
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D. C. 20549

FORM 10-Q

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934** for the quarterly period ended September 5, 2015

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 1-13163

YUM! BRANDS, INC.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of
incorporation or organization)

1441 Gardiner Lane, Louisville, Kentucky
(Address of principal executive offices)

13-3951308

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

40213
(Zip Code)

Registrant's telephone number, including area code: (502) 874-8300

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

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

The number of shares outstanding of the Registrant's Common Stock as of October 13, 2015 was 431,241,627 shares.

YUM! BRANDS, INC.

INDEX

	<u>Page No.</u>
Part I. Financial Information	
Item 1 - Financial Statements	
Condensed Consolidated Statements of Income - Quarters and Years to date ended September 5, 2015 and September 6, 2014	3
Condensed Consolidated Statements of Comprehensive Income - Quarters and Years to date ended September 5, 2015 and September 6, 2014	4
Condensed Consolidated Statements of Cash Flows – Years to date ended September 5, 2015 and September 6, 2014	5
Condensed Consolidated Balance Sheets – September 5, 2015 and December 27, 2014	6
Notes to Condensed Consolidated Financial Statements	7
Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations	17
Item 3 - Quantitative and Qualitative Disclosures about Market Risk	33
Item 4 – Controls and Procedures	33
Report of Independent Registered Public Accounting Firm	35
Part II. Other Information and Signatures	
Item 1 – Legal Proceedings	36
Item 1A – Risk Factors	36
Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds	36
Item 6 – Exhibits	37
Signatures	38

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions, except per share data)

	Quarter ended		Year to date	
	9/5/2015	9/6/2014	9/5/2015	9/6/2014
Revenues				
Company sales	\$ 2,968	\$ 2,891	\$ 7,806	\$ 7,941
Franchise and license fees and income	459	463	1,348	1,341
Total revenues	3,427	3,354	9,154	9,282
Costs and Expenses, Net				
Company restaurant expenses				
Food and paper	933	951	2,462	2,562
Payroll and employee benefits	625	642	1,720	1,755
Occupancy and other operating expenses	871	869	2,292	2,326
Company restaurant expenses	2,429	2,462	6,474	6,643
General and administrative expenses	328	323	976	946
Franchise and license expenses	65	42	146	109
Closures and impairment (income) expenses	3	6	30	30
Refranchising (gain) loss	2	(20)	60	(27)
Other (income) expense	(3)	(9)	(12)	(19)
Total costs and expenses, net	2,824	2,804	7,674	7,682
Operating Profit	603	550	1,480	1,600
Interest expense, net	32	28	99	90
Income Before Income Taxes	571	522	1,381	1,510
Income tax provision	145	119	358	370
Net income – including noncontrolling interests	426	403	1,023	1,140
Net income (loss) – noncontrolling interests	5	(1)	5	3
Net Income – YUM! Brands, Inc.	\$ 421	\$ 404	\$ 1,018	\$ 1,137
Basic Earnings Per Common Share	\$ 0.97	\$ 0.91	\$ 2.33	\$ 2.55
Diluted Earnings Per Common Share	\$ 0.95	\$ 0.89	\$ 2.29	\$ 2.50
Dividends Declared Per Common Share	\$ —	\$ —	\$ 0.82	\$ 0.74

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions)

	Quarter ended		Year to date	
	9/5/2015	9/6/2014	9/5/2015	9/6/2014
Net Income - including noncontrolling interests	\$ 426	\$ 403	\$ 1,023	\$ 1,140
Other comprehensive income (loss), net of tax				
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature				
Adjustments and gains (losses) arising during the period	(122)	33	(174)	(29)
Reclassification of adjustments and (gains) losses into Net Income	12	—	80	2
	(110)	33	(94)	(27)
Tax (expense) benefit	1	1	1	(2)
	(109)	34	(93)	(29)
Changes in pension and post-retirement benefits				
Unrealized gains (losses) arising during the period	(3)	(9)	(1)	(20)
Reclassification of (gains) losses into Net Income	11	6	34	20
	8	(3)	33	—
Tax (expense) benefit	(3)	1	(12)	—
	5	(2)	21	—
Changes in derivative instruments				
Unrealized gains (losses) arising during the period	8	—	20	—
Reclassification of (gains) losses into Net Income	(10)	—	(22)	(1)
	(2)	—	(2)	(1)
Tax (expense) benefit	—	—	—	—
	(2)	—	(2)	(1)
Other comprehensive income (loss), net of tax	(106)	32	(74)	(30)
Comprehensive Income - including noncontrolling interests	320	435	949	1,110
Comprehensive Income (loss) - noncontrolling interests	4	1	3	1
Comprehensive Income - YUM! Brands, Inc.	\$ 316	\$ 434	\$ 946	\$ 1,109

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions)

	Year to date	
	9/5/2015	9/6/2014
Cash Flows – Operating Activities		
Net Income – including noncontrolling interests	\$ 1,023	\$ 1,140
Depreciation and amortization	505	501
Closures and impairment (income) expenses	30	30
Refranchising (gain) loss	60	(27)
Contributions to defined benefit pension plans	(83)	(17)
Deferred income taxes	(42)	(94)
Equity income from investments in unconsolidated affiliates	(31)	(31)
Distributions of income received from unconsolidated affiliates	9	12
Excess tax benefits from share-based compensation	(46)	(29)
Share-based compensation expense	40	36
Changes in accounts and notes receivable	(15)	(25)
Changes in inventories	62	24
Changes in prepaid expenses and other current assets	(27)	(3)
Changes in accounts payable and other current liabilities	197	59
Changes in income taxes payable	111	(24)
Other, net	24	60
Net Cash Provided by Operating Activities	1,817	1,612
Cash Flows – Investing Activities		
Capital spending	(642)	(655)
Changes in short-term investments, net	(2)	(315)
Proceeds from refranchising of restaurants	72	66
Other, net	50	(16)
Net Cash Used in Investing Activities	(522)	(920)
Cash Flows – Financing Activities		
Repayments of long-term debt	(10)	(7)
Short-term borrowings by original maturity		
More than three months - proceeds	—	2
More than three months - payments	—	—
Three months or less, net	—	—
Revolving credit facilities, three months or less, net	(116)	397
Repurchase shares of Common Stock	(370)	(510)
Excess tax benefits from share-based compensation	46	29
Employee stock option proceeds	12	21
Dividends paid on Common Stock	(532)	(490)
Other, net	(49)	(28)
Net Cash Used in Financing Activities	(1,019)	(586)
Effect of Exchange Rates on Cash and Cash Equivalents	7	6
Net Increase in Cash and Cash Equivalents	283	112
Cash and Cash Equivalents - Beginning of Period	578	573
Cash and Cash Equivalents - End of Period	\$ 861	\$ 685

See accompanying Notes to Condensed Consolidated Financial Statements.

CONDENSED CONSOLIDATED BALANCE SHEETS

YUM! BRANDS, INC. AND SUBSIDIARIES

(in millions)

	(Unaudited)	
	9/5/2015	12/27/2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 861	\$ 578
Accounts and notes receivable, net	355	325
Inventories	230	301
Prepaid expenses and other current assets	248	254
Deferred income taxes	113	93
Advertising cooperative assets, restricted	112	95
Total Current Assets	<u>1,919</u>	<u>1,646</u>
Property, plant and equipment, net	4,263	4,498
Goodwill	674	700
Intangible assets, net	287	318
Investments in unconsolidated affiliates	53	52
Other assets	547	560
Deferred income taxes	563	571
Total Assets	<u>\$ 8,306</u>	<u>\$ 8,345</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 1,811	\$ 1,972
Income taxes payable	153	77
Short-term borrowings	566	267
Advertising cooperative liabilities	112	95
Total Current Liabilities	<u>2,642</u>	<u>2,411</u>
Long-term debt	2,651	3,077
Other liabilities and deferred credits	1,120	1,244
Total Liabilities	<u>6,413</u>	<u>6,732</u>
Redeemable noncontrolling interest	<u>8</u>	<u>9</u>
Shareholders' Equity		
Common Stock, no par value, 750 shares authorized; 431 and 434 shares issued in 2015 and 2014, respectively	8	—
Retained earnings	2,079	1,737
Accumulated other comprehensive income (loss)	(262)	(190)
Total Shareholders' Equity – YUM! Brands, Inc.	<u>1,825</u>	<u>1,547</u>
Noncontrolling interests	60	57
Total Shareholders' Equity	<u>1,885</u>	<u>1,604</u>
Total Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity	<u>\$ 8,306</u>	<u>\$ 8,345</u>

See accompanying Notes to Condensed Consolidated Financial Statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

(Tabular amounts in millions, except per share data)

Note 1 - Financial Statement Presentation

We have prepared our accompanying unaudited Condensed Consolidated Financial Statements ("Financial Statements") in accordance with the rules and regulations of the Securities and Exchange Commission ("SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by Generally Accepted Accounting Principles in the United States ("GAAP") for complete financial statements. Therefore, we suggest that the accompanying Financial Statements be read in conjunction with the Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 ("2014 Form 10-K").

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as "YUM" or the "Company") comprise primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the "Concepts"). References to YUM throughout these Notes to our Financial Statements are made using the first person notations of "we," "us" or "our."

YUM consists of five reporting segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

YUM's fiscal year ends on the last Saturday in December. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks. Our subsidiaries operate on similar fiscal calendars except that China, India and certain other international subsidiaries operate on a monthly calendar with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. International businesses within our KFC, Pizza Hut and Taco Bell divisions close approximately one month earlier to facilitate consolidated reporting.

Our preparation of the accompanying Financial Statements in conformity with GAAP requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Financial Statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

The accompanying Financial Statements include all normal and recurring adjustments considered necessary to present fairly, when read in conjunction with our 2014 Form 10-K, our financial position as of September 5, 2015, and the results of our operations and comprehensive income for the quarters and years to date ended September 5, 2015 and September 6, 2014 and cash flows for the years to date ended September 5, 2015 and September 6, 2014. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year.

Our significant interim accounting policies include the recognition of certain advertising and marketing costs, generally in proportion to revenue, and the recognition of income taxes using an estimated annual effective tax rate.

We have reclassified certain items in the Financial Statements for the prior periods to be comparable with the classification for the quarter and year to date ended September 5, 2015. These reclassifications had no effect on previously reported Net Income - YUM! Brands, Inc.

Note 2 - Earnings Per Common Share (“EPS”)

	Quarter ended		Year to date	
	2015	2014	2015	2014
Net Income – YUM! Brands, Inc.	\$ 421	\$ 404	\$ 1,018	\$ 1,137
Weighted-average common shares outstanding (for basic calculation)	436	443	437	445
Effect of dilutive share-based employee compensation	8	9	8	10
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	444	452	445	455
Basic EPS	\$ 0.97	\$ 0.91	\$ 2.33	\$ 2.55
Diluted EPS	\$ 0.95	\$ 0.89	\$ 2.29	\$ 2.50
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation ^(a)	4.2	5.2	4.3	5.4

(a) These unexercised employee stock options and stock appreciation rights were not included in the computation of diluted EPS because to do so would have been antidilutive for the periods presented.

Note 3 - Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during the years to date ended as indicated below. All amounts exclude applicable transaction fees.

Authorization Date	Shares Repurchased (thousands)		Dollar Value of Shares Repurchased		Remaining Dollar Value of Shares that may be Repurchased
	2015	2014	2015	2014	2015
November 2012	—	2,737	\$ —	\$ 203	\$ —
November 2013	1,779	4,093	133	307	—
November 2014	2,737	—	237	—	763
Total	4,516	6,830	\$ 370	\$ 510	\$ 763

Changes in accumulated other comprehensive income (loss) ("OCI") are presented below.

	Translation Adjustments and Gains (Losses) From Intra- Entity Transactions of a Long- Term Nature	Pension and Post- Retirement Benefits	Derivative Instruments	Total
Balance at December 27, 2014, net of tax	\$ 29	\$ (210)	\$ (9)	\$ (190)
Gains (losses) arising during the year classified into accumulated OCI, net of tax	(171)	—	16	(155)
(Gains) losses reclassified from accumulated OCI, net of tax	80	21	(18)	83
OCI, net of tax	(91)	21	(2)	(72)
Balance at September 5, 2015, net of tax	\$ (62)	\$ (189)	\$ (11)	\$ (262)

Note 4 - Items Affecting Comparability of Net Income and Cash Flows

Refranchising (Gain) Loss

The Refranchising (gain) loss by reportable segment is presented below. We do not allocate such gains and losses to our segments for performance reporting purposes.

	Quarter ended		Year to date	
	2015	2014	2015	2014
China	\$ (3)	\$ (6)	\$ (7)	\$ (12)
KFC Division ^(a)	4	(10)	36	(10)
Pizza Hut Division ^(a)	15	(3)	52	(4)
Taco Bell Division	(14)	—	(21)	(1)
India	—	(1)	—	—
Worldwide	<u>\$ 2</u>	<u>\$ (20)</u>	<u>\$ 60</u>	<u>\$ (27)</u>

- (a) In 2010 we refranchised our then-remaining Company-operated restaurants in Mexico. To the extent we owned it, we did not sell the real estate related to certain of these restaurants, instead leasing it to the franchisee. During the quarter ended June 13, 2015 we initiated plans to sell this real estate and determined it was held for sale in accordance with GAAP. On September 28, 2015, subsequent to our quarter ended September 5, 2015, we sold the real estate for approximately \$58 million. While these proceeds exceeded the book value of the real estate, the sale represents a substantial liquidation of our Mexican operations under GAAP. Accordingly, we were required to include accumulated translation losses associated with our Mexican business within our carrying value when performing impairment evaluations subsequent to determining that the restaurants were held for sale. As such, we recorded charges of \$12 million and \$80 million in the quarter and year to date ended September 5, 2015, respectively, representing the excess of the sum of the book value of the real estate and other related assets and our accumulated translation losses over the then-expected sales price. Consistent with the classification of the original market refranchising transaction, these charges were classified as Refranchising Loss. Refranchising Losses of \$4 million and \$40 million were associated with the KFC Division for the quarter and year to date ended September 5, 2015, respectively. Refranchising Losses of \$8 million and \$40 million were associated with the Pizza Hut Division for the quarter and year to date ended September 5, 2015, respectively. The proceeds ultimately received for the real estate approximated our carrying value including the remaining unrecognized accumulated translation losses as of September 5, 2015.

Our KFC and Pizza Hut Divisions earned approximately \$3 million and \$1 million, respectively, of rental income in 2014 related to this real estate that will transfer to the buyer subsequent to the sale of the real estate. We will continue to earn U.S. dollar-denominated franchise fees, most of which are sales-based royalties, under our existing franchise contracts.

Additionally, during the quarter and year to date ended September 5, 2015 we recognized charges of \$8 million and \$13 million, respectively, within Refranchising Loss associated with the planned refranchising of our company-owned Pizza Hut restaurants in Korea. The remaining carrying value of these restaurants is not significant. While additional gains or losses may occur as the refranchising plans move forward, such amounts are not expected to be material at this time.

KFC U.S. Acceleration Agreement

During the first quarter of 2015, we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to expanded menu offerings, improved assets and enhanced customer experience. In connection with this agreement we anticipate investing approximately \$125 million over the next three years primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. We have recorded charges of \$21 million and \$31 million for the quarter and year to date ended September 5, 2015, respectively, for these investments. We currently expect a total charge of approximately \$80 million in 2015 for these investments, with the remaining charge split between 2016 and 2017. These charges are not being allocated to the KFC Division segment operating results.

In addition to the investments above we have agreed to fund incremental system advertising dollars of \$60 million. We currently expect to fund approximately \$10 million of such advertising in 2015 with the remaining funding split between 2016 and 2017. These amounts are being recorded in the KFC Division segment operating results. During the quarter and year to date ended September 5, 2015, we expensed \$3 million and \$6 million, respectively, in incremental system advertising expense.

Note 5 - Other (Income) Expense

	Quarter ended		Year to date	
	2015	2014	2015	2014
Equity (income) loss from investments in unconsolidated affiliates	\$ (15)	\$ (9)	\$ (31)	\$ (31)
Foreign exchange net (gain) loss and other	12	—	19	12
Other (income) expense	\$ (3)	\$ (9)	\$ (12)	\$ (19)

Note 6 - Supplemental Balance Sheet InformationAccounts and Notes Receivable, net

The Company's receivables are primarily generated as a result of ongoing business relationships with our franchisees and licensees as a result of royalty and lease agreements. Trade receivables consisting of royalties from franchisees and licensees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable on our Condensed Consolidated Balance Sheets.

	9/5/2015	12/27/2014
Accounts and notes receivable, gross	\$ 375	\$ 337
Allowance for doubtful accounts	(20)	(12)
Accounts and notes receivable, net	\$ 355	\$ 325

Property, Plant and Equipment, net

	9/5/2015	12/27/2014
Property, plant and equipment, gross	\$ 7,960	\$ 8,082
Accumulated depreciation and amortization	(3,697)	(3,584)
Property, plant and equipment, net	\$ 4,263	\$ 4,498

Assets held for sale, which are classified within Prepaid expenses and other current assets on our Condensed Consolidated Balance Sheets, total \$34 million at September 5, 2015, including \$22 million related to our Mexico business. Assets held for sale at December 27, 2014 totaled \$14 million.

Noncontrolling Interests

Noncontrolling interests include the ownership interests of minority shareholders of the entities that operate KFC restaurants in Beijing and Shanghai, China. The redeemable noncontrolling interest comprises the 7% ownership interest in Little Sheep that continues to be held by the Little Sheep founding shareholders, and is classified outside of permanent equity on our Condensed Consolidated Balance Sheets due to redemption rights held by the founding Little Sheep shareholders. A reconciliation of the beginning and ending carrying amount of the equity attributable to noncontrolling interests is as follows:

	Noncontrolling Interests	Redeemable Noncontrolling Interest
Balance at December 27, 2014	\$ 57	\$ 9
Net Income (loss) – noncontrolling interests	6	(1)
Currency translation adjustments and other	(3)	—
Balance at September 5, 2015	\$ 60	\$ 8

Note 7 - Income Taxes

	Quarter ended		Year to date	
	2015	2014	2015	2014
Income tax provision	\$ 145	\$ 119	\$ 358	\$ 370
Effective tax rate	25.3%	22.7%	25.9%	24.5%

Our effective tax rate was lower than the U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside the U.S. where tax rates are generally lower than the U.S. rate.

Our third quarter and year to date effective tax rates were higher than the prior year primarily due to the refranchising loss (See Note 4 for details of refranchising loss) with no associated tax benefit related to the decision to dispose of our real estate in Mexico and the unfavorable impact associated with a valuation allowance charge resulting from a change in judgment regarding the future use of certain deferred tax assets in a foreign market, partially offset by a reduction in the year-over-year expected cost of repatriating foreign earnings.

Note 8 - Reportable Operating Segments

We identify our operating segments based on management responsibility. See Note 1 for a description of our operating segments. The following tables summarize Revenues and Operating Profit (loss) for each of our reportable operating segments:

	Quarter ended		Year to date	
	2015	2014	2015	2014
Revenues				
China	\$ 1,969	\$ 1,840	\$ 4,861	\$ 4,928
KFC Division	694	771	2,030	2,189
Pizza Hut Division	262	264	797	796
Taco Bell Division	473	443	1,380	1,273
India	29	36	86	96
	<u>\$ 3,427</u>	<u>\$ 3,354</u>	<u>\$ 9,154</u>	<u>\$ 9,282</u>
	Quarter ended		Year to date	
	2015	2014	2015	2014
Operating Profit (loss)				
China ^(a)	\$ 327	\$ 202	\$ 661	\$ 681
KFC Division	150	169	471	487
Pizza Hut Division	67	68	208	215
Taco Bell Division	132	124	387	317
India	(8)	(3)	(15)	(7)
Unallocated and General and administrative expenses ^(b)	(53)	(33)	(153)	(116)
Unallocated Other income (expense)	(10)	3	(19)	(4)
Unallocated Refranchising gain (loss) ^(c)	(2)	20	(60)	27
Operating Profit	<u>\$ 603</u>	<u>\$ 550</u>	<u>\$ 1,480</u>	<u>\$ 1,600</u>
Interest expense, net	<u>(32)</u>	<u>(28)</u>	<u>(99)</u>	<u>(90)</u>
Income Before Income Taxes	<u>\$ 571</u>	<u>\$ 522</u>	<u>\$ 1,381</u>	<u>\$ 1,510</u>

(a) Includes equity income from investments in unconsolidated affiliates of \$15 million and \$9 million for the quarters ended September 5, 2015 and September 6, 2014, respectively. Includes equity income from investments in unconsolidated affiliates of \$31 million for both of the years to date ended September 5, 2015 and September 6, 2014.

(b) Primarily Corporate general and administrative ("G&A") expenses. Also included are costs associated with the KFC U.S. Acceleration Agreement of \$21 million and \$31 million for the quarter and year to date ended September 5, 2015, respectively. See Note 4.

(c) See the Refranchising (Gain) Loss section of Note 4.

Note 9 - Pension Benefits

We sponsor qualified and supplemental (non-qualified) noncontributory defined benefit pension plans covering certain full-time salaried and hourly U.S. employees. The most significant of these plans, the YUM Retirement Plan is funded. We fund our other U.S. plans as benefits are paid. The YUM Retirement Plan and our most significant non-qualified plan in the U.S. are closed to new salaried participants.

The components of net periodic benefit cost associated with our significant U.S. pension plans are as follows:

	Quarter ended		Year to date	
	2015	2014	2015	2014
Service cost	\$ 5	\$ 4	\$ 13	\$ 12
Interest cost	13	12	38	37
Expected return on plan assets	(15)	(13)	(43)	(39)
Amortization of net loss	10	4	31	12
Amortization of prior service cost	1	1	1	1
Net periodic benefit cost	<u>\$ 14</u>	<u>\$ 8</u>	<u>\$ 40</u>	<u>\$ 23</u>

Additional loss (gain) recognized due to:

Settlement (a)	\$ —	\$ 1	\$ 1	\$ 6
----------------	------	------	------	------

(a) Losses are a result of settlement transactions from a non-funded plan which exceeded the sum of annual service and interest costs for that plan. These losses were recorded in G&A expenses.

We contributed \$75 million to the YUM Retirement Plan during the year to date ended September 5, 2015. We do not anticipate any additional significant contributions during 2015.

Note 10 - Fair Value Measurements

As of September 5, 2015 the carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair values of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying values. The Company's debt obligations, excluding capital leases, were estimated to have a fair value of \$3.2 billion (Level 2), compared to their carrying value of \$3.1 billion. We estimated the fair value of debt using market quotes and calculations based on market rates.

The Company has interest rate swaps accounted for as fair value hedges, foreign currency swaps and forwards accounted for as cash flow hedges and other investments, all of which are required to be measured at fair value on a recurring basis. Interest rate swaps are used to reduce our exposure to interest rate risk and lower interest expense for a portion of our fixed-rate debt, and foreign currency swaps and forwards are used to reduce our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany receivables and payables. The fair values of these swaps, forwards and other investments were not material as of September 5, 2015.

The Company's long-lived assets such as property, plant and equipment, goodwill and intangible assets are measured at fair value on a non-recurring basis if determined to be impaired. During the quarter and year to date ended September 5, 2015, we recorded restaurant-level impairment (Level 3) of \$1 million and \$19 million, respectively. During the year to date ended September 4, 2014, we recorded restaurant-level impairment (Level 3) of \$15 million. The remaining net book value of the assets measured at fair value as of September 5, 2015, subsequent to these impairments, was not significant.

In addition, during the year to date ended September 5, 2015, we initiated plans to sell real estate within our Mexico business and determined it was held for sale. See Note 4.

Note 11 - Recently Adopted Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-08, *Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity* (ASU 2014-08), which limits dispositions that qualify for discontinued operations presentation to those that represent strategic shifts that have or will have a major effect on an entity's operations and financial results. Strategic shifts could include a disposal of a major geographical area, a major line of business, a major equity method investment or other major parts of the business. ASU 2014-08 was effective for the Company beginning with the quarter ended March 21, 2015. The adoption of this standard has not had an impact on our Financial Statements.

Note 12 - Guarantees, Commitments and Contingencies

Lease Guarantees

As a result of having (a) assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributed certain Company restaurants to former unconsolidated affiliates; and (c) guaranteed certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of September 5, 2015, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessees was approximately \$600 million. The present value of these potential payments discounted at our pre-tax cost of debt at September 5, 2015 was approximately \$500 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreements in the event of non-payment under the leases. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases as of September 5, 2015 was not material.

Other Franchise Guarantees

We have provided guarantees of \$20 million on behalf of franchisees for several financing programs related to specific initiatives. The total loans outstanding under these financing programs were \$70 million as of September 5, 2015.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. An accrual is recorded with respect to claims or contingencies for which a loss is determined to be probable and reasonably estimable.

In early 2013, four putative class action complaints were filed in the U.S. District Court for the Central District of California against the Company and certain executive officers alleging claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934. Plaintiffs alleged that defendants made false and misleading statements concerning the Company's current and future business and financial condition. The four complaints were subsequently consolidated and transferred to the U.S. District Court for the Western District of Kentucky. On August 5, 2013, lead plaintiff, Frankfurt Trust Investment GmbH, filed a Consolidated Class Action Complaint ("Amended Complaint") on behalf of a putative class of all persons who purchased the Company's stock between February 6, 2012 and February 4, 2013 (the "Class Period"). The Amended Complaint no longer includes allegations relating to misstatements regarding the Company's business or financial condition and instead alleges that, during the Class Period, defendants purportedly omitted information about the Company's supply chain in China, thereby inflating the prices at which the Company's securities traded. On October 4, 2013, the Company and individual defendants filed a motion to dismiss the Amended Complaint. On December 24, 2014, the District Court granted that motion to dismiss in its entirety and dismissed the Amended Complaint with prejudice. On January 16, 2015, lead plaintiff filed a notice of appeal to the United States Court of Appeal for the Sixth Circuit. Oral argument of plaintiff's appeal took place on August 4, 2015. On August 20, 2015, a three judge panel of the United States Court of Appeal for the Sixth Circuit unanimously affirmed dismissal of all claims against the Company and the individual defendants. Lead plaintiff did not file a petition for panel rehearing or a petition for hearing en banc before the applicable deadlines. The deadline for the plaintiff to file a petition for certiorari to the U.S. Supreme Court is November 18, 2015. The Company denies liability and intends to vigorously defend against all claims in the Amended Complaint. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On January 24, 2013, Bert Bauman, a purported shareholder of the Company, submitted a letter demanding that the Board of Directors initiate an investigation of alleged breaches of fiduciary duties by directors, officers and employees of the Company. The breaches of fiduciary duties are alleged to have arisen primarily as a result of the failure to implement proper controls in connection with the Company's purchases of poultry from suppliers to the Company's China operations. Subsequently, similar

demand letters by other purported shareholders were submitted. Those letters were referred to a special committee of the Board of Directors (the “Special Committee”) for consideration. The Special Committee, upon conclusion of an independent inquiry of the matters described in the letters, unanimously determined that it is not in the best interests of the Company to pursue the claims described in the letters and, accordingly, rejected each shareholder’s demand.

On May 9, 2013, Mr. Bauman filed a putative derivative action in Jefferson Circuit Court, Commonwealth of Kentucky against certain current and former officers and directors of the Company asserting breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with an alleged failure to implement proper controls in the Company’s purchases of poultry from suppliers to the Company’s China operations and with an alleged scheme to mislead investors about the Company’s growth prospects in China. By agreement of the parties, the matter is temporarily stayed. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On February 14, 2013, Jennifer Zona, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On May 21, 2013, Ms. Zona filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman. The case was subsequently reassigned to the same judge that the securities class action is before. On October 14, 2013, the Company filed a motion to dismiss on the basis of the Special Committee’s findings. On October 14, 2015, the plaintiff filed a notice of voluntary dismissal.

On May 17, 2013, Sandra Wollman, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On December 9, 2013, Ms. Wollman filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain current and former officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman and Ms. Zona. This matter was consolidated with the *Zona* action, and on October 14, 2015 the plaintiff filed a notice of voluntary dismissal.

Taco Bell was named as a defendant in a number of putative class action suits filed in 2007, 2008, 2009 and 2010 alleging violations of California labor laws including unpaid overtime, failure to timely pay wages on termination, failure to pay accrued vacation wages, failure to pay minimum wage, denial of meal and rest breaks, improper wage statements, unpaid business expenses, wrongful termination, discrimination, conversion and unfair or unlawful business practices in violation of California Business & Professions Code §17200. Some plaintiffs also seek penalties for alleged violations of California’s Labor Code under California’s Private Attorneys General Act as well as statutory “waiting time” penalties and allege violations of California’s Unfair Business Practices Act. Plaintiffs seek to represent a California state-wide class of hourly employees.

These matters were consolidated, and the consolidated case is styled In Re Taco Bell Wage and Hour Actions. The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint in June 2009, and in March 2010 the court approved the parties’ stipulation to dismiss the Company from the action. Plaintiffs filed their motion for class certification on the vacation and final pay claims in December 2010, and on September 26, 2011 the court issued its order denying the certification of the vacation and final pay claims. Plaintiffs then sought to certify four separate meal and rest break classes. On January 2, 2013, the court rejected three of the proposed classes but granted certification with respect to the late meal break class. The parties thereafter agreed on a list of putative class members, and the class notice and opportunity to opt out of the litigation were mailed on January 21, 2014.

Per order of the court, plaintiffs filed a second amended complaint to clarify the class claims. Plaintiffs also filed a motion for partial summary judgment. Taco Bell filed motions to strike and to dismiss, as well as a motion to alter or amend the second amended complaint. On August 29, 2014, the court denied plaintiffs’ motion for partial summary judgment. On that same date, the court granted Taco Bell’s motion to dismiss all but one of the California Private Attorney General Act claims. On October 29, 2014, plaintiffs filed a motion to amend the operative complaint and a motion to amend the class certification order. On December 16, 2014, the court partially granted both motions, rejecting plaintiffs’ proposed on-duty meal period class but certifying a limited rest break class and certifying an underpaid meal premium class, and allowing the plaintiffs to amend the complaint to reflect those certifications. On December 30, 2014, plaintiffs filed the third amended complaint. On February 26, 2015, the court denied a motion by Taco Bell to dismiss or strike the underpaid meal premium class. Class notice was issued to the two recently-certified classes, and discovery and expert discovery commenced. On October 5, 2015, Taco Bell filed a motion to decertify the classes. The same day, Plaintiffs filed a motion for summary judgment.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. We have provided for a reasonable estimate of the possible loss relating to this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements. A reasonable estimate of the amount of any possible loss or range of loss in excess of that currently provided for in our Condensed Consolidated Financial Statements cannot be made at this time.

On May 16, 2013, a putative class action styled Bernardina Rodriguez v. Taco Bell Corp. was filed in California Superior Court. The plaintiff seeks to represent a class of current and former California hourly restaurant employees alleging various violations of California labor laws including failure to provide meal and rest periods, failure to pay hourly wages, failure to provide accurate written wage statements, failure to timely pay all final wages, and unfair or unlawful business practices in violation of California Business & Professions Code §17200. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell removed the case to federal court and, on June 25, 2013, plaintiff filed a first amended complaint to include a claim seeking penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act. Taco Bell's motion to dismiss or stay the action in light of the In Re Taco Bell Wage and Hour Actions case was denied on October 30, 2013. In April 2014 the parties stipulated to address the sufficiency of plaintiff's legal theory as to her discount meal break claim before conducting full discovery. A hearing on the parties' cross-summary judgment motions was held on October 22, 2014, and on October 23, 2014, the court granted Taco Bell's motion for summary judgment on the discount meal break claim and denied plaintiff's motion. Discovery is continuing as to plaintiff's remaining claims.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

We are engaged in various other legal proceedings and have certain unresolved claims pending, the ultimate liability for which, if any, cannot be determined at this time. However, based upon consultation with legal counsel, we are of the opinion that such proceedings and claims are not expected to have a material adverse effect, individually or in the aggregate, on our Condensed Consolidated Financial Statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Overview

Yum! Brands, Inc. ("YUM" or the "Company") operates, franchises or licenses a worldwide system of over 41,000 restaurants in more than 125 countries and territories, primarily through the concepts of KFC, Pizza Hut and Taco Bell. These three concepts are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the over 41,000 restaurants, 21% are operated by the Company and 79% are operated by franchisees, licensees or unconsolidated affiliates.

The Company is focused on the following key growth strategies:

- Building Powerful Brands Through Superior Marketing, Breakthrough Innovation and Compelling Value with a Foundation Built on Winning Food and World Class Operations
- Driving Aggressive Unit Expansion Everywhere, Especially in Emerging Markets, and Building Leading Brands in Every Significant Category in China and India
- Creating Industry Leading Returns Through Franchising and Disciplined Use of Capital, Maximizing Long-term Shareholder Value

YUM consists of five reporting segments:

- YUM China ("China" or "China Division") which includes all operations in mainland China
- YUM India ("India" or "India Division") which includes all operations in India, Bangladesh, Nepal and Sri Lanka
- The KFC Division which includes all operations of the KFC concept outside of China Division and India Division
- The Pizza Hut Division which includes all operations of the Pizza Hut concept outside of China Division and India Division
- The Taco Bell Division which includes all operations of the Taco Bell concept outside of India Division

This Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Cautionary Note Regarding Forward-Looking Statements and our Annual Report on Form 10-K for the fiscal year ended December 27, 2014 ("2014 Form 10-K"). References to YUM throughout this discussion are made in first person notations of "we," "us" or "our."

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including performance metrics that management uses to assess the Company's performance. Throughout this MD&A, we commonly discuss the following performance metrics:

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("FX" or "Forex"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, unconsolidated affiliate and license restaurants that operate our Concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants typically generate ongoing franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise and license fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.
- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the YUM system one year or more. The impact of same-store sales growth on both our Company-owned store results and Franchise and license fees and income is described elsewhere in this MD&A.

- Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Restaurant profit divided by Company sales. Within the Company Sales and Restaurant Profit analyses, Store Portfolio Actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in costs such as inflation/deflation.
- In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this MD&A, the Company provides non-GAAP measurements which present operating results on a basis before items that we have deemed Special. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present operations, excluding those items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

All Note references herein refer to the accompanying Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

Ongoing Earnings Growth Model

Our ongoing earnings growth model targets at least a 10% earnings per share ("EPS") growth rate, which is based on our ongoing Operating Profit growth targets of 15% in China, 10% for our KFC Division, 8% for our Pizza Hut Division and 6% for our Taco Bell Division. While we believe India is a significant long-term growth driver, our ongoing earnings growth model currently assumes no impact from India growth. See the Division discussions within the Results of Operations of this MD&A for further details of our Divisional growth models.

As communicated in December 2014 (see specific guidance provided in December 2014 at <http://www.yum.com>) we expected 2015 EPS, prior to Special Items, would decline in the first half of the year followed by a very strong second half resulting in at least 10% growth for the full year. This was predicated largely on our expectation that the China business would continue to recover from the adverse publicity in July 2014 surrounding improper food handling practices by a former supplier.

As expected, China Division sales turned significantly positive as we lapped last July's supplier incident. For the quarter ended September 5, 2015, same-store sales grew 2% for the China Division, including 3% growth at KFC and a 1% decline at Pizza Hut Casual Dining. However, these sales results trailed our expectations, particularly at Pizza Hut. Sales in China continue to be difficult to forecast due to ongoing volatility. For example, sales in the first week of October were substantially above expectations, while sales in the second week of October were substantially below expectations.

On this basis, we now estimate that China Division same-store sales for the fourth quarter could range from 0% to 4%, with positive same-store sales growth at KFC and negative same-store sales at Pizza Hut Casual Dining. Should the most recent trend persist, fourth-quarter same-store sales growth would be towards the lower end of this range; should trends improve, same-store sales growth would be towards the upper end of this range. For the full year, China Division same-store sales are expected to be low-single-digit negative, and China Division operating profit is expected to be about flat to prior year, excluding the impact of foreign exchange.

Compared to our outlook as of our second-quarter earnings release, we now expect incremental foreign exchange headwinds to negatively impact our full-year EPS growth rate by one to two percentage points. Combining this with the revised China sales trends outlined above, we now expect our EPS growth rate, prior to Special Items, to range from about flat to low-single-digit positive for the full year.

Beginning with October and through the end of the year, we will report monthly same-store sales to provide greater visibility to sales trends in China.

Results of Operations

Summary

All comparisons within this summary below are versus the same period a year ago and exclude the impact of Special Items.

For the quarter ended September 5, 2015 diluted EPS increased 14% to \$1.00 per share as sales and profits of our China Division, which is our largest profit contributor, began lapping the residual effects of adverse publicity in July 2014 surrounding improper food handling practices by a former supplier.

For the year to date ended September 5, 2015 diluted EPS increased 1% to \$2.50 per share as our Taco Bell and KFC Divisions sustained their positive sales and profit momentum, offsetting the first half decline in our China Division and underperformance in our Pizza Hut Division.

Quarter highlights:

	China Division	KFC Division	Pizza Hut Division	Taco Bell Division	India Division
System Sales Growth (Decline) ^(a)	8%	6%	2%	7%	(9)%
Operating Profit Growth (Decline) ^(a)	64%	3%	—%	6%	(186)%
Same-store Sales Growth (Decline)	2%	3%	1%	4%	(18)%
New Units	108	146	136	62	10

Additionally:

- Our effective tax rate increased to 24.8% from 22.4%.

Year to date highlights:

	China Division	KFC Division	Pizza Hut Division	Taco Bell Division	India Division
System Sales Growth (Decline) ^(a)	—%	7%	2%	8%	(3)%
Operating Profit Growth (Decline) ^(a)	(1)%	8%	(1)%	22%	(107)%
Same-store Sales Growth (Decline)	(6)%	3%	—%	5%	(14)%
New Units	359	341	307	167	31

Additionally:

- Our effective tax rate increased to 24.6% from 24.4%.

(a) System Sales and Operating Profit percentages as shown in table exclude the impact of foreign currency translation. Foreign currency translation negatively impacted reported Operating Profit by \$29 million and \$70 million, respectively, in the quarter and year to date ended September 5, 2015.

Worldwide

The Consolidated Results of Operations for the quarters and years to date ended September 5, 2015 and September 6, 2014 are presented below:

	Quarter ended			Year to date		
	2015	2014	% B/(W)	2015	2014	% B/(W)
Company sales	\$ 2,968	\$ 2,891	3	\$ 7,806	\$ 7,941	(2)
Franchise and license fees and income	459	463	(1)	1,348	1,341	—
Total revenues	<u>\$ 3,427</u>	<u>\$ 3,354</u>	2	<u>\$ 9,154</u>	<u>\$ 9,282</u>	(1)
Restaurant profit	\$ 539	\$ 429	25	\$ 1,332	\$ 1,298	3
Restaurant margin %	18.2%	14.9%	3.3 ppts.	17.1%	16.3%	0.8 ppts.
General and administrative ("G&A") expenses	\$ 328	\$ 323	(1)	\$ 976	\$ 946	(3)
Franchise and license expenses	65	42	(54)	146	109	(34)
Closures and impairment (income) expenses	3	6	48	30	30	2
Refranchising (gain) loss	2	(20)	NM	60	(27)	NM
Other (income) expense	(3)	(9)	(67)	(12)	(19)	(38)
Operating Profit	\$ 603	\$ 550	10	\$ 1,480	\$ 1,600	(7)
Interest expense, net	32	28	(11)	99	90	(9)
Income tax provision	145	119	(22)	358	370	3
Effective Tax Rate	25.3%	22.7%	(2.6) ppts.	25.9%	24.5%	(1.4) ppts.
Net Income – including noncontrolling interests	\$ 426	\$ 403	6	\$ 1,023	\$ 1,140	(10)
Net Income (loss) – noncontrolling interests	5	(1)	NM	5	3	(72)
Net Income – YUM! Brands, Inc.	<u>\$ 421</u>	<u>\$ 404</u>	4	<u>\$ 1,018</u>	<u>\$ 1,137</u>	(10)
Diluted earnings per share ^(a)	<u>\$ 0.95</u>	<u>\$ 0.89</u>	6	<u>\$ 2.29</u>	<u>\$ 2.50</u>	(9)
Diluted earnings per share before Special Items ^(a)	<u>\$ 1.00</u>	<u>\$ 0.87</u>	14	<u>\$ 2.50</u>	<u>\$ 2.48</u>	1

(a) See Note 2 for the number of shares used in this calculation.

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	—%	1%	—%	2%
System Sales Growth, excluding FX	6%	1%	4%	4%
Unit Count	9/5/2015	9/6/2014	% Increase (Decrease)	
Franchise & License	32,351	31,588	2	
Company-owned	8,795	8,295	6	
Unconsolidated Affiliates	778	735	6	
	<u>41,924</u>	<u>40,618</u>	3	

Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

Detail of Special Items	Quarter ended		Year to date	
	2015	2014	2015	2014
Gains (Losses) associated with the refranchising of equity markets outside the U.S.	\$ (20)	\$ 7	\$ (93)	\$ 7
Costs associated with KFC U.S. Acceleration Agreement	(21)	—	(31)	—
U.S. Refranchising gain ^(a)	16	8	24	11
Other Special Items Income (Expense)	(1)	—	1	—
Total Special Items Income (Expense)	(26)	15	(99)	18
Tax Benefit (Expense) on Special Items ^(b)	4	(5)	5	(6)
Special Items Income (Expense), net of tax	\$ (22)	\$ 10	\$ (94)	\$ 12
Average diluted shares outstanding	444	452	445	455
Special Items diluted EPS	\$ (0.05)	\$ 0.02	\$ (0.21)	\$ 0.02
Reconciliation of Operating Profit Before Special Items to Reported Operating Profit				
Operating Profit before Special Items	\$ 629	\$ 535	\$ 1,579	\$ 1,582
Special Items Income (Expense)	(26)	15	(99)	18
Reported Operating Profit	\$ 603	\$ 550	\$ 1,480	\$ 1,600
Reconciliation of EPS Before Special Items to Reported EPS				
Diluted EPS before Special Items	\$ 1.00	\$ 0.87	\$ 2.50	\$ 2.48
Special Items EPS	(0.05)	0.02	(0.21)	0.02
Reported EPS	\$ 0.95	\$ 0.89	\$ 2.29	\$ 2.50
Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate				
Effective Tax Rate before Special Items	24.8%	22.4%	24.6%	24.4%
Impact on Tax Rate as a result of Special Items ^(b)	0.5%	0.3%	1.3%	0.1%
Reported Effective Tax Rate	25.3%	22.7%	25.9%	24.5%

(a) Refranchising gains and losses in the U.S. have been reflected as Special Items due to the scope of our U.S. refranchising program in recent years and the volatility in associated gains and losses.

(b) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items.

Refranchising of Equity Markets Outside the U.S.

In 2010 we refranchised our then-remaining Company-operated restaurants in Mexico. To the extent we owned it, we did not sell the real estate related to certain of these restaurants, instead leasing it to the franchisee. During the quarter ended June 13, 2015 we initiated plans to sell this real estate and determined it was held for sale in accordance with GAAP. On September 28, 2015, subsequent to our quarter end, we sold the real estate for approximately \$58 million. While these proceeds exceeded the book value of the real estate, the sale represents a substantial liquidation of our Mexican operations under GAAP. Accordingly, we were required to include accumulated translation losses associated with our Mexican business within our carrying value when performing impairment evaluations subsequent to determining that the restaurants were held for sale. As such, we recorded charges of \$12 million and \$80 million in the quarter and year to date ended September 5, 2015, respectively, representing the excess of the sum of the book value of the real estate and other related assets and our accumulated translation losses over the then-expected sales price. As the expected sales price in these calculations exceeded the tax basis in the real estate and other related assets being sold, we have not recognized any related tax benefit associated with these charges. Consistent with the classification of the original market refranchising transaction, these charges were classified as Refranchising Loss within Special Items. The proceeds ultimately received for the real estate approximated our carrying value, including the remaining unrecognized accumulated translation losses, as of September 5, 2015.

Additionally, during the quarter and year to date ended September 5, 2015 we recognized Special Items charges of \$8 million and \$13 million, respectively, associated with the planned refranchising of our company-owned Pizza Hut restaurants in Korea. The remaining carrying value of these restaurants is not significant. While additional gains or losses may occur as the refranchising plans move forward, such amounts are not expected to be material at this time.

KFC U.S. Acceleration Agreement

During the first quarter of 2015, we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to expanded menu offerings, improved assets and enhanced customer experience. In connection with this agreement we anticipate investing approximately \$125 million over the next three years primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. We have recorded charges for the quarter and year to date ended September 5, 2015 of \$21 million and \$31 million, respectively, for these investments. We currently expect a total charge of approximately \$80 million in 2015 for these investments, with the remaining charge split between 2016 and 2017. These charges are not being allocated to the KFC Division segment operating results and are instead being presented as Special Items due to their unique and long-term brand-building nature.

China Division

The China Division has 6,867 units, predominately KFC and Pizza Hut Casual Dining restaurants which are the leading quick service and casual dining restaurant brands, respectively, in mainland China. Given our strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company is focused on rapidly adding KFC and Pizza Hut Casual Dining restaurants and accelerating the development of Pizza Hut Home Service (home delivery). Our ongoing earnings growth model in China includes low-double-digit percentage unit additions, mid-single-digit same-store sales growth and moderate margin improvement, which we expect to drive annual Operating Profit growth of 15%.

	Quarter ended				Year to date			
	2015	2014	% B/(W)		2015	2014	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
Company sales	\$ 1,935	\$ 1,809	7	8	\$ 4,778	\$ 4,848	(1)	—
Franchise and license fees and income	34	31	13	14	83	80	4	6
Total revenues	<u>\$ 1,969</u>	<u>\$ 1,840</u>	7	8	<u>\$ 4,861</u>	<u>\$ 4,928</u>	(1)	—
Restaurant profit	\$ 379	\$ 269	41	43	\$ 846	\$ 869	(3)	(1)
Restaurant margin %	19.6%	14.9%	4.7 ppts.	4.7 ppts.	17.7%	17.9%	(0.2) ppts.	(0.1) ppts.
G&A expenses	\$ 90	\$ 95	5	4	\$ 258	\$ 259	—	(1)
Operating Profit	\$ 327	\$ 202	62	64	\$ 661	\$ 681	(3)	(1)

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	7%	(10)%	(1)%	7%
System Sales Growth, excluding FX	8%	(9)%	— %	7%
Same-Store Sales Growth %	2%	(14)%	(6)%	1%
	9/5/2015	9/6/2014	% Increase (Decrease)	
Unit Count				
Company-owned	5,521	5,158	7	
Unconsolidated Affiliates	778	735	6	
Franchise & License	568	526	8	
	<u>6,867</u>	<u>6,419</u>	7	

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				
	2014	Store Portfolio Actions	Other	FX	2015
Company sales	\$ 1,809	\$ 114	\$ 31	\$ (19)	\$ 1,935
Cost of sales	(598)	(33)	14	6	(611)
Cost of labor	(366)	(17)	24	3	(356)
Occupancy and other	(576)	(28)	10	5	(589)
Company restaurant expenses	<u>\$ (1,540)</u>	<u>\$ (78)</u>	<u>\$ 48</u>	<u>\$ 14</u>	<u>\$ (1,556)</u>
Restaurant profit	<u>\$ 269</u>	<u>\$ 36</u>	<u>\$ 79</u>	<u>\$ (5)</u>	<u>\$ 379</u>
	Year to date				
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	\$ 4,848	\$ 269	\$ (284)	\$ (55)	\$ 4,778
Cost of sales	(1,547)	(76)	88	17	(1,518)
Cost of labor	(944)	(49)	50	10	(933)
Occupancy and other	(1,488)	(81)	72	16	(1,481)
Company restaurant expenses	<u>\$ (3,979)</u>	<u>\$ (206)</u>	<u>\$ 210</u>	<u>\$ 43</u>	<u>\$ (3,932)</u>
Restaurant profit	<u>\$ 869</u>	<u>\$ 63</u>	<u>\$ (74)</u>	<u>\$ (12)</u>	<u>\$ 846</u>

The increase in Company sales and Restaurant profit for the quarter associated with store portfolio actions was driven by net new unit growth, partially offset by franchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 2%, driven by higher average guest check, and labor efficiencies, partially offset by wage inflation of 7%.

The year to date increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth, partially offset by franchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales declines of 6%, wage inflation of 8% and commodity inflation of 2%, partially offset by labor efficiencies.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by franchising, net new unit growth and franchise and license same-store sales growth of 3%.

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 566	\$ 17	\$ 6	\$ (88)	\$ 501
Cost of sales	(197)	(8)	4	30	(171)
Cost of labor	(135)	(3)	(3)	21	(120)
Occupancy and other	(158)	(5)	(1)	24	(140)
Company restaurant expenses	<u>\$ (490)</u>	<u>\$ (16)</u>	<u>\$ —</u>	<u>\$ 75</u>	<u>\$ (431)</u>
Restaurant profit	<u>\$ 76</u>	<u>\$ 1</u>	<u>\$ 6</u>	<u>\$ (13)</u>	<u>\$ 70</u>

Income / (Expense)	Year to date				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 1,593	\$ 32	\$ 48	\$ (222)	\$ 1,451
Cost of sales	(555)	(16)	—	76	(495)
Cost of labor	(384)	(4)	(8)	54	(342)
Occupancy and other	(445)	(10)	(4)	61	(398)
Company restaurant expenses	<u>\$ (1,384)</u>	<u>\$ (30)</u>	<u>\$ (12)</u>	<u>\$ 191</u>	<u>\$ (1,235)</u>
Restaurant profit	<u>\$ 209</u>	<u>\$ 2</u>	<u>\$ 36</u>	<u>\$ (31)</u>	<u>\$ 216</u>

The increases in Company sales and Restaurant profit for the quarter and year to date associated with store portfolio actions were driven by net new unit growth partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 1% and 3% for the quarter and year to date, respectively.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by net new unit growth, refranchising and franchise and license same-store sales growth of 3%.

The year to date increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by net new unit growth, franchise and license same-store sales growth of 3% and refranchising.

G&A Expenses

The increases in G&A expenses for the quarter and year to date, excluding the impact of foreign currency translation, were driven by higher compensation costs due to increased headcount in international markets and higher incentive compensation costs.

Operating Profit

The increase in Operating Profit for the quarter, excluding the impact of foreign currency translation, was driven by net new unit growth and same-store sales growth, partially offset by higher G&A expenses.

The year to date increase in Operating Profit, excluding the impact of foreign currency translation, was driven by same-store sales growth and net new unit growth, partially offset by higher G&A expenses.

Pizza Hut Division

The Pizza Hut Division has 13,616 units, approximately 60% of which are located in the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Emerging markets comprised approximately 20% of both units and profits for the Division as of the end of 2014. Additionally, 94% of the Pizza Hut Division units were operated by franchisees and licensees as of the end of 2014. Our ongoing earnings growth model for the Pizza Hut Division includes 3-4 percentage points of net unit growth and low-single-digit same-store sales growth. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 8%.

	Quarter ended				Year to date			
	2015	2014	% B/(W)		2015	2014	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
Company sales	\$ 141	\$ 140	1	5	\$ 430	\$ 422	2	5
Franchise and license fees and income	121	124	(3)	3	367	374	(2)	2
Total revenues	<u>\$ 262</u>	<u>\$ 264</u>	(1)	4	<u>\$ 797</u>	<u>\$ 796</u>	—	4
Restaurant profit	\$ 11	\$ 13	(12)	(14)	\$ 42	\$ 38	11	9
Restaurant margin %	7.8%	8.9%	(1.1) ppts.	(1.6) ppts.	9.8%	9.0%	0.8 ppts.	0.3 ppts.
G&A expenses	\$ 58	\$ 58	(3)	(10)	\$ 176	\$ 165	(8)	(13)
Operating Profit	\$ 67	\$ 68	(3)	—	\$ 208	\$ 215	(4)	(1)

	Quarter ended		Year to date	
	2015	2014	2015	2014
System Sales Growth, reported	(3)%	—%	(2)%	(1)%
System Sales Growth, excluding FX	2%	—%	2%	—%
Same-Store Sales Growth %	1%	(1)%	—%	(2)%

Unit Count	9/5/2015	9/6/2014	% Increase (Decrease)
	Franchise & License	12,817	12,631
Company-owned	799	762	5
	<u>13,616</u>	<u>13,393</u>	2

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 140	\$ 7	\$ (1)	\$ (5)	\$ 141
Cost of sales	(41)	(2)	1	2	(40)
Cost of labor	(42)	(2)	(2)	2	(44)
Occupancy and other	(44)	(2)	(2)	2	(46)
Company restaurant expenses	<u>\$ (127)</u>	<u>\$ (6)</u>	<u>\$ (3)</u>	<u>\$ 6</u>	<u>\$ (130)</u>
Restaurant profit	<u>\$ 13</u>	<u>\$ 1</u>	<u>\$ (4)</u>	<u>\$ 1</u>	<u>\$ 11</u>

Income / (Expense)	Year to date				2015
	2014	Store Portfolio Actions	Other	FX	
Company sales	\$ 422	\$ 24	\$ (5)	\$ (11)	\$ 430
Cost of sales	(126)	(6)	8	4	(120)
Cost of labor	(129)	(7)	(1)	4	(133)
Occupancy and other	(129)	(8)	(3)	5	(135)
Company restaurant expenses	<u>\$ (384)</u>	<u>\$ (21)</u>	<u>\$ 4</u>	<u>\$ 13</u>	<u>\$ (388)</u>
Restaurant profit	<u>\$ 38</u>	<u>\$ 3</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ 42</u>

The increases in Company sales and Restaurant profit for the quarter and year to date associated with store portfolio actions were driven by the impact of acquisitions and net new unit growth, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were lower cost of sales in the U.S., primarily due to commodity deflation, and company same-store sales declines of 1% for both the quarter and year to date.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter, excluding the impact of foreign currency translation, was driven by net new unit growth and franchise and license same-store sales growth of 1%.

The year to date increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by net new unit growth. Franchise and license same-store sales growth was even.

G&A Expenses

The increase in G&A expenses for the quarter and year to date, excluding the impact of foreign currency translation, was driven by strategic investments in international G&A expense and higher U.S. pension costs, partially offset by lower litigation costs.

Operating Profit

Operating Profit for the quarter, excluding the impact of foreign currency translation, was even with prior year, with the impact of net new unit growth and same-store sales growth offset by higher G&A expenses.

The year to date decrease in Operating Profit, excluding the impact of foreign currency translation, was driven by higher G&A expenses, partially offset by net new unit growth.

Taco Bell Division

The Taco Bell Division has 6,314 units, the vast majority of which are in the U.S. The Company owns 15% of the Taco Bell units in the U.S., where the brand has historically achieved high restaurant margins and returns. Our ongoing earnings growth model includes 100-200 net new units per year and low-single-digit same-store sales growth. This combined with restaurant margin improvement and leverage of our G&A structure is expected to drive annual Operating Profit growth of 6%.

	Quarter ended				Year to date			
	2015	2014	% B/(W)		2015	2014	% B/(W)	
			Reported	Ex FX			Reported	Ex FX
Company sales	\$ 366	\$ 344	6	6	\$ 1,071	\$ 992	8	8
Franchise and license fees and income	107	99	8	8	309	281	10	10
Total revenues	<u>\$ 473</u>	<u>\$ 443</u>	7	7	<u>\$ 1,380</u>	<u>\$ 1,273</u>	8	8
Restaurant profit	\$ 82	\$ 70	14	14	\$ 232	\$ 179	29	29
Restaurant margin %	22.1%	20.7%	1.4 ppts.	1.4 ppts.	21.6%	18.1%	3.5 ppts.	3.5 ppts.
G&A expenses	\$ 50	\$ 40	(20)	(20)	\$ 140	\$ 128	(8)	(8)
Operating Profit	\$ 132	\$ 124	6	6	\$ 387	\$ 317	22	22
					Quarter ended		Year to date	
					2015	2014	2015	2014
System Sales Growth, reported					7%	4%	8%	3%
System Sales Growth, excluding FX					7%	4%	8%	3%
Same-Store Sales Growth %					4%	3%	5%	1%
Unit Count					9/5/2015	9/6/2014	% Increase (Decrease)	
Franchise & License					5,397	5,200	4	
Company-owned					917	909	1	
					<u>6,314</u>	<u>6,109</u>	3	

Company Sales and Restaurant Profit

The changes in Company sales and Restaurant profit were as follows:

Income / (Expense)	Quarter ended			
	2014	Store Portfolio	Other	2015
		Actions		
Company sales	\$ 344	\$ 11	\$ 11	\$ 366
Cost of sales	(101)	(3)	4	(100)
Cost of labor	(95)	(4)	(1)	(100)
Occupancy and other	(78)	(2)	(4)	(84)
Company restaurant expense	<u>\$ (274)</u>	<u>\$ (9)</u>	<u>\$ (1)</u>	<u>\$ (284)</u>
Restaurant profit	<u>\$ 70</u>	<u>\$ 2</u>	<u>\$ 10</u>	<u>\$ 82</u>

Income / (Expense)	Year to date			
	2014	Store Portfolio	Other	2015
		Actions		
Company sales	\$ 992	\$ 35	\$ 44	\$ 1,071
Cost of sales	(297)	(9)	9	(297)
Cost of labor	(287)	(12)	—	(299)
Occupancy and other	(229)	(10)	(4)	(243)
Company restaurant expense	<u>\$ (813)</u>	<u>\$ (31)</u>	<u>\$ 5</u>	<u>\$ (839)</u>
Restaurant profit	<u>\$ 179</u>	<u>\$ 4</u>	<u>\$ 49</u>	<u>\$ 232</u>

The increases in Company sales and Restaurant profit for the quarter and year to date associated with store portfolio actions were driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 3% and 5% for the quarter and year to date, respectively.

Franchise and License Fees and Income

The increase in Franchise and license fees and income for the quarter was driven by franchise and license same-store sales growth of 4% and net new unit growth.

The year to date increase in Franchise and license fees and income was driven by franchise and license same-store sales growth of 5%, net new unit growth and lapping franchise incentives provided in the first quarter of 2014 related to the national launch of breakfast.

G&A Expenses

The increases in G&A expenses for the quarter and year to date were driven by higher incentive compensation costs and U.S. pension costs.

Operating Profit

The increase in Operating Profit for the quarter was driven by same-store sales growth and net new unit growth, partially offset by higher G&A expenses.

The year to date increase in Operating Profit was driven by same-store sales growth, net new unit growth and lapping 2014 franchise incentives related to the national breakfast launch, partially offset by higher G&A expenses.

Unallocated Refranchising Gains (Losses)

Unallocated Refranchising Gains (Losses) in 2015 for the quarter and year to date were primarily driven by refranchising losses of \$12 million and \$80 million, respectively, associated with the decision to sell our remaining real estate in Mexico. See Note 4.

Other Unallocated

Other unallocated primarily includes foreign exchange gains and losses.

Interest Expense, Net

The increase in Interest expense, net for quarter and year to date was driven by increased net short-term borrowings.

Income Tax Provision

See Note 7 for a discussion of our income tax provision.

Consolidated Cash Flows

Net cash provided by operating activities was \$1,817 million in 2015 versus \$1,612 million in 2014. The increase was primarily driven by lapping higher income tax payments in the prior year.

Net cash used in investing activities was \$522 million in 2015 versus \$920 million in 2014. The decrease was primarily driven by lower short-term investments.

Net cash used in financing activities was \$1,019 million in 2015 versus \$586 million in 2014. The increase was primarily driven by borrowings on our revolving credit facility partially offset by lower share repurchases.

Liquidity and Capital Resources

Operating in the quick service restaurant industry allows us to generate substantial cash flows from the operations of our company-owned stores and from our extensive franchise operations which require a limited YUM investment. Net cash provided by operating activities has exceeded \$2 billion annually since 2011. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. However, unforeseen downturns in our business could adversely impact our cash flows from operations from the levels historically realized.

In the event our cash flows from operating activities are negatively impacted by business downturns, we believe we have the ability to temporarily reduce our discretionary spending without significant impact to our long-term business prospects. Our discretionary spending includes capital spending for new restaurants, acquisitions of restaurants from franchisees, repurchases of shares of our Common Stock and dividends paid to our shareholders.

We generate a significant amount of cash from operating activities outside the U.S. that we have used historically to fund our international development. To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including share repurchases, dividends and debt repayments, we have historically been able to do so in a tax efficient manner. If we experience an unforeseen decrease in our cash flows from our U.S. operations or are unable to refinance future U.S. debt maturities, we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

Discretionary Spending

During the year to date ended September 5, 2015 we invested \$642 million in capital spending, including \$357 million in China, \$161 million in the KFC Division, \$34 million in the Pizza Hut Division, \$75 million in the Taco Bell Division and \$6 million in India.

During the year to date ended September 5, 2015 we repurchased shares of our Common Stock for \$370 million. As of September 5, 2015, we had remaining capacity to repurchase up to \$763 million (excluding applicable transaction fees) of our outstanding Common Stock under the November 2014 authorization. See Note 3.

During the year to date ended September 5, 2015 we paid cash dividends of \$532 million. Additionally, on October 2, 2015, our Board of Directors approved a cash dividend of \$0.46 per share of Common Stock, to be distributed on November 6, 2015 to shareholders of record at the close of business on October 16, 2015.

Borrowing Capacity

Our primary bank credit agreement comprises a \$1.3 billion syndicated senior unsecured revolving credit facility (the "Credit Facility") which matures in March 2017 and includes 24 participating banks with commitments ranging from \$23 million to \$115 million. We believe the syndication reduces our dependency on any one bank.

As of September 5, 2015, our unused Credit Facility totaled \$995 million net of outstanding letters of credit of \$5 million and outstanding borrowings of \$300 million. The interest rate for borrowings under the Credit Facility ranges from 1.00% to 1.75% over the London Interbank Offered Rate based on the current bank loan credit rating of the Credit Facility.

The Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains financial covenants relating to maintenance of leverage and fixed-charge coverage ratios and also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company's strong balance sheet and cash flows we were able to comply with all debt covenant requirements

as of September 5, 2015 with a considerable amount of cushion. Additionally, the Credit Facility contains cross-default provisions whereby our failure to make any payment on our indebtedness in a principal amount in excess of \$125 million, or the acceleration of the maturity of any such indebtedness, will constitute a default under such agreement.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2015 through 2043 and stated interest rates ranging from 3.75% to 6.88%. These notes represent senior, unsecured obligations and rank equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Amounts outstanding under Senior Unsecured Notes were \$2.8 billion at September 5, 2015. Our Senior Unsecured Notes provide that the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled within 30 days after notice.

Recently Adopted Accounting Pronouncements and New Accounting Pronouncements Not Yet Adopted

See Note 11 for details of recently adopted accounting pronouncements.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* (ASU 2014-09), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. In July 2015, the FASB approved a one-year deferral of the effective date of the new revenue standard. ASU 2014-09 is now effective for the Company in our first quarter of fiscal 2018 with early adoption permitted in the first quarter of 2017. The standard allows for either a full retrospective or modified retrospective transition method. We do not believe the standard will impact our recognition of revenue from company-owned restaurants or our recognition of continuing fees from franchisees or licensees, which are based on a percentage of franchise and license sales. We are continuing to evaluate the impact the adoption of this standard will have on the recognition of other less significant revenue transactions such as initial fees from franchisees and refranchising of company-owned restaurants.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes during the quarter ended September 5, 2015 to the disclosures made in Item 7A of the Company's 2014 Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

The Company has evaluated the effectiveness of the design and operation of its disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based on the evaluation, performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer (the "CEO") and the Chief Financial Officer (the "CFO"), the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by the report.

Changes in Internal Control

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended September 5, 2015.

Cautionary Note Regarding Forward-Looking Statements

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan” or other similar terminology. These forward-looking statements are based on current expectations and assumptions and upon data available at the time of the statements and are neither predictions nor guarantees of future events or performance. The forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2 and any Risk Factors in Part II, Item 1A of this report, (ii) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of our Form 10-K for the year ended December 27, 2014 and (iii) the factors described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the year ended December 27, 2014. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We are not undertaking to update any of these statements.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
YUM! Brands, Inc.:

We have reviewed the accompanying condensed consolidated balance sheet of YUM! Brands, Inc. and Subsidiaries (YUM) as of September 5, 2015, the related condensed consolidated statements of income and comprehensive income for the quarters and years to date ended September 5, 2015 and September 6, 2014, and the related condensed consolidated statements of cash flows for the years to date ended September 5, 2015 and September 6, 2014. These condensed consolidated financial statements are the responsibility of YUM's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of YUM as of December 27, 2014, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity, for the year then ended (not presented herein); and in our report dated February 17, 2015, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 27, 2014, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Louisville, Kentucky
October 15, 2015

PART II – Other Information and Signatures

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 12 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 27, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information as of September 5, 2015 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
6/14/15-7/11/15	712	\$90.13	712	\$774
7/12/15-8/8/15	124	\$90.28	124	\$763
8/9/15-9/5/15	—	N/A	—	\$763
Total	836	\$90.15	836	\$763

On November 20, 2014, our Board of Directors authorized share repurchases through May 2016 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended September 5, 2015, all share repurchases were made under this authorization.

Item 6. Exhibits

(a) Exhibit Index

EXHIBITS

† Exhibit 10.29	Retirement Agreement and General Release, dated August 13, 2015, by and between the Company and Samuel Su, as filed herewith
Exhibit 15	Letter from KPMG LLP regarding Unaudited Interim Financial Information (Acknowledgement of Independent Registered Public Accounting Firm)
Exhibit 31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

† Indicates a management contract or compensatory plan.

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, duly authorized officer of the registrant.

YUM! BRANDS, INC.

(Registrant)

Date: October 15, 2015

/s/ David E. Russell

Vice President, Finance and Corporate Controller
(Principal Accounting Officer)

RETIREMENT AGREEMENT AND GENERAL RELEASE

YUM! Restaurants (Hong Kong) Ltd., a Hong Kong corporation (“Employer”), and Jing-Shyh S. Su, who can be reached at Yum Restaurants China 12-20F, 2 Grand Gateway, Shanghai, China 200030 and resides at Flat A, 25/F, South Tower 3 Residence Bel-Air Island South 38 Bel-Air Avenue, Hong Kong, and his heirs, executors, administrators, successors, and assigns (collectively referred to throughout this Retirement Agreement and General Release as “Executive”) (collectively, the “Parties”), agree that:

1. **Retirement Transition.** Executive has decided to retire, and Executive and Employer have agreed on the following transition plan: Executive hereby retires, effective as of August 19, 2015 (the “Director/Officer Retirement Date”), from all directorships and officer positions that Executive holds with Employer, with YUM! Brands, Inc. (“Yum”) and with any of their respective subsidiaries, parents, business units or affiliates (collectively, “Affiliates”), excluding Executive’s position as a director of Yum. As a result, all of Executive’s directorships and officer positions with Employer, Yum and all of their respective Affiliates (other than his position as director of Yum) will terminate on the Director/Officer Retirement Date and Executive agrees to take such actions as Employer, Yum or any of their respective Affiliates may request to reflect Executive’s resignation from such positions. Executive will continue to be employed by Employer up to and including February 15, 2016, or such other date as may be agreed by the Parties in writing, which date shall be Executive’s last day of employment (the “Retirement Date”). From the date of this Retirement Agreement and General Release until the Retirement Date, Executive’s duties will be as assigned by Employer and Yum, but will be primarily to assist Micky Pant in a smooth transition to becoming the Chief Executive Officer of Yum! China Division. As of the Retirement Date, Executive’s employment with Employer, and all other positions which Executive holds with Employer, Yum and all of their respective Affiliates, including directorships and officer positions, other than as a director of Yum, that have not terminated sooner, will terminate, and to the extent requested to do so, Executive agrees to resign from any and all positions with Employer, Yum or any of their respective Affiliates (other than as a director of Yum) effective on the date requested but no later than the Retirement Date.

2. **Compensation until Retirement Date.** Executive will continue to receive his salary at the current rate of \$1,100,000.00 per annum, will continue to receive the same allowances and will continue to participate in employee benefits plans on the same terms and conditions as similarly-situated employees of Employer through the Retirement Date. Effective on the Retirement Date, Executive’s salary, participation in employee benefit plans, allowances, including, but not limited to, Executive’s foreign service premium, club membership, transportation expenses and housing expenses, and any other payment or compensation from Employer, Yum and any of their respective Affiliates shall end, except as specifically provided for in this Retirement Agreement and General Release. Executive’s 2015 bonus will be determined during normal year-end process based on actual team factor and individual factors and paid during 2016 at the same time of other 2015 bonuses are paid.

3. **Consideration.** In consideration for Executive's signing this Retirement Agreement and General Release and the Reaffirmation set forth at the end of this Retirement Agreement and General Release (the "Reaffirmation") and his compliance with the promises made herein, Employer shall, or shall cause one of its Affiliates to, pay the following amounts:

(a) **Tax Equalization Payments.** Executive will remain eligible to receive tax equalization payments, not exceeding \$5,000,000 in the aggregate (inclusive of any tax gross-up payments), for PRC income tax incurred by Executive (i) with respect to payments made to Executive under the Executive Income Deferral Plan (the "EID") after the Director/Officer Retirement Date and (ii) with respect to gains recognized by Executive in connection with the exercise of stock options and exercise of stock appreciation rights after the Director/Officer Retirement Date. The tax equalization payments payable pursuant to this Section 3(a) will be calculated and administered in a manner that is consistent with past practices relating to the Tax Equalization Program described in the letter agreement, as amended, between YUM! Restaurants International, Inc. and Executive dated July 13, 2004 (the "Letter Agreement").

(b) **Tax Preparation Assistance.** Executive will continue to receive income tax preparation assistance for the 2015, 2016 and 2017 tax years in accordance with past practice.

4. **Other Compensation and Employee Benefits To Be Provided to Executive.**

(a) **Stock Options.** For stock options and stock appreciation rights that have vested prior to the Retirement Date as listed on Exhibit A, Executive will remain entitled to exercise such stock options and stock appreciation rights for the remainder of the term of such stock options and stock appreciation rights, as applicable. All other stock options and stock appreciation rights will be immediately forfeited by Executive effective on the Retirement Date.

(b) **Performance Share Plan.** The grants pursuant to the performance share plan as listed on Exhibit A will vest in accordance with their terms on a pro-rata basis at the end of the applicable performance period subject to satisfaction of the applicable performance goals. The pro-rata payment for each such grant made pursuant to the performance share plan will equal the payment that Executive otherwise would have received based on satisfaction of the applicable performance goals at the end of the applicable performance period, if any, multiplied by a fraction, the numerator of which is equal to the number of months (or portion thereof) during the applicable performance period prior to the Retirement Date and the denominator of which is equal to the number of months in the applicable performance period.

(c) **Restricted Stock Units.** Executive has previously vested in 171,448 restricted stock units (the "RSUs") and associated dividend equivalent units. Yum will distribute 171,448 shares of stock in settlement of the RSUs in accordance with the terms of the RSUs, which distribution shall occur on the one-year anniversary of the Retirement Date. On the first anniversary of the Retirement Date, Yum will also distribute additional shares of stock in settlement of vested dividend equivalent units associated with the RSUs in accordance with the terms of the RSUs.

(d) **Executive Income Deferral Plan.** Yum will make payments to Executive of all of his accrued benefits under the EID in accordance with the terms of the EID.

(e) **YIRP.** Yum will make payments to Executive of all of his accrued benefits under the YUM! Brands International Retirement Plan in accordance with the terms of such plan, which payment shall be made in a lump sum within 60 days following the Retirement Date.

5. **No Consideration Absent Execution of this Retirement Agreement and General Release.** Executive understands and agrees that the benefits specified in Section 3 above are greater than the benefits that would otherwise be available to him upon his retirement, and that he would not be entitled to receive the benefits specified in Section 3 above, except for his execution of this Retirement Agreement and General Release and the fulfillment of the promises contained herein.

6. **Post-Employment Restrictions.**

(a) From and after the date of this Retirement Agreement and General Release, including after the Retirement Date, Executive will continue to comply with the requirements of Section 8 of the grant agreements for the RSUs (as defined in Section 4(c) above) and with the terms of any other applicable plan or agreement between him and Employer, Yum or any of their respective Affiliates, including any agreement relating to the benefits referenced in Section 4(a), (b), (d), and (e) above.

(b) During the period of eighteen (18) months after the Retirement Date, and without regard to the grant agreements for the RSUs or any other applicable agreement between him and Employer, Yum or any of their respective Affiliates, Executive agrees to comply with the following terms restricting his ability to work for certain competitive enterprises and to solicit employees of Employer, Yum and their respective Affiliates:

i) Executive shall not, without the prior written consent of the Chairman of the Management Planning and Development Committee of the Board of Directors of Yum, directly or indirectly Manage the business in (A) the United States, (B) China, (C) Taiwan, or (D) Thailand of, or Own, any of the following entities or any subsidiary or successor company of any of the following entities: (u) McDonald's Corporation, (v) Dicos (owned by the Ting Hsin International Group), (w) Starbucks Corporation, (x) PizzaExpress, (y) Domino's Pizza, Inc., and (z) Papa John's International, Inc.

ii) Executive shall not, without the prior written consent of the Chairman of the Management Planning and Development Committee of the Board of Directors of Yum, directly or indirectly Manage the business in (A) China, (B) Taiwan, or (C) Thailand of, or Own, any other entity that (x) operates (directly or indirectly through affiliates, franchisees, licensees or other entities) quick service restaurants or casual dining restaurants or both types of restaurants in such country that are in competition with Employer, Yum, any of their respective Affiliates or any franchisees or licensees of Employer, Yum or any of their respective Affiliates in such country and (y) generated (including revenue of such entity and its affiliates, franchisees and licensees) more than \$500,000,000 of gross revenue (or the foreign currency equivalent thereof) from such operation in such country for the fiscal year of such entity immediately preceding the time that Executive is so Managing or Owning.

iii) Executive shall not, without the prior written consent of the Chairman of the Management Planning and Development Committee of the Board of Directors of Yum, directly or indirectly Manage the business in the United States of, or Own, (A) any of the following entities or any subsidiary or successor company of any of the following entities: (v) Wendy's Corporation, (w) Burger King Corporation, (x) AFC Enterprises, Inc., (y) Subway Restaurants, or (z) Little Caesar's Pizza or (B) any other entity that (x) operates (directly or indirectly through affiliates, franchisees, licensees or other entities) quick service restaurants in the United States that are in competition with Employer, Yum or any of their respective Affiliates or any franchisees or licensees of Employer, Yum or any of their respective Affiliates in the United States and (y) generated (including revenue of such entity and its affiliates, franchisees and licensees) more than \$100,000,000 of gross revenue from such operation in the United States for the fiscal year of such other entity immediately preceding the time that Executive is so Managing or Owning (each of such entities, together with the entities referred to in clauses (i) and (ii) preceding, a "Specified Competitor").

iv) Executive shall not directly or indirectly solicit or encourage any employee of Employer, Yum or any of their respective Affiliates who was an employee of Employer, Yum or any of their respective Affiliates as of the time of such solicitation or encouragement to leave Employer, Yum or any of their respective Affiliates to accept any position with a Specified Competitor (or any of its affiliates).

v) Executive shall not directly or indirectly contact any franchisee or vendor that is a franchisee or vendor of Employer, Yum or any of their respective Affiliates at the time of such contact for the purpose of soliciting or encouraging such franchisee or vendor to alter its relationship with Employer, Yum or any of their respective Affiliates in any way that would be adverse to Employer, Yum or any of their respective Affiliates.

For purposes of this Section 6(b), "Manage" the business of an entity shall mean: (I) directly or indirectly engage in, or participate in, the management of the business of such entity (or any of its subsidiaries engaging in such business) in any material respect; or (II) directly or indirectly provide input, advice, guidance, or suggestions in any material respect regarding the business of such entity (or any of its subsidiaries engaging in such business) to anyone responsible for management of such business; and "Own" an entity shall mean: own any equity interest in such entity, provided, however, nothing herein shall restrict Executive from owning less than five percent (5%) of the publicly traded stock of an entity.

7. **Breach of Covenants.**

(a) If Executive breaches any of the covenants set forth in Section 6(a) above, Executive will continue to be subject to any forfeiture and repayment provisions of the grant agreements for the RSUs, as well as any other remedy provisions of the grant agreements for the RSUs and the stock options and stock appreciation rights (and the plans under which such awards were granted), the Performance Share Plan, the EID, or the YIRP.

(b) If Executive breaches any of the provisions of this Retirement Agreement and General Release, including, but not limited to, any of the covenants set forth in Section 6(a), 6(b), 10, 11, or 12, Employer, Yum or any of their respective Affiliates may exercise any and all remedies it may have at law or in equity, including, without limitation, injunctive relief and the right to stop payment or to demand repayment of financial and other benefits provided pursuant to this Retirement Agreement and General Release as damages, where permitted by any law.

8. **General Release of Claims.** Executive knowingly and voluntarily releases and forever discharges, to the full extent permitted by law, Employer, Yum and each of their respective past, present, and future Affiliates, insurers, predecessors, representatives, successors and assigns (each, a “Company Entity”) and the past, present and future employees, officers, directors, members, managers, and agents of Employer, Yum and each Company Entity, individually and in their corporate capacities, and the employee benefit plans, programs and arrangements of Employer, Yum and each Company Entity, and their administrators, functionaries and fiduciaries (collectively referred to as “Releasees”), of and from any and all present or future Claims (as defined below), known and unknown, asserted and unasserted, foreseeable and unforeseeable, Executive had, has or may have against Releasees, or any of them, as of the date of execution of this Retirement Agreement and General Release, and as of the date of the Reaffirmation, including, but not limited to, any allegations in connection with his employment with or his holding of any office with Releasees, or any of them, any allegations in connection with the fact that Executive’s employment will end on the Retirement Date, and any claims related to pay, promotion, commission, hours, bonuses, equity awards, pension, disability, physical or mental affliction, benefits including, but not limited to, vacation days and payment for unused vacation, reimbursement for expenses, or terms and conditions of employment, or which may in any way be derivative from such employment, except as specifically provided in this Retirement Agreement and General Release. “Claim” means any complaint, action, suit, cause of action (whether contractual, equitable, tortious or otherwise), proceeding, arbitration, liability, account, cost or expense (including any legal costs or expense), claim, and demand, including, but not limited to, any alleged violation of:

- Title VII of the Civil Rights Act of 1964, as amended;
 - The Civil Rights Act of 1991;
 - Sections 1981 through 1988 of Title 42 of the United States Code,
 - The Employee Retirement Income Security Act of 1974, as amended (excepting any vested rights under any tax qualified plan);
 - The Immigration Reform and Control Act, as amended;
 - The Americans with Disabilities Act of 1990, as amended;
 - The Genetic Information Nondiscrimination Act of 2008;
 - The Age Discrimination in Employment Act of 1967, as amended;
-

- The Workers Adjustment and Retraining Notification Act, as amended;
- The Occupational Safety and Health Act, as amended;
- The Sarbanes-Oxley Act of 2002;
- The National Labor Relations Act, as amended;
- The Fair Labor Standards Act, as amended;
- The Family and Medical Leave Act of 1993;
- Any federal, state or local whistleblower law;
- Any other federal, state or local civil or human rights law or any other local, state or federal law, regulation or ordinance;
- Any public policy, contract, employment contract, tort, or common law;
- Any Hong Kong statute (including, but not limited to, the Employment Ordinance, any of the Hong Kong Anti Discrimination Ordinances and the Personal Data (Privacy) Ordinance);
- Any legislation of the People's Republic of China;
- Any claim arising under the law of other countries that may apply or be argued to apply to the engagement or employment of Employee by Employer and obligations or liabilities which may flow from or arise from such engagement or employment; or
- Any other law of any other country, state, province, or other unit of government that may apply or be argued to apply to the relationship between Executive and Employer, Yum or any other Releasee.

And Executive also specifically releases any claims under any law that may provide for the payment of Executive's attorneys' fees or costs, or for the payment to Executive of any other obligation or liability which may arise or flow from the relationship between Executive and Employer, Yum or any of their respective Affiliates or any other Releasee.

9. **Affirmations.** Executive affirms that he has decided to retire voluntarily and not under coercion from Employer, Yum or any of their respective Affiliates or any other Releasee, and that he has not filed or caused to be filed, and presently is not a party to, any claim, complaint, or action against any Releasee in any forum or form. Executive further affirms that he has been paid and/or has received, or will receive under the terms of this Retirement

Agreement and General Release, all leave (paid or unpaid), compensation, wages, bonuses, commissions, equity awards and/or benefits to which he may be entitled under any employment contract made at any time with Employer, Yum or any of their respective Affiliates or any other Releasee or which may be due to him under the laws of any jurisdiction. Executive affirms his understanding that his receipt and the terms of the outstanding equity awards listed on Exhibit A hereto will be governed by the terms of the plans under which those awards were made and the award agreements applicable thereto. Executive furthermore affirms that he has no known workplace injuries or occupational diseases and has been provided and/or has not been denied any leave requested under the Family and Medical Leave Act or related state or local leave or disability laws.

10. **Covenant Not to Sue.** A “covenant not to sue” is a legal term which means Executive promises not to file a lawsuit in court. It is different from the General Release of Claims covered above. Besides waiving and releasing the Claims set forth in Section 8 above, Executive further agrees never to sue Employer, Yum or any of their respective Affiliates or any other Releasee in any form for any reason covered in Section 8 above. If Executive sues or brings a legal action against Employer or any other Releasee, Executive shall be liable to such party for its reasonable attorneys’ fees and other litigation costs incurred in defending against such a suit or action. Notwithstanding this Covenant Not To Sue, Executive may bring a claim against Employer to enforce this Retirement Agreement and General Release or for any benefit to which Executive is entitled under the terms of this Retirement Agreement and General Release, pursuant to the provisions of Section 15 of this Retirement Agreement and General Release, and Executive may file a charge of discrimination with the U.S. Equal Employment Opportunity Commission or other administrative agency, but agrees not to accept any monetary award or compensation based on any such charge.

11. **Non-Disparagement.** Executive agrees not to defame, disparage or demean Employer, Yum or any of their respective Affiliates or any other Releasee in any manner whatsoever.

12. **Confidentiality.**

(a) **Confidentiality of this Retirement Agreement and General Release.** Executive agrees not to disclose any information regarding the existence or substance of this Retirement Agreement and General Release during the negotiations of this Retirement Agreement and Release up to and including the time the Retirement Agreement and General Release is filed publicly, except to his spouse, tax advisor, and an attorney with whom Executive chooses to consult regarding his consideration of this Retirement Agreement and General Release, or unless otherwise required by law. However, to the extent that Executive might disclose this information to these limited categories of individuals, Executive agrees to advise any such individual of the foregoing strict confidentiality obligation and that the foregoing confidentiality obligation applies to all persons that have knowledge of or are informed about the terms and conditions of this Retirement Agreement and General Release.

(b) **Protection of Confidential Information Belonging to Employer, Yum and Affiliates.** Executive acknowledges and agrees that, during his employment with Employer, Yum and their respective Affiliates and his term as a director of Yum, he has had and will have access to and came and will come into contact with and learned and will learn various trade secrets and other Confidential Information, which are the property of the Employer, Yum or their respective Affiliates or other Releasees. “Confidential Information” means all confidential information of Releasees in whatsoever form, including electronic and hard copy, and includes, but is not limited to: (i) methods,

procedures, devices and other means used by any Releasee in the conduct of its business, marketing plans and strategies, pricing plans and strategies, sales procedures, acquisition or divestiture plans and strategies, data processing programs, databases, research projects, operating policies and procedures, business plans, sales, profits, business and financial information and projections, and all other matters of a technical or strategic nature; (ii) information with respect to any Releasee's employees, including, but not limited to, their names and addresses, compensation, experience, qualifications, abilities, job performance and similar information; (iii) information that is required to be kept confidential either by agreement, by law or by a policy of Employer, Yum, or any of their respective Affiliates; (iv) information that, if disclosed, could (a) disrupt or impair operations or harm the reputation of Employer, Yum, or any of their respective Affiliates or any other Releasee, (b) interfere with existing contractual or other relationships with franchisees, customers, or suppliers of Employer, Yum or any of their respective Affiliates or any other Releasee, or (c) affect the profitability or shareholder equity of Employer, Yum or any of their respective Affiliates. In addition to the above, Confidential Information includes, but is not limited to:

- a. Technology developed by Employer, Yum or any of their respective Affiliates and any research data or other documentation related to the development of such technology;
- b. Information related to products, product technology, product research and development and consumer testing/research/information regarding products of Employer, Yum or any of their respective Affiliates or that Employer, Yum or any of their respective Affiliates is developing or considering for development;
- c. Training materials developed by and utilized by Employer, Yum or any of their respective Affiliates; and
- d. Any other information that Executive acquired as a result of his employment with Employer, Yum or any of their respective Affiliates and that he has a reasonable basis to believe they would not want disclosed to a business competitor or to the general public.

(c) **Importance of Confidential Information.** Executive understands and acknowledges that Confidential Information provides a competitive advantage over others who do not have this information, and that Employer, Yum or their respective Affiliates will be harmed if the Confidential Information is disclosed. All of the Confidential Information is not publicly available from directories or other public sources and has been developed, acquired or compiled by the relevant Releasee at great effort and expense. Executive acknowledges and agrees that any disclosure, divulging, revealing or other use of any of the Confidential Information by Executive, other than in furtherance of the business of Employer, Yum and their respective Affiliates, will be highly detrimental to Employer, Yum and their respective Affiliates, and serious loss of business and pecuniary damage may result therefrom. Accordingly, Executive specifically covenants and agrees to hold all Confidential Information and any documents containing or reflecting the same in the strictest confidence as long as they remain confidential, and Executive will not, at any time, without the prior written consent of Employer and Yum, disclose, divulge or reveal to any person whomsoever, or use for any purpose other than for the exclusive benefit of Employer, Yum and their respective Affiliates, any Confidential Information whatsoever, whether contained in Executive's memory or embodied in writing or other physical form. Executive also agrees to continue to be bound by all applicable policies of Employer, Yum and their

respective Affiliates and any existing agreements with Employer, Yum and their respective Affiliates addressing Confidential Information.

(d) **Return of Property.** Executive agrees to return to, or at the direction of, Employer or other relevant Releasee all Confidential Information and all property of Employer, Yum or any of their respective Affiliates and other Releasees, including any electronic materials that Executive may possess on devices or in the cloud in locations that are not under the control of Employer, Yum or their respective Affiliates and other Releasees. Employer is under no obligation to provide Executive with any of the consideration set forth herein until Executive fully complies with this provision.

(e) **Permitted Disclosures Do Not Violate Retirement Agreement and General Release.** Nothing in this Section or elsewhere in this Retirement Agreement and General Release prohibits Executive from reporting possible violations of federal, state, or local law or regulation to any governmental agency or entity, including but not limited to the U.S. Department of Justice, the U.S. Securities and Exchange Commission, the U.S. Congress and any agency Inspector General, or making other disclosures that are protected under the whistleblower provisions of federal, state or local law or regulation.

13. **Future Assistance.** For at least two years after the Retirement Date, and thereafter as reasonable, Executive agrees to provide the Employer, Yum and their respective Affiliates and/or any of their respective authorized agents or attorneys his full and complete cooperation and assistance by providing truthful information in connection with any and all circumstances, facts or events existing or occurring during Executive's employment, such cooperation and assistance to include assisting with the prosecution or defense of claims by or against Employer, Yum or any of their respective Affiliates as they relate to circumstances, facts or events existing or occurring during Executive's employment.

14. **Governing Law and Interpretation; Currency.** This Retirement Agreement and General Release shall be governed and interpreted in accordance with the laws of the state of Kentucky and United States law without regard to its conflict of laws provision. All references in this Retirement Agreement and General Release are to monetary amounts are stated in U.S. dollars.

15. **Arbitration and Injunction Proceedings; Consent to Jurisdiction.** Any dispute, controversy or claim arising under or in connection with this Retirement Agreement and General Release or with Executive's relationship with the Employer, Yum or any of their respective Affiliates arising after Executive executes this Retirement Agreement and General Release shall be settled exclusively by arbitration in accordance with the commercial dispute rules of the American Arbitration Association ("AAA Rules") applicable to disputes between parties located in different countries then in effect. The arbitration proceedings and all documents and testimony related to the proceedings shall be kept confidential. A three-member panel of arbitrators shall be selected in accordance with such AAA Rules. Each party will pay the fees of its own attorneys and all other expenses connected with its presentation of its own case. Employer agrees to pay one half of all fees charged by the arbitrators, and Executive agrees to pay the other half. Any arbitration held pursuant to this Section shall take place in Louisville, Kentucky, unless Executive and Employer agree in writing to a different location. Notwithstanding the above, any request for an injunction may be pursued in court, without any arbitration proceeding and without regard to any pending arbitration proceeding. Any such court action

pertaining to this Retirement Agreement and General Release shall be brought exclusively in the courts located in the state of Kentucky, and the Parties hereby expressly represent and agree that they are subject to the personal jurisdiction of the appropriate federal or state court in Kentucky. Should any provision of this Retirement Agreement and General Release be declared illegal or unenforceable by any court of competent jurisdiction and cannot be modified to be enforceable, excluding the general release language, such provision shall immediately become null and void, leaving the remainder of this Retirement Agreement and General Release in full force and effect.

16. **Non-admission of Wrongdoing.** The Parties agree that neither this Retirement Agreement and General Release nor the furnishing of the consideration for this Retirement Agreement and General Release shall be deemed or construed at anytime for any purpose as an admission by Employer, Yum or any of their respective Affiliates or any other Releasees of any liability or unlawful conduct of any kind.

17. **Amendment.** This Retirement Agreement and General Release may not be modified, altered or changed except upon express written consent of both Parties and Yum wherein specific reference is made to this Retirement Agreement and General Release.

18. **Entire Agreement.** This Retirement Agreement and General Release sets forth the entire agreement between the Parties, and, except as expressly set forth or referenced herein, fully supersedes any prior obligation and agreement of Employer, Yum or any of their respective Affiliates or any other Releasee to or with Executive, including but not limited to the Letter Agreement. Executive acknowledges that he has not relied on any representations, promises, or agreements of any kind made to him in connection with his decision to accept this Retirement Agreement and General Release, except for those set forth in this Retirement Agreement and General Release. This Retirement Agreement and General Release shall be binding upon the Parties and their respective successors and assigns and shall inure to the benefit of the Parties, Yum, Employer's and Yum's respective Affiliates, and the other Releasees, and their respective successors and assigns; provided that Executive shall not be permitted to assign any of his rights or obligations hereunder without the prior written consent of Employer and Yum.

19. **Non-Waiver.** The failure of any party at any time to enforce any of the provisions of this Retirement Agreement and General Release shall not be construed as a waiver of such provisions and shall not affect the right of such party thereafter to enforce each and every provision hereof in accordance with its terms.

20. **Counterparts.** This Retirement Agreement and General Release may be executed in counterparts and shall be fully effective when each Party has executed a counterpart (and shall remain fully effective whether or not the Reaffirmation is executed, except for Section 3).

21. **Knowing and Voluntary.** **HAVING ELECTED TO EXECUTE THIS RETIREMENT AGREEMENT AND GENERAL RELEASE, TO FULFILL THE PROMISES HEREIN, AND TO RECEIVE THE EXTRA BENEFITS IN SECTION 3 ABOVE, EXECUTIVE FREELY AND KNOWINGLY, AND AFTER DUE CONSIDERATION, ENTERS INTO THIS RETIREMENT AGREEMENT AND GENERAL RELEASE INTENDING TO WAIVE, SETTLE AND RELEASE ALL CLAIMS HE HAS OR MIGHT HAVE AGAINST RELEASEES. EXECUTIVE ALSO KNOWINGLY AND VOLUNTARILY ACKNOWLEDGES:**

(a) **THAT THIS AGREEMENT AND GENERAL RELEASE IS WRITTEN IN A MANNER UNDERSTOOD BY HIM;**

(b) THAT THIS RETIREMENT AGREEMENT AND GENERAL RELEASE REFERS TO RIGHTS UNDER VARIOUS LAWS IN THE UNITED STATES AND IN OTHER COUNTRIES;

(c) THAT THIS RETIREMENT AGREEMENT AND RELEASE DOES NOT WAIVE ANY CLAIMS REGARDING MATTERS THAT OCCUR AFTER THE DATE HE SIGNS OR REAFFIRMS THIS RETIREMENT AGREEMENT AND GENERAL RELEASE; AND

(d) THAT HE HAS RECEIVED VALUABLE CONSIDERATION FOR THIS RETIREMENT AGREEMENT AND GENERAL RELEASE OTHER THAN AMOUNTS TO WHICH HE IS ALREADY ENTITLED; AND

(e) THAT HE HAS CONSULTED WITH AN ATTORNEY OF HIS CHOICE ABOUT THE MEANING OF THIS RETIREMENT AGREEMENT AND GENERAL RELEASE AND THE WAIVER OF RIGHTS CONTAINED IN THIS RETIREMENT AGREEMENT AND GENERAL RELEASE, AND THAT HE HAS HAD SUFFICIENT OPPORTUNITY TO DO SO, PRIOR TO EXECUTION OF THIS RETIREMENT AGREEMENT AND GENERAL RELEASE.

IN WITNESS WHEREOF, the Parties hereto knowingly and voluntarily executed this Retirement Agreement and General Release as of _____, 2015.

By: /s/ Jing-Shyh S. Su
Jing-Shyh S. Su

YUM! (Hong Kong) Ltd.

Date: _____, 2015

By:

Title:

Date: _____, 2015

REAFFIRMATION OF RETIREMENT AGREEMENT AND GENERAL RELEASE

Having duly considered and reviewed the Retirement Agreement and General Release as of the Retirement Date, Executive hereby knowingly, and after due consideration, reaffirms his agreement to all of its terms, including the General Release of Claims set forth in Section 8 of the Retirement Agreement and General Release, and confirms that he releases all Claims up to and including the date of this Reaffirmation.

IN WITNESS WHEREOF, Executive knowingly and voluntarily executed this Reaffirmation of the Retirement Agreement and General Release as of _____, 2016.

By: /s/ Jing-Shyh S. Su _____
Jing-Shyh S. Su

Date: _____, 2016

Acknowledgement of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
YUM! Brands, Inc.:

We hereby acknowledge our awareness of the use of our report dated October 15, 2015, included within the Quarterly Report on Form 10-Q of YUM! Brands, Inc. for the quarter and year-to-date period ended September 5, 2015, and incorporated by reference in the following Registration Statements:

Description	Registration Statement Number
Form S-3	
YUM! Direct Stock Purchase Program	333-46242
Debt Securities	333-188216
Form S-8	
Restaurant Deferred Compensation Plan	333-36877, 333-32050
Executive Income Deferral Program	333-36955
SharePower Stock Option Plan	333-36961
YUM! Brands 401(k) Plan	333-36893, 333-32048, 333-109300
YUM! Brands, Inc. Restaurant General Manager Stock Option Plan	333-64547
YUM! Brands, Inc. Long-Term Incentive Plan	333-32052, 333-109299, 333-170929

Pursuant to Rule 436(c) under the Securities Act of 1933 (the "Act"), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP
Louisville, Kentucky
October 15, 2015

CERTIFICATION

I, Greg Creed, certify that:

1. I have reviewed this report on Form 10-Q of YUM! Brands, 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 registrant, as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2015

/s/ Greg Creed

Chief Executive Officer

CERTIFICATION

I, Patrick J. Grismer, certify that:

1. I have reviewed this report on Form 10-Q of YUM! Brands, 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 registrant, as of, and for, the periods presented in this report.
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: October 15, 2015

/s/ Patrick J. Grismer

Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of YUM! Brands, Inc. (the "Company") on Form 10-Q for the quarter ended September 5, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Greg Creed, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2015

/s/ Greg Creed

Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to YUM! Brands, Inc. and will be retained by YUM! Brands, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of YUM! Brands, Inc. (the "Company") on Form 10-Q for the quarter ended September 5, 2015, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Patrick J. Grismer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. the information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: October 15, 2015

/s/ Patrick J. Grismer

Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to YUM! Brands, Inc. and will be retained by YUM! Brands, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

