To address this obvious opportunity, we launched our innovative Customer Mania training program this past year. We define Customer Mania as 100% CHAMPS with a YES! CHAMPS stands for the basics (Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality, Speed of Service). YES means we bring the customer a positive “can I help you” attitude every time. And we’re on a mission to make Customer Mania a reality in every one of our 32,924 restaurants.

We are now training our 840,000 team members once a quarter, every quarter from here on out, on how to be Customer Maniacs. We're teaching our frontline team members lifeskills that will help them be successful in whatever they ultimately decide to do in life. And we've now empowered the frontline team members to solve customer issues on the spot without having to get approval from their restaurant managers. We firmly believe that by staying after this day after day, year after year, we will become the very best in our business at providing consistently good service. Today Wendy’s is rated one of the best, and we take our hats off to them. One day it will be each of our brands competing with one another for the top spot.

Customer Mania is driving improvement as we speak. To date, customer complaints are down and compliments are up. We are making improvements in speed at Taco Bell and Pizza Hut. And KFC has improved product quality. The key to great restaurant operations is the capability of our people, and our team member turnover is now 128%, well below the industry average, and much better than last year’s 156%. Team members appreciate the investment we are making in them. They know they are important. We’ve never had this foundation before, and it will help us deliver a more trusted customer experience, and drive more consistent sales growth.

The Customer Mania journey has just begun and we clearly have sales upside as we climb up the customer service ladder. We can and must get better. Our goal is to be the best restaurant operator in our industry.

**OUR TABLE IS SET FOR FUTURE GROWTH:** On October 7 of 2002, we celebrated our fifth anniversary as a public company. We’ve nearly tripled our ongoing operating earnings per share since our spin-off from Pepsico. We’ve improved our balance sheet in every conceivable way by being financially disciplined and improving operations. We’ve moved from Tricon to Yum! Brands with the acquisition of Long John Silver’s and A&W. We now have great brands in every major category.

“We Customer Mania is contagious. If you’re happy and smiling it changes your mood and your customer’s mood. Put the customer first, recognize and appreciate your team and watch what happens!”

Franchise KFC/A&W RGM
Jennifer Dodd,
Luihn Food Systems

**yes**

attitude, culture, & mindset,
100% of the time.
We clearly set the table for the next five years and our goals are bold:

• be the premier global restaurant company,
• transform the QSR industry with multibranding,
• become the best QSR operator in the world, and last but not least,
• be the best restaurant company investment.

Given our unique international, multibranding and operational growth opportunities, we intend to continue to grow our earnings per share at least 10% every year. If we can deliver even better results, like we did in 2002, we will. Our challenge going forward is simple: Execute and get better and better and better at what we do.

As a shareholder, I want you to know the five key measures we’re focused on to gauge our performance:

**HOW YOU SHOULD MEASURE US**

1) International Expansion…we want to add at least 1,000 new units and grow earnings at least 15% each year. 2) Multibranding…we want to add at least 400 units per year in the U.S. and grow that number every year. 3) U.S. Blended Same Store Sales Growth…we want to grow our same store sales at least 2% per year. Looking at our core U.S. business on a blended basis reflects the advantage of owning a portfolio of category-leading brands, diversified within the quick-service industry. The blended measure is unique in our industry and so are we. The portfolio allows us to hedge the inevitable ups and downs at each of our brands, and combined with multibranding, increases our capability to deliver at least a 2% blended same store sales growth rate in 2003 and beyond. 4) Franchise Fees…we generate over $860 million in franchise fees with minimal capital investment. We expect to grow fees 4–6% each year. 5) Return on Invested Capital…at 18%, we are leading the quick-service restaurant industry. We expect to maintain our high returns by continuing to drive 16% margins in stores we own and by meeting or exceeding our high standards for returns on new capital investments. This will enable us to continue to generate substantial cash flow each year.

**UNMATCHED TALENT** 
I’m confident we will execute our unique strategies because of the outstanding people we have in our company and our tremendous franchisees. We have a team that loves the restaurant business and is passionate about achieving greatness. I am privileged to be working with the best talent in the restaurant industry. Together, we are creating a customer mania and recognition culture that is allowing us to retain and recruit the very best. We believe in our formula for success: people capability first, satisfied customers will follow and then Yum! will make more money, and be an even greater investment for you.

I’d like to thank our dedicated team members, restaurant general managers, franchise partners, and outstanding Board of Directors for their many contributions and commitment to customer mania. I’d particularly like to thank Jeanette Wagner, who retired from our board this year, for her positive energy and support.

The table is set and the opportunities are ours for the taking…I hope you agree we are anything but your ordinary restaurant company.

**YUM! TO YOU!**

David C. Novak
Chairman and Chief Executive Officer
Setting the table around the world.
BECOMING THE PREMIER GLOBAL RESTAURANT COMPANY

We clearly can make the case that no other restaurant company has the kind of opportunity that we do outside of the United States. Now our largest and fastest growing division, Yum! Restaurants International, is a powerful international business and our goal is to be nothing less than the premier global restaurant company.

David: How have you leveraged our people capability and sharpened our focus to nearly double our profits the past five years?

Pete: I’m proud of the fact that our executives on average have 17 years of experience in the business. I think they are the most talented leaders in the industry who have worked hard to build incredible teams and a strong franchise system. In the early ‘90s before our spin-off as a public company, the international division planted too many flags in too many countries. We were spread too thin, we didn’t have proper resources in each country and we incurred large operating losses. In the last five years, we’ve become more disciplined about where we have company operations and about the tools we provide around the world. There are two factors that have emerged: A narrower focus on equity operations and much more disciplined tools that we manage with, among both company and franchise partners.

David: How did you decide where to focus our company equity investment?

Pete: We’ve been focusing our equity investment in four key markets—China, the U.K., Korea and Mexico. That’s been our story for the last two or three years. Each of these large company markets generates a great deal of our profit and is well established with strong brands and strong growth potential.

Sam: Pete’s right. Take China for instance. There’s no doubt in my mind, we aren’t even close to reaching our full potential there. China has roughly five times the population of the U.S., and KFC has about 5,000 units in the U.S., so at the same level of penetration we should have about 25,000 units in China someday. I’m proud of the fact that we’ve been rated the #1 brand in China today—so our true potential may even be bigger.

Pete: We also think we’re making the right strategic bets on the growth of certain developing and start-up markets that should be very rapidly growing in the next five years—namely, KFC Europe and we’re just starting in KFC Brazil.

Graham: In Western Europe, we’ve focused our initial investment in three important countries: France, Germany and The Netherlands. The early results in France and The Netherlands in particular underscore the consumer appeal of KFC and the unique nature of its products. Germany has been more difficult but, even there, we’re getting promising results in the bigger cities. Across the three countries there are now over 70 KFC units and our expansion efforts have only just begun! We see parallel company and franchise development in these three markets as providing the springboard for more rapid penetration of other countries throughout the Continent.

ROUNDTABLE PARTICIPANTS:
From left to right, top to bottom:
1. David Novak, Yum!, Chairman and Chief Executive Officer, is the moderator of this discussion.
2. Pete Bassi, YRI, President
3. Scott Bergren, YRI, Chief Concept Officer
4. Sam Su, President, Greater China
5. Graham Allan, Managing Director, Europe

Opposite
KFC is China’s #1 brand and opened the country’s first “drive-thru” in Beijing in 2002.
Scott: We have very large franchise businesses around the world and even though they seem to be in mature markets, we’re confident they can continue their strong growth. It’s counter-intuitive, but the bigger and stronger you become, the more powerful the brands and the building opportunities become. Specifically, I’m talking about Canada, Japan, Australia and a lot of Asia.

David: Talk about your approach to driving global brands.

Scott: It’s not a whole lot different than what Yum! does domestically. We follow the Yum! marketing model with one global brand identity but position the brand so it’s more relevant to the local markets. This way, we can work in partnership with the countries themselves to adapt the product to be more relevant to local customers. Limited time offers or flavor improvements are made at the market level. But on issues of brand identity and product segmentation, we continue to work toward a tighter integration of product and brand development between our international and domestic brands. For example, at the local level we should be using similar product descriptions in our marketing when introducing new products across the globe.

David: What makes you think we can continue to add 1,000 new units per year?

Sam: This January, we reached 800 stores in China and we are developing at a pace of 200-plus stores a year. This puts us more than 200 stores ahead of our closest competitor, McDonald’s, with an ever-widening gap. But we are far from full penetration. Our Pizza Hut business has reached 100 units and is China’s leading brand in the casual dining category. We are also beginning to develop a strong Pizza Hut delivery business that can be yet another major growth vehicle. Then, there is always the possibility of other new brands.

Graham: Despite a strong presence in the U.K. and its broad appeal throughout the world, KFC historically has been only a small player in the rest of Europe. The brand is represented in most Continental countries but has not achieved true scale in any single country. This gap provides us with a great opportunity for future growth. The potential market is more than 700 million people and branded quick-service restaurants are now well accepted by consumers across Europe.

Pete: We have five great brands, in addition to Multibranding opportunities, and we’ve really only just begun developing KFC and PH. These two brands alone have significant potential. We also have strong, dedicated leaders who are committed to developing this potential—not to mention the fact that we are the largest real estate developer in the world. And we can’t forget that there is no shortage of demand for our food.

David: I know we’ve had a great year, but what are your greatest challenges going forward?

Pete: I’d say our greatest challenge is not to lose our focus. We have the strategy and people in place. Now we have to continue to improve year over year. We are going to be an increasingly larger percentage of Yum! profit going forward and I’m really excited about our international opportunity. The table is set for us to become the premier global restaurant company.
Below left  We are currently opening more than 200 restaurants each year in China. Pictured here, the first store in Shangai Province.

Below right  KFC Mexico opened this landmark 400th restaurant in Ensenada.
Bringing branded choice & convenience to the table.
We want to be the best in the world at providing customers branded restaurant choice. Our customers have told us very clearly that we can break away from the pack when we offer two of our great brands in the same restaurant. Oftentimes, our best ideas come from our franchisees. So we asked three of them their views on Multibranding and Customer Mania.

Aylwin: Why is Multibranding such a big idea?

Larry: (opened first Taco Bell/Long John Silver’s) Multibranding has a dramatic impact on the customer. It’s a barrier-breaker for families, meaning that sometimes kids like to eat different things than adults. If you’ve got an A&W/Long John Silver’s, like we do in South Texas, you can see how it offers something for everyone. More globally, though, if you have a KFC/Taco Bell, you might get someone who wants a taco one day and who will come back the next day for chicken. When we add volume to these restaurants through Multibranding, we add incremental profits that we could not have gotten any other way. For example, if you take a good restaurant—like a $900,000 Taco Bell—and add a $400,000 Long John Silver’s, you have added incremental profits that would be impossible to get any other way.

Jackie: (opened first KFC/A&W) Multibranding offers our customers more variety. It creates an entertaining, fun atmosphere in our restaurants for customers and Team Members and helps leverage the cost of land, buildings and equipment. That ensures us a better return on our investment. When you’re adding a recognized second brand, it increases sales a lot faster than if you just add new products to your primary brand. It also broadens the customer base. We see younger people, more families and a steadier business through the whole day. Your food stays fresher, your service more consistent and you don’t have to worry as much about how to schedule Team Members for the slow times of day because there aren’t as many slow periods in your day.

Al: (opened first KFC/Taco Bell) Multibranding gives franchisees the option to leverage new and existing real estate in order to reach a broader customer base. For example, placing two brands under one roof in more expensive city locations helps pay the higher rent. Or, in smaller more rural areas with fewer people, the sales from two brands justify the restaurant’s location, whereas the sales from one brand couldn’t. The challenge Multibranding presents, however, is in the creation of great brand partnerships. The brands must complement, not compete with, one...