about August 3, 2007, among LatAm, McDonald's and Operaciones Arcos Dorados de Perú S.A.;
  13. McDonald's Uruguay Stock Pledge Agreement, dated on or about August 3, 2007, among McDonald's, LatAm and Gauchito de Oro S.A.;
  14. McDonald's Uruguay Social Quotas Pledge Agreement, dated on or about August 3, 2007, among McDonald's, LatAm, ADCDC and Arcos del Sur S.R.L.;
  15. Costa Rican Trust Agreement (*Contrato de Fideicomiso Irrevocable, Translativo de Dominio, de Garantía y Administración*), dated as of August 3, 2007, among Deutsche Bank Trust Company Americas, McDonald's, LatAm and Banco Improsa, S.A., as amended, supplemented or otherwise modified to date;
  16. Mexican Trust Agreement (*Contrato de Fideicomiso Irrevocable, Translativo de Dominio, de Garantía y Administración número 15469-3*), dated as of August 3, 2007, among Deutsche Bank Trust Company Americas, ADCDC and Banco Nacional de Mexico, S.A., integrante del Grupo Financiero Banamex, División Fiduciaria, as amended, supplemented or otherwise modified to date; and
  17. Mexican Trust Agreement (*Contrato de Fideicomiso Irrevocable, Translativo de Dominio, de Garantía y Administración número 15468-5*), dated as of August 3, 2007, among Deutsche Bank Trust Company Americas, McDonald's, LatAm and Banco Nacional de Mexico, S.A., integrante del Grupo Financiero Banamex, División Fiduciaria, as amended, supplemented or otherwise modified to date.
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**SECURED RESTRICTED REAL ESTATE**

<b><u>Country Code</u></b>	<b><u>Property Number</u></b>	<b><u>Name</u></b>	<b><u>City</u></b>	<b><u>Province</u></b>	<b><u>Address</u></b>	<b><u>Parcel Size (sq. m.)</u></b>	<b><u>Building Size (sq. m.)</u></b>	<b><u>Property Type</u></b>
ARG	51	Nuñez	Buenos Aires	Capital	Libertador 7112	2,955	676	Stand alone
CHILE	5	KENNEDY	Santiago		Kennedy 5055	5,002	862	Stand alone
VZ	31	La Castellana	Caracas		Av Eugenio Mendoza con 2da Transversal, frente a la Plaza La Castellana	2,449	1,096	Stand alone
ARG	32	Florida	Buenos Aires	Capital	Florida 568	886	2,207	Street retail
COL	6	CIUDAD SALITRE	BOGOTA		Carrera 68B No. 40A-30	4,127	551	Stand alone
COL	1	ANDINO	BOGOTA		Carrera 11 No. 82-02 L 355	N/A	424	Shopping mall
ARG	20	Cabildo y F. Lacroze	Buenos Aires	Capital	Av. Cabildo 756	1,546	447	Stand alone
ARG	31	Florida	Buenos Aires	Capital	Florida 281	445	1,107	Street retail

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FORM OF NOTE

THIS IS A GLOBAL NOTE WITHIN THE MEANING OF THE INDENTURE REFERRED TO HEREINAFTER.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION (“DTC”), NEW YORK, NEW YORK, TO THE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

TRANSFERS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS IN WHOLE, BUT NOT IN PART, TO NOMINEES OF DTC OR TO A SUCCESSOR THEREOF OR SUCH SUCCESSOR’S NOMINEE AND TRANSFERS OF PORTIONS OF THIS GLOBAL NOTE SHALL BE LIMITED TO TRANSFERS MADE IN ACCORDANCE WITH THE RESTRICTIONS SET FORTH IN THE INDENTURE REFERRED TO ON THE REVERSE HEREOF.

*Include the following Private Placement Legend on all Restricted Notes:*

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES FOR THE BENEFIT OF ARCOS DORADOS HOLDINGS INC. (THE “COMPANY”) THAT THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY (1) TO THE COMPANY, (2) SO LONG AS THIS NOTE IS ELIGIBLE FOR RESALE PURSUANT TO RULE 144A UNDER THE SECURITIES ACT (“RULE 144A”), TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A) IN ACCORDANCE WITH RULE 144A, (3) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATIONS UNDER THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, AND IN EACH OF SUCH CASES IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES OR OTHER APPLICABLE JURISDICTION. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, REPRESENTS AND AGREES THAT

IT SHALL NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO ABOVE.

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ONLY AT THE OPTION OF THE COMPANY.”

*Include the following Private Placement Legend on all Regulation S Global Notes:*

“THIS NOTE HAS NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR ANY STATE SECURITIES LAWS. THE HOLDER HEREOF, BY PURCHASING THIS NOTE, AGREES THAT NEITHER THIS NOTE NOR ANY INTEREST OR PARTICIPATION HEREIN MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION UNLESS SUCH TRANSACTION IS EXEMPT FROM, OR NOT SUBJECT TO, SUCH REGISTRATION AND IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY OTHER APPLICABLE JURISDICTION.

If the Regulation S Global Note is being issued on the Issue Date or the First Reopening Date include the following statement:

“THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE ON NOVEMBER 20, 2013.”

Otherwise, include the following statement:

THE FOREGOING LEGEND MAY BE REMOVED FROM THIS NOTE AFTER 40 DAYS BEGINNING ON AND INCLUDING THE LATER OF THE DATE ON WHICH THE NOTES ARE OFFERED TO PERSONS OTHER THAN DISTRIBUTORS (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT) AND (B) THE ISSUE DATE OF THE NOTES.”

FORM OF FACE OF NOTE

ARCOS DORADOS HOLDINGS INC.

6.625% NOTES DUE 2023

No. [ ]

Principal Amount U.S.\$[ ]

*[If the Note is a Global Note include the following two lines:  
as revised by the Schedule of Increases and  
Decreases in Global Note attached hereto]*

*[If the Note is a Global  
Rule 144A Note, insert:  
CUSIP NO. 03965U AB6  
ISIN US03965UAB61  
COMMON CODE 097602204]*

*[If the Note is a Global  
Regulation S Note, insert:  
CUSIP NO. G0457F AD9  
ISIN USG0457FAD99  
COMMON CODE 097584737]*

Arcos Dorados Holdings Inc., a British Virgin Islands business company, promises to pay to Cede & Co., the nominee for The Depository Trust Company, or registered assigns, the principal sum of [ ] U.S. Dollars *[If the Note is a Global Note, add the following]* [as revised by the Schedule of Increases and Decreases in Global Note attached hereto], on September 27, 2023.

Interest Rate: 6.625%

Interest Payment Dates: March 27 and September 27 of each year, commencing on March 27, 2014

Record Dates: March 15 and September 15

Additional provisions of this Note are set forth on the other side of this Note.

ARCOS DORADOS HOLDINGS INC.

By: \_\_\_\_\_

Name:

Title:

Date: \_\_\_\_\_

TRUSTEE'S CERTIFICATE OF AUTHENTICATION

Citibank, N.A., not in its individual capacity, but solely as  
Trustee, certifies that this is one of the Notes referred to in the  
Indenture.

By: \_\_\_\_\_  
Authorized Signatory

## FORM OF REVERSE SIDE OF NOTE

### 1. Interest

Arcos Dorados Holdings Inc., a British Virgin Islands business company (and its successors and assigns under the Indenture hereinafter referred to, the “Company”), promises to pay interest on the principal amount of this Note at the rate per annum shown above.

The Company shall pay interest semi-annually in arrears on each Interest Payment Date of each year, commencing on March 27, 2014. Interest on the Notes shall accrue from the most recent date to which interest has been paid on the Notes or, if no interest has been paid, from September 27, 2013. The Company shall pay interest on overdue principal (plus interest on such interest to the extent lawful), at the rate borne by the Notes to the extent lawful. Interest shall be computed on the basis of a 360-day year of twelve 30-day months.

The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and, to the extent such payments are lawful, interest on overdue installments of interest (“Defaulted Interest”) without regard to any applicable grace periods at the interest rate shown on this Note, as provided in the Indenture.

All payments made by the Company in respect of the Notes shall be made free and clear of and without deduction or withholding for or on account of any present or future taxes, duties, assessments or other governmental charges imposed or levied by or on behalf of the British Virgin Islands or any jurisdiction where the Company or any Subsidiary Guarantor is incorporated, resident or doing business for tax purposes or from or through which any payment in respect of the Notes is made by the paying agent or the Company, or any political subdivision thereof (a “Relevant Jurisdiction”), or by any taxing authority of a Relevant Jurisdiction, unless such withholding or deduction is required by law or by the interpretation or administration thereof. In that event, the Company shall pay to each Holder of the Notes Additional Amounts as provided in the Indenture subject to the limitations set forth in the Indenture.

### 2. Method of Payment

Prior to 11:00 a.m. (New York City time) on the Business Day prior to the date on which any principal of or interest on any Note is due and payable, the Company shall irrevocably deposit with the Trustee or the Paying Agent immediately available funds in U.S. Dollars sufficient to pay such principal and/or interest. The Company shall pay interest (except Defaulted Interest) to the Persons who are registered Holders of Notes at the close of business on the Record Date preceding the Interest Payment Date even if Notes are canceled, repurchased or redeemed after the Record Date and on or before the relevant Interest Payment Date. Holders must surrender Notes to a Paying Agent to collect principal payments. The Company shall pay principal and interest in U.S. Dollars.

Payments in respect of Notes represented by a Global Note (including principal and interest) shall be made by the transfer of immediately available funds to the accounts specified by DTC. The Company shall make all payments in respect of a Certificated Note (including principal and interest) by mailing a check to the registered address of each Holder thereof, *provided, however*, that if a Holder of Certified Notes in an aggregate principal amount

of at least U.S.\$1,000,000 has given wire transfer instructions to the Company and the Trustee, the Trustee, as Paying Agent, shall make all principal and interest payments on those Notes in accordance with such instructions.

3. Paying Agent and Registrar

Initially, Citibank, N.A. (the “Trustee”), shall act as Trustee, Paying Agent and Registrar. The Company may appoint and change any Paying Agent, Registrar or co-Registrar without notice to any Holder. The Company may act as Paying Agent, Registrar or co-Registrar.

4. Indenture

The Company originally issued the Notes under an Indenture, dated as of September 27, 2013 (as it may be amended or supplemented from time to time in accordance with the terms thereof, the “Indenture”), between the Company, the Subsidiary Guarantors named therein and the Trustee. The terms of the Notes include those stated in the Indenture. Capitalized terms used herein and not defined herein have the meanings ascribed thereto in the Indenture. The Notes are subject to all such terms, and Holders are referred to the Indenture for a statement of those terms. Each Holder by accepting a Note, agrees to be bound by all of the terms and provisions of the Indenture, as amended or supplemented from time to time.

The Notes are senior unsecured obligations of the Company. Subject to the conditions set forth in the Indenture and without the consent of the Holders, the Company may issue Additional Notes. All Notes shall be treated as a single class of securities under the Indenture.

The Indenture imposes certain limitations, subject to certain exceptions, on, among other things, the ability of the Company and its Subsidiaries to incur Liens, enter into Sale and Lease-Back Transactions, or consolidate or merge or transfer or convey all or substantially all of the Company’s and its Subsidiaries’ assets.

5. Optional Redemption

*Optional Redemption with a Make-Whole Premium.* The Company may redeem the Notes on one or more occasions, in whole or in part, at any time, at its option, at a redemption price calculated by the Company equal to the greater of (1) 100% of the outstanding principal amount of the Notes to be redeemed, and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the Notes to be redeemed (exclusive of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable Treasury Rate plus 50 basis points, in each case plus accrued and unpaid interest to the date of redemption.

“*Comparable Treasury Issue*” means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the Notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of such Notes.

“*Comparable Treasury Price*” means, with respect to any redemption date (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (2) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

“*Independent Investment Banker*” means one of the Reference Treasury Dealers appointed by the Company.

“*Reference Treasury Dealer*” means Merrill Lynch, Pierce, Fenner & Smith Incorporated, Citigroup Global Markets Inc. and J.P. Morgan Securities LLC or their respective affiliates which are primary United States government securities dealers and not less than one other leading primary United States government securities dealer in New York City reasonably designated by the Company; *provided* that if any of the foregoing cease to be a primary United States government securities dealer in New York City (a “Primary Treasury Dealer”), the Company will substitute therefor another Primary Treasury Dealer.

“*Reference Treasury Dealer Quotation*” means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked price for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 pm New York City time on the third Business Day preceding such redemption date.

“*Treasury Rate*” means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

(b) *Optional Redemption Upon Tax Event.* If the Company determines that, as a result of any amendment to, expiration of, or change in, the laws (or any rules or regulations thereunder) of any Relevant Jurisdiction, any taxing authority thereof or therein affecting taxation, or any amendment to expiration of, or change in an official interpretation or application of such laws, rules or regulations, which amendment to expiration of, or change of such laws, rules or regulations becomes effective or, in the case of a change in official interpretation or application, is announced or otherwise made available on or after the date of the Offering Memorandum (or on or after the date a Surviving Entity assumes the obligations under the Notes, in the case of a Surviving Entity with a different Relevant Jurisdiction than the Company), the Company (or a Subsidiary Guarantor) would be obligated, to pay any Additional Amounts, *provided* that the Company, in its business judgment, determines that such obligation cannot be avoided by the Company taking reasonable measures available to it, including, without limitation, taking reasonable measures to change the Paying Agent, then, at the Company’s option, all, but not less than all, of the Notes may be redeemed at any time at a redemption price equal to 100% of the outstanding principal amount, plus any accrued and unpaid interest to the redemption date due thereon up to but not including the date of redemption; *provided* that (1) no notice of redemption for tax reasons may be given earlier than 90 days prior to the earliest date on which the Company (or a Subsidiary Guarantor) would be obligated to pay these Additional

Amounts if a payment on the Notes were then due, and (2) at the time such notice of redemption is given such obligation to pay such Additional Amounts remains in effect.

Prior to the giving of any notice of redemption pursuant to this provision, the Company will deliver to the Trustee:

- (i) an Officers' Certificate stating that the Company is entitled to effect the redemption and setting forth a statement of facts showing that the conditions precedent to the Company's right to redeem have occurred; and
- (ii) an Opinion of Counsel from legal counsel in a Relevant Jurisdiction (which may be the Company's counsel) of recognized standing to the effect that the Company has or will become obligated to pay such Additional Amounts as a result of such change or amendment.

This notice, once delivered by the Company to the Trustee, will be irrevocable.

(c) *Optional Redemption Procedures.* If fewer than all of the Notes are being redeemed, the Notes to be redeemed shall be selected as follows: (1) if the Notes are listed on an exchange, in compliance with the requirements of such exchange, (2) if the Notes are not so listed but are Global Notes, then by lot or otherwise in accordance with the procedures of DTC or the applicable depository or (3) if the Notes are not so listed and are not in global form, on a pro rata basis to the extent practicable, or, if the pro rata basis is not practicable for any reason, by lot or by such other method as the Trustee in its sole discretion shall deem fair and appropriate. In the event of partial redemption or purchase by lot, the particular Notes to be redeemed or purchased shall be selected, unless otherwise provided herein, not less than 30 nor more than 60 days prior to the redemption date by the Trustee from the then outstanding Notes not previously called for redemption or purchase. The Trustee shall promptly notify the Company in writing of the Notes selected for redemption or purchase. Notes and portions of Notes selected shall be in amounts of \$100,000 and integral multiples of \$1,000 in excess thereof; no Notes of \$100,000 or less shall be redeemed in part, except that if all of the Notes of a Holder are to be redeemed or purchased, the entire outstanding amount of Notes held by such Holder, even if not \$100,000 or a multiple of \$1,000 in excess thereof, shall be redeemed or purchased. Except as provided in the preceding sentence, provisions of the Indenture that apply to Notes called for redemption or purchase also apply to portions of Notes called for redemption or purchase. After the redemption date, upon surrender of a Note to be redeemed in part only, a new Note or Notes in principal amount equal to the unredeemed portion of the original Note, representing the same Indebtedness to the extent not redeemed, shall be issued in the name of the Holder of the Notes upon cancellation of the original Note (or appropriate book entries shall be made to reflect such partial redemption). Once notice of redemption is sent to the Holders, Notes called for redemption become due and payable at the redemption price on the redemption date, and, commencing on the redemption date, Notes redeemed will cease to accrue interest (unless the company defaults in the payment of the redemption price).

Notice of any redemption shall be sent in the manner provided for in Section 11.1 of the Indenture at least 30 but not more than 60 days before the redemption date to Holders of Notes to be redeemed. If Notes are to be redeemed in part only, the notice of redemption shall

state the portion of the principal amount thereof to be redeemed. A new Note in a principal amount equal to the unredeemed portion thereof, if any, shall be issued in the name of the Holder thereof upon cancellation of the original Note (or appropriate adjustments to the amount and beneficial interests in a Global Note shall be made, as appropriate).

Notes called for redemption shall become due on the date fixed for redemption. The Company shall pay the redemption price for any Note together with accrued and unpaid interest thereon through but not including the date of redemption. On and after the redemption date, interest shall cease to accrue on Notes or portions thereof called for redemption as long as the Company has deposited with the Paying Agent funds in satisfaction of the applicable redemption price pursuant to the Indenture. Upon redemption of any Notes by the Company, such redeemed Notes shall be cancelled and cannot be reissued.

6. Mandatory Repurchase Provisions

(a) *Mandatory Redemption upon Exercise of Call Option.* No later than 5 Business Days following the date upon which the Call Option Redemption Event occurs, the Company will provide the Trustee with a notice to redeem all of the Notes at a purchase price equal to 101% of the principal amount thereof, plus any accrued and unpaid interest thereon through the date of redemption (the “Call Option Exercise Payment”). For the avoidance of doubt, a Call Option Redemption Event will only occur in connection with the exercise by McDonald’s of the McDonald’s Call Option under the Master Franchise Agreements with respect to the Master Franchisee or the Brazilian Master Franchisee. An exercise by McDonald’s of the McDonald’s Call Option with respect to any other Subsidiary of the Company shall not be treated as a Call Option Redemption Event.

Notes subject to mandatory redemption following a Call Option Redemption Event will become due on the earlier of the date fixed for redemption or the 30th day following the Call Option Redemption Event. On and after the redemption date, interest will cease to accrue on the Notes as long as the Company has deposited with the Paying Agent funds in an amount equal to the Call Option Exercise Payment. Upon redemption of the Notes by the Company, the redeemed Notes will be cancelled. For so long as the Notes are listed on the Luxembourg Stock Exchange for trading on the Euro MTF Market and the rules of the exchange so require, the Company will cause notices of redemption to also be published as described in the Indenture.

(b) *Change Of Control Offer.* Upon the occurrence of a Change of Control Repurchase Event, each Holder of Notes shall have the right to require that the Company purchase all or a portion (in integral multiples of U.S.\$1,000, *provided* that the principal amount of such Holder’s Note will not be less than U.S.\$100,000) of the Holder’s Notes at a purchase price equal to 101% of the principal amount thereof, plus accrued and unpaid interest through the date of purchase.

Within 30 days following the date upon which the Change of Control Repurchase Event occurred, the Company must make a Change of Control Offer pursuant to a Change of Control Notice. As more fully described in the Indenture, the Change of Control Notice shall state, among other things, the Change of Control Payment Date, which must be no earlier than 30

days nor later than 60 days from the date the notice is mailed, other than as may be required by applicable law.

7. Denominations; Transfer; Exchange

The Notes are in fully registered form without coupons, and only in minimum denominations of U.S.\$100,000 and integral multiples of U.S.\$1,000 in excess thereof. A Holder may transfer or exchange Notes in accordance with the Indenture. The Registrar may require a Holder, among other things, to furnish appropriate endorsements or transfer documents and to pay any taxes and fees required by law or permitted by the Indenture. The Registrar shall be entitled to request such evidence reasonably satisfactory to it documenting the identity and/or signatures of the transferor and the transferee. The Registrar need not register the transfer of or exchange (i) any Notes selected for redemption (except, in the case of a Note to be redeemed in part, the portion of the Note not to be redeemed) for a period beginning 15 days before the mailing of a notice of Notes to be redeemed and ending on the date of such mailing or (ii) any Notes for a period beginning 15 days before an interest payment date and ending on such interest payment date.

8. Persons Deemed Owners

The registered holder of this Note shall be treated as the owner of it for all purposes.

9. Unclaimed Money

If money for the payment of principal or interest remains unclaimed for two years, the Trustee or Paying Agent shall pay the money back to the Company at its request unless an abandoned property law designates another Person. After any such payment, Holders entitled to the money must look only to the Company and not to the Trustee for payment.

10. Discharge Prior to Redemption or Maturity

Subject to certain conditions set forth in the Indenture, the Company at any time may terminate some or all of its obligations under the Notes and the Indenture if the Company deposits with the Trustee U.S. Dollars or U.S. Government Obligations for the payment of principal of and interest on the Notes to redemption or maturity, as the case may be.

11. Amendment, Waiver

(a) Subject to certain exceptions set forth in the Indenture, without the consent of any Holder, the Company, the Subsidiary Guarantors and the Trustee may, among other things, amend or supplement the Indenture or the Notes to cure any ambiguity, omission, defect or inconsistency; to provide for the assumption by a Surviving Entity of the obligations of the Company under the Indenture; add any place of payment where the principal of or interest on the Notes is payable; to add Subsidiary Guarantees or additional guarantees with respect to the Notes or release a Subsidiary Guarantee in accordance with the terms of the Indenture; to secure the Notes; to add to the covenants of the Company for the benefit of the Holders or to surrender any right or power herein conferred upon the Company; to provide for the issuance of Additional

Notes; to conform the text of the Indenture, the Subsidiary Guarantees or the Notes to any provision of the Offering Memorandum; to evidence the replacement of the Trustee as provided for under the Indenture; if necessary, in connection with any release of any security permitted under the Indenture; to provide for uncertificated Notes in addition to or in place of certificated Notes; or to make any other changes which do not adversely affect the rights of any of the Holders in any material respect.

(b) Subject to certain exceptions set forth in the Indenture, (i) the Indenture or the Notes may be amended or supplemented with the written consent of the Holders of at least a majority in principal amount of the then Outstanding Notes and (ii) any Default or Event of Default under the Indenture (except a Default in the payment of the principal of, premium, if any, or interest on any Notes) may be waived with the written consent of the Holders of a majority in aggregate principal amount of the then Outstanding Notes. However, without the consent of each Holder affected thereby, no amendment may, among other things, reduce the percentage of the principal amount of the Notes whose Holders must consent to an amendment, supplement or waiver; reduce the rate of or change or have the effect of changing the time for payment of interest on any Notes; change any place of payment where the principal of or interest on the Notes is payable; reduce the principal of or change or have the effect of changing the fixed maturity of any Notes, or change the date on which any Notes may be subject to redemption, or reduce the redemption price therefor; make any Notes payable in money other than that stated in the Notes; make any change in the provisions of the Indenture entitling each Holder to receive payment of principal of, premium, if any, and interest on the Notes on or after the due date thereof or to bring suit to enforce such payment, or permitting Holders of a majority in principal amount of Notes to waive Defaults or Events of Default; amend, change or modify in any material respect the obligation of the Company to make and consummate a Change of Control Offer in respect of a Change of Control Repurchase Event that has occurred; eliminate or modify in any manner a Subsidiary Guarantor's obligations with respect to its Subsidiary Guarantee which adversely affects Holders in any material respect, except as contemplated in the Indenture; make any change in the Additional Amounts provisions of the Indenture that adversely affects the rights of any Holder or amend the terms of the Notes in a way that would result in a loss of exemption from any applicable taxes; or make any change to the provisions of this Indenture or the Notes that adversely affects the ranking of the Notes (for the avoidance of doubt, a change to the covenants described in Section 3.8 and Section 3.9 of the Indenture does not adversely affect the ranking of the Notes).

## 12. Defaults and Remedies

If an Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the then Outstanding Notes may declare all the Notes to be due and payable immediately. Certain events of bankruptcy or insolvency are Events of Default, which shall result in the Notes being due and payable immediately upon the occurrence of such Events of Default.

Holdings may not enforce the Indenture or the Notes except as provided in the Indenture. The Trustee may refuse to enforce the Indenture or the Notes unless it receives indemnity and/or security reasonably satisfactory to it. Subject to certain limitations, Holders of a majority in aggregate principal amount of the Outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders notice of any continuing

Default or Event of Default (except a Default or Event of Default in payment of principal or interest) if it determines that withholding notice is in their interest.

13. Trustee Dealings with the Company

Subject to certain limitations set forth in the Indenture, the Trustee under the Indenture, in its individual or any other capacity, may become the owner or pledgee of Notes and may otherwise deal with and collect obligations owed to it by the Company or its Affiliates and may otherwise deal with the Company or its Affiliates with the same rights it would have if it were not Trustee.

14. No Recourse Against Others

No past, present or future incorporator, director, officer, employee, shareholder or controlling person, as such, of the Company or any Subsidiary Guarantor, shall have any liability for any obligations of the Company under the Notes, the Indenture or a Subsidiary Guarantee or for any claims based on, in respect of or by reason of such obligations or their creation. By accepting a Note, each Holder waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes.

15. Authentication

This Note shall not be valid until an authorized signatory of the Trustee (or an authenticating agent acting on its behalf) manually signs the certificate of authentication on the other side of this Note.

16. Abbreviations

Customary abbreviations may be used in the name of a Holder or an assignee, such as TEN COM (=tenants in common), TEN ENT (=tenants by the entirety), JT TEN (=joint tenants with rights of survivorship and not as tenants in common), CUST (=custodian) and U/G/M/A (=Uniform Gift to Minors Act).

17. CUSIP or ISIN Numbers

Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures the Company has caused CUSIP or ISIN numbers to be printed on the Notes and has directed the Trustee to use CUSIP or ISIN numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

18. Governing Law

This Note shall be governed by, and construed in accordance with, the laws of the State of New York.

19. Currency of Account; Conversion of Currency.

U.S. Dollars is the sole currency of account and payment for all sums payable by the Company or any Subsidiary Guarantor under or in connection with the Notes, any Subsidiary Guarantee or the Indenture. The Company and any Subsidiary Guarantor shall indemnify the Holders as provided in respect of the conversion of currency relating to the Notes, any Subsidiary Guarantee and the Indenture.

20. Agent for Service; Submission to Jurisdiction; Waiver of Immunities.

The parties hereto have agreed that any suit, action or proceeding arising out of or based upon the Indenture or the Notes may be instituted in any New York state or U.S. federal court in The City of New York, New York. The parties hereto have irrevocably submitted to the jurisdiction of such courts for such purpose and waived, to the fullest extent permitted by law, trial by jury, any objection they may now or hereafter have to the laying of venue of any such proceeding, and any claim they may now or hereafter have that any proceeding in any such court is brought in an inconvenient forum and any right to the jurisdiction of any other courts to which any of them may be entitled, on account of place of residence or domicile. The Company has appointed National Registered Agents, Inc. with offices currently at 111 Eighth Avenue, New York, New York 10011, as its authorized agent upon whom all writs, process and summonses may be served in any suit, action or proceeding arising out of or based upon the Indenture or the Notes which may be instituted in any New York state or U.S. federal court in The City of New York, New York. To the extent that the Company has or hereafter may acquire any immunity (sovereign or otherwise) from any legal action, suit or proceeding, from jurisdiction of any court or from set-off or any legal process (whether service or notice, attachment in aid or otherwise) with respect to it or any of their property, the Company has irrevocably waived and agreed not to plead or claim such immunity in respect of its obligations under the Indenture or the Notes.

Nothing in the preceding paragraph shall affect the right of the Trustee or any Holder of the Notes to serve process in any other manner permitted by law.

The Company shall furnish to any Holder upon written request and without charge to the Holder a copy of the Indenture which has in it the text of this Note in larger type. Requests may be made to:

Arcos Dorados Holdings Inc.  
Roque Saenz Peña 432, Olivos  
Buenos Aires, Argentina (B1636 FFB)  
Attention: Chief Financial Officer  
Fax No.: +54 11 4711 2094 (2059)

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to:

(Print or type assignee's name, address and zip code)

(Insert assignee's Social Security or Tax I.D. Number)

and irrevocably appoint \_\_\_\_\_ to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date: \_\_\_\_\_ Your Signature: \_\_\_\_\_  
(Sign exactly as your name appears on the other side of this Note.)

Signature Guarantee: \_\_\_\_\_  
(Signature must be guaranteed)

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to Exchange Act Rule 17Ad-15.

*[To be attached to Global Notes only]*

SCHEDULE OF INCREASES OR DECREASES IN GLOBAL NOTE

The following increases or decreases in this Global Note have been made:

Date of Exchange	Amount of decrease in Principal Amount of this Global Note	Amount of increase in Principal Amount of this Global Note	Principal Amount of this Global Note following such decrease or increase	Signature of authorized signatory of Trustee or Note Custodian
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OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have part of this Note purchased by the Company pursuant to Section 3.7 of the Indenture, state the principal amount (which must be an integral multiple of U.S.\$1,000, *provided* that the principal amount is not less than U.S.\$100,000) that you want to have purchased by the Company:

U.S.\$ \_\_\_\_\_

Date: \_\_\_\_\_ Your Signature \_\_\_\_\_  
(Sign exactly as your name appears on the  
other side of the Note)

Tax Identification No.: \_\_\_\_\_

Signature Guarantee: \_\_\_\_\_  
(Signature must be guaranteed)

The signature(s) should be guaranteed by an eligible guarantor institution (banks, stockbrokers, savings and loan associations and credit unions with membership in an approved signature guarantee medallion program), pursuant to Exchange Act Rule 17Ad-15.

FORM OF CERTIFICATE FOR TRANSFER TO QIB

[Date]

Citibank, N.A.  
480 Washington Boulevard, 30<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
Attention: Global Transaction Services, Arcos Dorados

Re: 6.625% Notes due 2023 (the "Notes")  
of Arcos Dorados Holdings Inc. (the "Company")

Ladies and Gentlemen:

Reference is hereby made to the Indenture, dated as of September 27, 2013 (as amended and supplemented from time to time, the "Indenture"), among the Company, the Subsidiary Guarantors named therein and Citibank, N.A., as Trustee. Capitalized terms used but not defined herein shall have the meanings given them in the Indenture.

This letter relates to U.S.\$ \_\_\_\_\_ aggregate principal amount of Notes [*in the case of a transfer of an interest in a Regulation S Global Note: which represents an interest in a Regulation S Global Note*] beneficially owned by the undersigned (the "Transferor") to effect the transfer of such Notes in exchange for an equivalent beneficial interest in the Rule 144A Global Note.

In connection with such request, and with respect to such Notes, the Transferor does hereby certify that such Notes are being transferred in accordance with Rule 144A under the U.S. Securities Act of 1933, as amended ("Rule 144A"), to a transferee that the Transferor reasonably believes is purchasing the Notes for its own account or an account with respect to which the transferee exercises sole investment discretion, and the transferee, as well as any such account, is a "qualified institutional buyer" within the meaning of Rule 144A, in a transaction meeting the requirements of Rule 144A and in accordance with applicable securities laws of any state of the United States or any other jurisdiction.

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You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

Very truly yours,

[Name of Transferor]

By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signature

FORM OF CERTIFICATE FOR TRANSFER  
PURSUANT TO REGULATION S

[Date]

Citibank, N.A.  
480 Washington Boulevard, 30<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
Attention: Global Transaction Services, Arcos Dorados

Re: 6.625% Notes due 2023 (the "Notes")  
of Arcos Dorados Holdings Inc. (the "Company")

Ladies and Gentlemen:

Reference is hereby made to the Indenture, dated as of September 27, 2013 (as amended and supplemented from time to time, the "Indenture"), among the Company, the Subsidiary Guarantors named therein and Citibank, N.A., as Trustee. Capitalized terms used but not defined herein shall have the meanings given them in the Indenture.

In connection with our proposed sale of U.S.\$\_\_\_\_\_ aggregate principal amount of the Notes [*in the case of a transfer of an interest in a 144A Global Note*], which represent an interest in a 144A Global Note] beneficially owned by the undersigned ("Transferor"), we confirm that such sale has been effected pursuant to and in accordance with Regulation S under the U.S. Securities Act of 1933, as amended (the "Securities Act"), and, accordingly, we represent that:

- (a) the offer of the Notes was not made to a person in the United States;
- (b) either (i) at the time the buy order was originated, the transferee was outside the United States or we and any person acting on our behalf reasonably believed that the transferee was outside the United States or (ii) the transaction was executed in, on or through the facilities of a designated off-shore securities market and neither we nor any person acting on our behalf knows that the transaction has been pre-arranged with a buyer in the United States;
- (c) no directed selling efforts have been made in the United States in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S, as applicable;
- (d) the transaction is not part of a plan or scheme to evade the registration requirements of the Securities Act; and

(e) we are the beneficial owner of the principal amount of Notes being transferred.

In addition, if the sale is made during a Distribution Compliance Period and the provisions of Rule 904(b)(1) or Rule 904(b)(2) of Regulation S are applicable thereto, we confirm that such sale has been made in accordance with the applicable provisions of Rule 904(b)(1) or Rule 904(b)(2), as the case may be.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby. Terms used in this letter have the meanings set forth in Regulation S.

Very truly yours,

[Name of Transferor]

By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signature

FORM OF CERTIFICATE FOR TRANSFER  
PURSUANT TO RULE 144

[Date]

Citibank, N.A.  
480 Washington Boulevard, 30<sup>th</sup> Floor  
Jersey City, New Jersey 07310  
Attention: Global Transaction Services, Arcos Dorados

Re: 6.625% Notes due 2023 (the "Notes")  
of Arcos Dorados Holdings Inc. (the "Company")

Ladies and Gentlemen:

Reference is hereby made to the Indenture, dated as of September 27, 2013 (as amended and supplemented from time to time, the "Indenture"), among the Company, the Subsidiary Guarantors named therein and Citibank, N.A., as Trustee. Capitalized terms used but not defined herein shall have the meanings given them in the Indenture.

In connection with our proposed sale of U.S.\$ \_\_\_\_\_ aggregate principal amount of the Notes [*in the case of a transfer of an interest in a 144A Global Note*], which represent an interest in a 144A Global Note] beneficially owned by the undersigned ("Transferor"), we confirm that such sale has been effected pursuant to and in accordance with Rule 144 under the Securities Act.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

Very truly yours,

[Name of Transferor]

By: \_\_\_\_\_

\_\_\_\_\_  
Authorized Signature

FORM OF SUPPLEMENTAL INDENTURE  
FOR SUBSIDIARY GUARANTEE

This Supplemental Indenture, dated as of [ ] (this "Supplemental Indenture"), among [*name of Subsidiary*], a [ ] [corporation] [limited liability company] (the "Additional Subsidiary Guarantor"), Arcos Dorados Holdings Inc., a British Virgin Islands business company (together with its successors and assigns, the "Company") and Citibank, N.A., as Trustee under the Indenture referred to below.

WITNESSETH:

WHEREAS, the Company, the Trustee and the Subsidiary Guarantors named therein (each a "Subsidiary Guarantor" and together the "Subsidiary Guarantors") have heretofore executed and delivered an Indenture, dated as of September 27, 2013 (as amended, supplemented, waived or otherwise modified, the "Indenture"), providing for the issuance of 6.625% Notes due 2023 of the Company (the "Notes"); and

WHEREAS, pursuant to Section 9.1 of the Indenture, the Trustee and the Company are authorized to execute and deliver this Supplemental Indenture to supplement the Indenture, without the consent of any Holder;

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Additional Subsidiary Guarantor, the Company and the Trustee mutually covenant and agree for the equal and ratable benefit of the holders of the Notes as follows:

ARTICLE I  
DEFINITIONS

Section 1.1. Defined Terms. Unless otherwise defined in this Supplemental Indenture, terms defined in the Indenture are used herein as therein defined.

ARTICLE II  
AGREEMENT TO BE BOUND: GUARANTEE

Section 2.1. Agreement to be Bound. The Additional Subsidiary Guarantor hereby becomes a party to the Indenture as a Subsidiary Guarantor and as such shall have all of the rights and be subject to all of the obligations and agreements of a Subsidiary Guarantor under the Indenture. The Additional Subsidiary Guarantor hereby agrees to be bound by all of the provisions of the Indenture applicable to a Subsidiary Guarantor and to perform all of the obligations and agreements of a Subsidiary Guarantor under the Indenture.

Section 2.2. Subsidiary Guarantees.

(a) The Additional Subsidiary Guarantor hereby fully and unconditionally guarantees on a general unsecured senior basis, as primary obligor and not merely as surety,

jointly and severally with each other Subsidiary Guarantor, to each Holder and to the Trustee the full and punctual payment when due, whether at maturity, by acceleration, by redemption or otherwise, of the principal, interest, premium, Additional Amounts, penalties, fees, indemnifications, reimbursements, damages, and other liabilities payable under the Notes, Subsidiary Guarantees and the Indenture (such guaranteed obligations, the “Guaranteed Obligations”). The Additional Subsidiary Guarantor further agrees (to the extent permitted by law) that the Guaranteed Obligations may be extended or renewed, in whole or in part, without notice or further assent from it, and that it will remain bound under this Agreement notwithstanding any extension or renewal of any Guaranteed Obligation. The Additional Subsidiary Guarantor hereby agrees to pay, in addition to the amounts stated above, any and all expenses (including reasonable counsel fees and expenses) incurred by the Trustee or the Holders in enforcing any rights under any Subsidiary Guarantee.

(b) The Additional Subsidiary Guarantor waives presentment to, demand of payment from and protest to the Company of any of the Guaranteed Obligations and also waives notice of protest for nonpayment. The Additional Subsidiary Guarantor waives notice of any default under the Notes or the Guaranteed Obligations. The obligations of the Additional Subsidiary Guarantor hereunder shall not be affected by (i) the failure of any Holder to assert any claim or demand or to enforce any right or remedy against the Company or any other Person under the Indenture, the Notes or any other agreement or otherwise; (ii) any extension or renewal of any thereof; (iii) any rescission, waiver, amendment or modification of any of the terms or provisions of the Indenture, the Notes or any other agreement; (iv) the release of any security held by any Holder or the Trustee for the Guaranteed Obligations or any of them; (v) the failure of any Holder to exercise any right or remedy against any other Subsidiary Guarantor; or (vi) any change in the ownership of the Company.

(c) The Additional Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein constitutes a guarantee of payment when due (and not a guarantee of collection) and waives any right to require that any resort be had by any Holder to any security held for payment of the Guaranteed Obligations.

(d) The Additional Subsidiary Guarantors further expressly waives irrevocably and unconditionally:

(i) Any right it may have to first require any Holder to proceed against, initiate any actions before a court of law or any other judge or authority, or enforce any other rights or security or claim payment from the Company or any other Person (including any Subsidiary Guarantor or any other guarantor) before claiming from it under this Indenture;

(ii) Any rights and benefits set forth in the following provisions of Argentine law: Articles 480, 481 and 482 of the Argentine Commercial Code and Articles 1990, 2020 and 2021 (other than with respect to defenses or motions based on documented payment (*pago*), reduction (*quita*), extension (*espera*) or release or remission (*remisión*), 2012, 2013 and 2024 (*beneficios de excusión y división*), 2025, 2026, 2029, 2043, 2046 and 2050 of the Argentine Civil Code;

(iii) Any rights to the benefits of *orden*, *excusión*, *división*, *quita* and *espera* arising from Articles 2814, 2815, 2817, 2818, 2819, 2820, 2821, 2822, 2823, 2826, 2837, 2839, 2840, 2845, 2846, 2847 and any other related or applicable Articles that are not explicitly set forth herein because of the Additional Subsidiary Guarantor's knowledge thereof, of the *Código Civil Federal* of Mexico and the *Código Civil* of each State of the Mexican Republic and for the Federal District of Mexico;

(iv) (1) the collection benefit (beneficio de excusión) granted by articles 1812, 1815, 1816, 1818 of the Venezuelan Civil Code; (2) the division benefit (beneficio de división) granted in articles 1819 and 1820 of the Venezuelan Civil Code;

(v) Any right to which it may be entitled to have the assets of the Company or any other Person (including any Subsidiary Guarantor or any other guarantor) first be used, applied or depleted as payment of the Company's or the Additional Subsidiary Guarantors' obligations hereunder, prior to any amount being claimed from or paid by the Additional Subsidiary Guarantors hereunder; and

(vi) Any right to which it may be entitled to have claims hereunder divided among the Subsidiary Guarantors and the Additional Subsidiary Guarantor.

(e) The obligations of the Additional Subsidiary Guarantor hereunder shall not be subject to any reduction, limitation, impairment or termination for any reason (other than payment of the Guaranteed Obligations in full), including any claim of waiver, release, surrender, alteration or compromise, and shall not be subject to any defense of setoff, counterclaim, recoupment or termination whatsoever or by reason of the invalidity, illegality or unenforceability of the Guaranteed Obligations or otherwise. Without limiting the generality of the foregoing, the obligations of the Additional Subsidiary Guarantor herein shall not be discharged or impaired or otherwise affected by the failure of any Holder to assert any claim or demand or to enforce any remedy under the Indenture, the Notes or any other agreement, by any waiver or modification of any thereof, by any default, failure or delay, willful or otherwise, in the performance of the Guaranteed Obligations, or by any other act or thing or omission or delay to do any other act or thing which may or might in any manner or to any extent vary the risk of the Additional Subsidiary Guarantor or would otherwise operate as a discharge of the Additional Subsidiary Guarantor as a matter of law or equity.

(f) The Additional Subsidiary Guarantor further agrees that its Subsidiary Guarantee herein shall continue to be effective or be reinstated, as the case may be, if at any time payment, or any part thereof, of principal of or interest on any of the Guaranteed Obligations is rescinded or must otherwise be restored by any Holder upon the bankruptcy, or reorganization of the Company or otherwise.

(g) In furtherance of the foregoing and not in limitation of any other right which any Holder has at law or in equity against the Additional Subsidiary Guarantor by virtue hereof, upon the failure of the Company to pay any of the Guaranteed Obligations when and as the same shall become due, whether at maturity, by acceleration, by redemption or otherwise, the Additional Subsidiary Guarantor hereby promises to and will, upon receipt of written demand by

the Trustee, forthwith pay, or cause to be paid, in cash, to the Holders an amount equal to the sum of:

- (i) the unpaid amount of such Guaranteed Obligations then due and owing in U.S. Dollars; and
- (ii) accrued and unpaid interest on such Guaranteed Obligations then due and owing (but only to the extent not prohibited by law).

(h) The Additional Subsidiary Guarantor further agrees that, as between the Additional Subsidiary Guarantor, on the one hand, and the Holders, on the other hand:

(i) the maturity of the Guaranteed Obligations guaranteed hereby may be accelerated as provided in the Indenture for the purposes of its Subsidiary Guarantee herein, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the Guaranteed Obligations guaranteed hereby; and

(ii) in the event of any such declaration of acceleration of such Guaranteed Obligations, such Guaranteed Obligations (whether or not due and payable) shall forthwith become due and payable by the Additional Subsidiary Guarantor for the purposes of its Subsidiary Guarantee.

Section 2.3 Limitation on Liability; Termination, Release and Discharge.

(a) The obligations of the Additional Subsidiary Guarantor hereunder shall be limited to the maximum amount as shall, after giving effect to all other contingent and fixed liabilities of the Additional Subsidiary Guarantor and after giving effect to any collections from or payments made by or on behalf of any other Subsidiary Guarantor in respect of the obligations of such other Subsidiary Guarantor under its Subsidiary Guarantee or pursuant to its contribution obligations under the Indenture, result in the Guaranteed Obligations not constituting a fraudulent conveyance, fraudulent transfer or similar illegal transfer under applicable law.

(b) The Additional Subsidiary Guarantor shall be released and relieved of its obligations under its Subsidiary Guarantee (except with respect to Guaranteed Obligations that by their terms survive) in the event that:

(i) there is a Legal Defeasance or Covenant Defeasance of the Notes pursuant to the Indenture;

(ii) there is a sale or other disposition (including through a consolidation or merger) of Capital Stock of the Additional Subsidiary Guarantor following which the Additional Subsidiary Guarantor is no longer a direct or indirect Subsidiary of the Company;

(iii) there is a sale of all or substantially all of the assets of the Additional Subsidiary Guarantor (including by way of merger, stock purchase, asset sale or otherwise) to a Person that is not (either before or after giving effect to such transaction) the Company or a Subsidiary Guarantor; or

(iv) there is a satisfaction and discharge of the Indenture pursuant to Section 8.7 of the Indenture;

*provided*, in each case, such transactions are carried out pursuant to and in accordance with all applicable covenants and provisions thereof.

Section 2.4 Right of Contribution. If the Additional Subsidiary Guarantor makes a payment or distribution under its Subsidiary Guarantee, it will be entitled to a contribution from each other Subsidiary Guarantor in a pro rata amount, based on the net assets of each Subsidiary Guarantor and the Additional Subsidiary Guarantor determined in accordance with GAAP. The provisions of this Section 2.4 and Section 10.3 of the Indenture shall in no respect limit the obligations and liabilities of the Additional Subsidiary Guarantor to the Trustee and the Holders and the Additional Subsidiary Guarantor shall remain liable to the Trustee and the Holders for the full amount guaranteed by the Additional Subsidiary Guarantor hereunder.

Section 2.5 No Subrogation. The Additional Subsidiary Guarantor agrees that it shall not be entitled to any right of subrogation in respect of any Guaranteed Obligations until payment in full in cash or Cash Equivalents of all Guaranteed Obligations. If any amount shall be paid to the Additional Subsidiary Guarantor on account of such subrogation rights at any time when all of the Guaranteed Obligations shall not have been paid in full in cash or Cash Equivalents, such amount shall be held by the Additional Subsidiary Guarantor in trust for the Trustee and the Holders, segregated from other funds of the Additional Subsidiary Guarantor, and shall, forthwith upon receipt by the Additional Subsidiary Guarantor, be turned over to the Trustee in the exact form received by the Additional Subsidiary Guarantor (duly endorsed by the Additional Subsidiary Guarantor to the Trustee, if required), to be applied against the Guaranteed Obligations.

### ARTICLE III MISCELLANEOUS

Section 3.1. Notices. Any notice or communication delivered to the Company under the provisions of the Indenture shall constitute notice to the Additional Subsidiary Guarantor.

Section 3.2. Parties. Nothing expressed or mentioned herein is intended or shall be construed to give any Person, firm or corporation, other than the Holders and the Trustee, any legal or equitable right, remedy or claim under or in respect of this Supplemental Indenture or the Indenture or any provision herein or therein contained.

Section 3.3. Governing Law, etc. This Supplemental Indenture shall be governed by the provisions set forth in Section 11.6 of the Indenture.

Section 3.4. Severability. In case any provision in this Supplemental Indenture shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby and such provision shall be ineffective only to the extent of such invalidity, illegality or unenforceability.

Section 3.5. Ratification of Indenture; Supplemental Indenture Part of Indenture. Except as expressly amended hereby, the Indenture is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Supplemental Indenture shall form a part of the Indenture for all purposes, and every holder of Notes heretofore or hereafter authenticated and delivered shall be bound hereby. The Trustee makes no representation or warranty as to the validity or sufficiency of this Supplemental Indenture.

Section 3.6. Duplicate and Counterpart Originals. The parties may sign any number of copies of this Supplemental Indenture. One signed copy is enough to prove this Supplemental Indenture. This Supplemental Indenture may be executed in any number of counterparts, each of which so executed shall be an original, but all of them together represent the same agreement.

Section 3.7. Headings. The headings of the Articles and Sections in this Supplemental Indenture have been inserted for convenience of reference only, are not intended to be considered as a part hereof and shall not modify or restrict any of the terms or provisions hereof.

Section 3.8. The Trustee. The recitals in this Supplemental Indenture are made by the Company and the Additional Subsidiary Guarantor only and not by the Trustee, and all of the provisions contained in the Original Indenture in respect of the rights, privileges, immunities, powers and duties of the Trustee shall be applicable in respect of this Supplemental Indenture as fully and with like effect as if set forth herein in full. The Trustee makes no representations or warranties as to the correctness of the recitals contained herein, which shall be taken as statements of the Company, or the validity or sufficiency of this Supplemental Indenture and the Trustee shall not be accountable or responsible for or with respect to nor shall the Trustee have any responsibility for provisions thereof. The Trustee represents that it is duly authorized to execute and deliver this Supplemental Indenture and perform its obligations hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed as of the date first above written.

ARCOS DORADOS HOLDINGS INC.

By: \_\_\_\_\_  
Name:  
Title:



[NAME OF SUBSIDIARY GUARANTOR],  
as Additional Subsidiary Guarantor

By: \_\_\_\_\_  
Name:  
Title:

STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this        day of        , before me, a notary public within and for said county, personally appeared        to me personally known who being duly sworn, did say that he/she is the        of [*Name of Additional Subsidiary Guarantor*], one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:** \_\_\_\_\_  
**Title:**    **Notary Public, State of New York**  
No.  
Qualified in  
Commission Expires

CITIBANK, N.A.,  
as Trustee

By: \_\_\_\_\_  
Name:  
Title:

STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK     )

On this     day of                   , before me, a notary public within and for said county, personally appeared                   to me personally known who being duly sworn, did say that he/she is the                   of Citibank, N.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:** \_\_\_\_\_  
**Title:**    **Notary Public, State of New York**  
No.  
Qualified in  
Commission Expires

**SECOND AMENDMENT TO  
CREDIT AGREEMENT**

THIS SECOND AMENDMENT TO CREDIT AGREEMENT is made and dated as of August 2, 2013 (the "Amendment") among ARCOS DORADOS B.V., a private company with limited liability (*besloten vennootschap met beperkte aansprakelijkheid*) organized under the laws of The Netherlands with seat in Amsterdam (the "Borrower"), certain subsidiaries of the Borrower as guarantors (the "Guarantors"), and BANK OF AMERICA, N.A., as lender (the "Lender") and amends that certain Credit Agreement dated as of August 3, 2011 (as the same has been amended prior to the date hereof and may be further amended or modified from time to time, the "Credit Agreement").

**RECITALS**

WHEREAS, the Lender has agreed, subject to the terms and conditions hereinafter set forth, to amend the Credit Agreement in certain respects as set forth below.

NOW THEREFORE, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereby agree as follows:

1. Terms. All terms used herein shall have the same meanings as in the Credit Agreement unless otherwise specified herein.

2. Amendment. Upon the occurrence of the Amendment Effective Date (defined below), Section 1.1 of the Credit Agreement is hereby amended by amending the definitions therein of "Aggregate Commitment Amount" and "Maturity Date" in their entireties as follows:

"Aggregate Commitment Amount" means \$75,000,000.

"Maturity Date" means August 3, 2015.

3. Representations and Warranties. The Borrower and each Guarantor hereby represents and warrants to the Lender that, on and as of the date hereof, and after giving effect to this Amendment:

3.1 Authorization; Enforceable Obligations; No Contravention. The execution, delivery and performance of this Amendment by the Loan Parties have been duly authorized by all necessary action, and this Amendment is a legal, valid and binding obligation of the Loan Parties party hereto, enforceable in accordance with its terms, except as enforceability may be limited by applicable Debtor Relief Laws. The execution, delivery and performance of this Amendment (i) are not in contravention of law or of the terms of any Loan Party's organizational documents, and (ii) will not result in the breach of or constitute a default under, or result in the creation of a Lien or require a payment to be made under any indenture, agreement or undertaking to which the Borrower or any Guarantor is a party or by which it or its property may be bound or affected, except in the case referred to in this clause (ii), to the extent that such breach, default, Lien or payment would not reasonably be expected to have a Material Adverse Effect.

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3.2 Governmental Authorization: Other Consents. No approval, consent, exemption, authorization, or other action by, or notice to, or filing with, any Governmental Authority, including the Central Bank of Brazil, or any other Person is necessary or required in connection with the execution, delivery or performance by, or enforcement against, the Borrower or any Guarantor of this Amendment, which has not been duly obtained.

3.3 Incorporation of Certain Representations. After giving effect to the terms of this Amendment, the representations and warranties of the Borrower and the Guarantors set forth in Article III of the Credit Agreement (except as to such representations and warranties made as of an earlier specified date which are true and correct as of the date made) are true and correct as of the date hereof, (A) if any such representation and warranty is qualified as to materiality or by reference to the existence of a Material Adverse Effect, in all respects (as so qualified), or (B) if any such representation and warranty is not so qualified, in all material respects; *provided*, that for purposes of this Section 3.3, the representations and warranties of the Borrower contemplated in Section 3.1 of the Credit Agreement shall be deemed to refer to the last day of the period covered by the most recent financial statements furnished to the Lender under the Credit Agreement; provided further that the representation and warranty set forth in Section 3.16 of the Credit Agreement is made hereby with respect to the period of four (4) fiscal quarters ended on March 31, 2013.

3.4 Default. Both before and after giving effect to this Amendment, no Default or Event of Default under the Credit Agreement has occurred and is continuing.

4. Conditions, Effectiveness. This Amendment shall become effective as of the date (the "Amendment Effective Date") on which each of the following conditions shall have been satisfied:

(a) The Lender shall have received this Amendment duly executed and delivered on behalf of the Borrower and each Guarantor.

(b) The Lender shall have received a Note duly executed and delivered on behalf of the Borrower.

(c) The Borrower shall have paid on or before the Amendment Effective Date all fees and other amounts due and payable by the Borrower to the Lender (including fees and expenses of counsel to lender) in accordance with the Credit Agreement (as amended hereby) to the extent invoiced to the Borrower prior to the Amendment Effective Date.

(d) All consents, licenses and approvals required in connection with the execution, delivery and performance by the Loan Parties of this Amendment shall have been received by the Loan Parties.

5. Miscellaneous.

5.1 Effectiveness of the Credit Agreement and other Loan Documents. Except as hereby expressly amended, the Credit Agreement, the Note, the Fee Letter and each Subsidiary Joinder Agreement (if any), shall each remain in full force and effect, are hereby ratified and

confirmed in all respects on and as of the date hereof, and each Loan Party hereby reaffirms its obligations thereunder.

5.2 Post Amendment Effective Date Covenants.

(a) Within five Business Days after the Amendment Effective Date, Arcos Dourados Comercio de Alimentos Ltda. shall file the Minutes of the Quotaholders' Meeting (*Ata de Reunião de Quotistas*) authorizing the Amendment with the Commercial Registry of the State of Sao Paulo (Junta Comercial do Estado de São Paulo).

(b) The Loan Parties shall furnish the Lender with true and correct copies of such resolutions and powers of attorney authorizing the Amendment as the Lender may reasonably request within five calendar days of the Amendment Effective Date.

5.3 Waivers. This Amendment is limited solely to the matters expressly set forth herein and is specific in time and in intent and does not constitute, nor should it be construed as, a waiver or amendment of any other term or condition, right, power or privilege under the Credit Agreement or under any agreement, contract, indenture, document or instrument mentioned therein; nor does it preclude or prejudice any rights of the Lender thereunder, or any exercise thereof or the exercise of any other right, power or privilege, nor shall it require the Lender to agree to an amendment, waiver or consent for a similar transaction or on a future occasion, nor shall any future waiver of any right, power, privilege or default hereunder, or under any agreement, contract, indenture, document or instrument mentioned in the Credit Agreement, constitute a waiver of any other right, power, privilege or default of the same or of any other term or provision.

5.4 Loan Document. This Amendment is a Loan Document.

5.5 Counterparts. This Amendment may be executed in any number of counterparts, and all of such counterparts taken together shall be deemed to constitute one and the same instrument.

5.6 Governing Law. This Amendment shall be governed by and construed in accordance with the laws of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the date first written above.

ARCOS DORADOS B.V., as Borrower

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS SERCAL SERVICIOS, S.A. DE C.V., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS SERCAL INMOBILIARIA, S. DE R.L. DE C.V., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS DOURADOS COMERCIO DE ALIMENTOS, LTDA., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

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ARCOS DORADOS PUERTO RICO, INC., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

GOLDEN ARCH DEVELOPMENT CORPORATION, as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ADCR INMOBILIARIA S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS DORADOS URUGUAY S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

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ARCOS DEL SUR SRL., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ADUY S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS DORADOS COSTA RICA ADCR S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

SISTEMAS MCOPCO PANAMA S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

ARCOS DORADOS PANAMÁ S.A., as a Guarantor

By: /s/ Mariano Tannenbaum  
Name: Mariano Tannenbaum  
Title: Attorney-in-Fact

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STATE OF NEW YORK     )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados B.V., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**     /s/ Sherry J. Fyman

**Title:**   **Notary Public, State of New York**

No. 01FY5062523

Qualified in New York County

Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Sercal Servicios S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**    **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Sercal Inmobiliaria S. de R.L. de C.V., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title: Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dourados Comercio de Alimentos, Ltda., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**     /s/ Sherry J. Fyman

**Title:**   **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK     )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados Puerto Rico, Inc., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**     /s/ Sherry J. Fyman

**Title:**   **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Golden Arch Development Corporation, one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**     **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of ADCR Inmobiliaria S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**    **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados Uruguay S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**    **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos del Sur SRL., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**    **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Aduy S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**     **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados Costa Rica ADCR S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**    **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK     )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Sistemas McOpCo Panama, S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**     /s/ Sherry J. Fyman

**Title:**   **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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STATE OF NEW YORK        )  
                                  )  
COUNTY OF NEW YORK    )

On this 2<sup>nd</sup> day of August, 2013, before me, a notary public within and for said county, personally appeared Mariano Tannenbaum to me personally known who being duly sworn, did say that he is the Attorney-in-Fact of Arcos Dorados Panamá S.A., one of the persons described in and which executed the foregoing instrument, and acknowledges said instrument to be the free act and deed of said persons.

**By:**        /s/ Sherry J. Fyman

**Title:**     **Notary Public, State of New York**  
No. 01FY5062523  
Qualified in New York County  
Commission Expires July 1, 2017

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Subsidiaries of Registrant

Name	Place of Incorporation
Adcon S.A.	Argentina
Administrative Development Company	Delaware
Aduy S.A.	Uruguay
Alimentos Arcos Dorados de Venezuela C.A.	Venezuela
Alimentos Arcos Dorados Margarita, C.A.	Venezuela
Alimentos Arcos Dorados Punto Fijo, C.A.	Venezuela
Alimentos Latinoamericanos Venezuela ALV, C.A.	Venezuela
Arcgold del Ecuador, S.A.	Ecuador
Arcos del Sur, S.R.L.	Uruguay
Arcos Dorados Argentina S.A.	Argentina
Arcos Dorados Aruba N.V.	Aruba
Arcos Dorados B.V.	Netherlands
Arcos Dorados Caribbean Development Corp.	Delaware
Arcos Dorados Colombia S.A.S	Colombia
Arcos Dorados Coöperatieve U.A.	Netherlands
Arcos Dorados Costa Rica ADCR, S.A.	Costa Rica
Arcos Dorados Costa Rica Inmobiliaria, S.A.	Costa Rica
Arcos Dorados Curacao, N.V.	Curacao
Arcos Dorados French Guiana	French Guiana
Arcos Dorados Guadeloupe	Guadeloupe
Arcos Dorados Martinique	Martinique
Arcos Dorados Panama, S.A.	Panama
Arcos Dorados Puerto Rico, LLC	Puerto Rico
Arcos Dorados Restaurantes de Chile, Ltda.	Chile
Arcos Dorados Trinidad Limited	Trinidad
Arcos Dorados USVI, Inc.(St. Croix)	USVI
Arcos Dourados Comercio de Alimentos Ltda.	Brazil
Arcos Dourados Restaurantes Ltda.	Brazil
Arcos SerCal Inmobiliaria, S. de R.L. de C.V.	Mexico
Arcos SerCal Servicios, S.A. de C.V.	Mexico
Arcos Dorados BraPa S.A.	Panama
Centro Especializado de Negocios Internacionales, S. de R. de C.V.	Mexico
Compañía de Inversiones Inmobiliarias (C.I.I.) S.A.	Argentina
Complejo Agropecuario Carnico (Carnicos), C.A.	Venezuela
Arcos Dorados Uruguay S.A. (Gauchito de Oro S.A.)	Uruguay
Gerencia Operativa ARC, C.A.	Venezuela
Compañía Operativa de Alimentos COR, C.A.	Venezuela
Golden Arch Development LLC	Delaware
LatAm, LLC	Delaware
Logistics and Manufacturing LOMA Co.	Delaware
Management Operations Company	Delaware
Operaciones Arcos Dorados de Perú, S.A.	Perú
Restaurant Realty of Mexico, Inc.	Delaware

Sistemas Central America, S.A.  
Sistemas McOpCo Panama, S.A.  
Arcos Dorados Latam LLC  
Arcos SEM Panama SA  
Arcos Dorados Paisas Ltda.  
Arcos Dorados Paisa Ltda. & Cía SCA

Panama  
Panama  
Delaware  
Panama  
Colombia  
Colombia

## CERTIFICATION

I, Woods Staton, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2014

/s/ Woods Staton  
Woods Staton  
Chief Executive Officer

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## CERTIFICATION

I, Germán Lemonnier, certify that:

1. I have reviewed this annual report on Form 20-F of Arcos Dorados Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 28, 2014

/s/ Germán Lemonnier  
Germán Lemonnier  
Chief Financial Officer

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## CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2013 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Woods Staton, the Chief Executive Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 28, 2014

/s/ Woods Staton  
Name: Woods Staton  
Chief Executive Officer

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## CERTIFICATION

The certification set forth below is being submitted in connection with the annual report of Arcos Dorados Holdings Inc. on Form 20-F for the year ended December 31, 2013 (the "Report") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code. Germán Lemonnier, the Chief Financial Officer of Arcos Dorados Holdings Inc., certifies that, to the best of his knowledge:

1. the Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Arcos Dorados Holdings Inc.

Date: April 28, 2014

/s/ Germán Lemonnier  
Name: Germán Lemonnier  
Chief Financial Officer

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Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

- (1) Registration Statement (Form F-3ASR No. 333-187531) of Arcos Dorados Holdings Inc., and
- (2) Registration Statement (Form S-8 No. 333-173496) pertaining to the Equity Incentive Plan of Arcos Dorados Holdings Inc;

of our reports dated March 11, 2014, with respect to the consolidated financial statements and the effectiveness of internal control over financial reporting of Arcos Dorados Holdings Inc., included in this Annual Report (Form 20-F) for the year ended December 31, 2013.

Buenos Aires, Argentina  
April 28, 2014

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/s/ Pistrelli, Henry Martin y Asociados S.R.L.  
PISTRELLI, HENRY MARTIN Y ASOCIADOS S.R.L.  
Member of Ernst & Young Global