Yum! Brands 2007 Annual Customer Mania Report

Yum! winning big around the globe!

Financial Highlights

(In millions, except for per share amounts) Year-end	2007	2006	% B/(W) change
Company sales	$ 9,100	$ 8,365	9
Franchise and license fees	1,316	1,196	10
Total revenues	$ 10,416	$ 9,561	9
Operating profit	$ 1,357	$ 1,262	8
Net income	$ 909	$ 824	10
Diluted earnings per common share	$ 1.68	$ 1.46	15
Cash flows provided by operating activities	$ 1,567	$ 1,299	21

AVERAGE U.S. SALES PER SYSTEM UNIT[a]

(In thousands) Year-end	2007	2006	2005	2004	2003	5-year growth[b]
KFC	$ 994	$ 977	$ 954	$ 896	$ 898	2%
Pizza Hut	825	794	810	794	748	2%
Taco Bell	1,120	1,176	1,168	1,069	1,005	3%

(a) Excludes license units.
(b) Compounded annual growth rate.

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Dear Partners,

I think you'd agree there's nothing more satisfying than being on a winning team, and I think you'll see from this report that we are absolutely focused on gaining the satisfaction of winning big around the globe. In fact, as we move into our second decade as a public company, we have never been more certain and more excited about the growth we have within our grasp in all corners of the world.

DAVID C. NOVAK
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
YUM! BRANDS, INC.

I know you'd also agree there's nothing like a track record of success to give you the confidence you can keep on winning. That's why I'm especially pleased to report we achieved 15% Earnings Per Share (EPS) growth for 2007, powered by simply sensational growth in China, continued profitable international expansion, and strong, stable U.S. cash generation. That's the sixth straight year we've exceeded our +10% annual EPS target, proving the underlying power of our global portfolio of leading brands enables us to deliver consistent double-digit EPS growth. In so doing, we grew worldwide same store sales 3% and strengthened our claim as the number one retail developer of new units outside the United States by opening 1,358 stores, the seventh straight year we've opened up more than 1,000 new restaurants. With such powerful results, we generated record cash from operations of over $1.5 billion and returned an all time high of nearly $1.7 billion to our shareholders through share repurchases and dividends. Additionally, we announced in October our plan to substantially increase the amount of share buybacks over the next two years, repurchasing a total of up to $4 billion of the company's outstanding common stock. Given this overall performance, our share price climbed over 30% for the full year on top of 25% growth in 2006. We are especially gratified that our average annual total return to shareholders is 18% since our spin-off.

But of course, all of this is yesterday's newspaper. Continuing to win big in this tough, competitive environment means we must attack our opportunities with even more purpose and urgency. Let me assure you we are doing just that. We have four powerful growth opportunities that we believe make us not only "Not Your Ordinary Restaurant Company," but the most uniquely positioned retailer in the world.

Here's how we're **winning big:**

#1. Build Leading Brands Across China in Every Significant Category.

We already have established enormously popular brands and undeniable competitive advantage in the fast food and casual dining categories.

We are clearly making outstanding progress executing our breakthrough strategy of building a powerful portfolio of brands in the world's fastest growing economy, with 1.3 billion people. With KFC and Pizza Hut, we already have established enormously popular brands and undeniable competitive advantage in the fast food and casual dining categories. The numbers tell the story: KFC has 2,140 quick-service restaurants in mainland China, more than McDonald's, our nearest competitor. Pizza Hut has 351 casual dining restaurants with no other significant Western casual dining chain in mainland China.

Like I reported last year, the key to our success is that we have an outstanding local team that has worked together for over ten years to build these brands the right way from scratch. Our China leaders started with the vision to become not only the best restaurant company in China, but the best restaurant company *in the entire world*. There's no doubt in my mind we are doing just that. Just ask any analyst, investor or consumer who has visited our Chinese restaurants, and I'm betting they will tell you we are building best in class brands and operations. What's more, we are highly profitable, generating $375 million in operating profit. That's an amazing 30% growth in 2007 and a five year average annual growth rate of over 25%. China is our highest returning international business with a cash payback on investments of less than two years which is why we are investing our own capital to be primarily company owned and operated. As we have built the business, we've put in place a world class infrastructure to give us a long-term competitive advantage. We uniquely own our own food distribution system that has allowed us to expand KFC into 406 cities and

make Pizza Hut available in 77 cities. We have one of the largest real estate and construction teams of any retailer in the world that opened 471 traditional restaurants in 2007 as we generated 12% same store sales growth. We have also developed target manufacturing capability for our proprietary dessert line of egg tarts and pizza dough making. And we continue to grow our people capability ahead of the business by recruiting and retaining talent with highly sought after, well-paying jobs.

I always liken our China opportunity to the days when Colonel Sanders, Glen Bell, Dan Carney and Ray Kroc started KFC, Taco Bell, Pizza Hut and McDonald's, creating category-leading brands in the U.S. that today regularly serve 300 million consumers at over 30,000 U.S. restaurants. Consider these two factoids: 1) recent government studies suggest that the middle class in mainland China now numbers over 250 million people, the equivalent to the entire U.S. population in 1990, at which time the U.S. QSR industry was already very well established; and 2) there are 547 million cell phone subscribers in China, which underscores how rapidly the consumer base is embracing new technology and concepts. Clearly, just like the founders of the brands I just mentioned, we are the pioneers on the ground floor of a booming category in a growing mega market. We fully expect to win big by capitalizing on the total opportunity.

To us, winning big in China means building leading brands in every significant category. So in addition to KFC and Pizza Hut casual dining, we are now successfully developing Pizza Hut Home Service which already has 23 units in Shanghai and is now beginning national expansion to meet the growing demand for convenient meals at home given the rise of dual income households. We've also generated a lot of local consumer excitement by creating our own quick-service restaurant chain, East Dawning, tailored to the local favorites of the Chinese customer. Obviously, Chinese people's favorite food is Chinese cuisine, so we are offering delicious, affordable, convenient Chinese food in appealing facilities that differentiate us from local competition. We continue to enhance the concept and are making dramatic progress improving our unit economics, especially with sales increases from the launch of television advertising. Our team is confident that we will make East Dawning a success and believe it could be our highest potential concept given the obvious broad appeal of Chinese food in China. Believe me, the concept is getting better and better every time I see it in my frequent visits to China and I'm a believer!

I often get asked the question of how big we think we can be in mainland China. Our best long-range forecast is over 20,000 restaurants. The way we look at it, KFC can be every bit as big as McDonald's is in the U.S., ultimately reaching 15,000+ units; Pizza Hut Casual Dining can equal the casual dining leader in the U.S., Applebee's, achieving 2,000+ units; Pizza Hut Home Service can match category-leading Domino's in the U.S., achieving 5,000+ units; and East Dawning is attacking the Chinese equivalent of the U.S. hamburger category — so who knows how high is up? The unarguable conclusion based on the opportunity we see on hand is that we are in the first inning of a nine inning ball game. We have a great lead, and plan on winning big!

I also often get asked: what can go wrong? Well, in the past five years, we've had challenges like dealing with SARS, the threat of Avian Flu, and an ingredient supply issue, with each having significant short-term negative impacts. In each case we bounced back stronger than before. One thing I'm sure of is we will certainly have our challenges ahead, but I'm

Our China Division generated $375 million in operating profit — that's amazing 30% growth in 2007!

more convinced than ever that one day we will have more restaurants and profits in China than we do in the U.S., so we are glad that we've made an investment into a long-term competitive advantage that's getting stronger. That's my story and I'm sticking to it!!! CHINA DIVISION KEY MEASURES: 20% OPERATING PROFIT GROWTH; +20% SYSTEM SALES GROWTH IN MAINLAND CHINA; AT LEAST 425 NEW UNITS PER YEAR IN MAINLAND CHINA.

#2. Drive Aggressive International Expansion and Build Strong Brands Everywhere.

Yum! Restaurants International generated record operating profit of $480 million in 2007.

Yum! Restaurants International (YRI), which operates in over 100 countries and territories outside of China and the U.S., had its best year yet in 2007. YRI delivered same store sales growth of 6%, system sales growth of 15% and operating profit growth of 18%, resulting in record operating profit of $480 million. Here we have a high return franchising model with 87% of the business being owned and operated by franchisees who are also opening up over 90% of the new restaurants and generating $568 million in franchise fees, requiring minimal capital on our part. Like China, YRI is a tremendous growth vehicle, but we believe it may have even more potential. While KFC and Pizza Hut are already global brands, with a total of 11,686 restaurants, we have barely scratched the surface reaching a combined population of 5 billion people.

What's more, we are getting stronger and more diversified each year. We opened a record 852 new traditional restaurants across six continents last year. That's the eighth straight year we've opened more than 700 units. Our ever increasing scale fuels growth as more restaurants and more sales leads to more marketing and an even stronger organization. In fact, our system spent approximately $650 million in marketing last year while YRI spent $375 million in G&A. This global infrastructure, coupled with our over 750 dedicated franchisees, is our single biggest competitive advantage at YRI. For this we are largely indebted to PepsiCo who, prior to our spin-off in 1997, invested 40 years and billions of dollars to establish the global network we've turned into a 12,000 unit powerhouse. The reality is it would take the same time and commitment for our competition to reach our size and scale, and frankly, we don't expect most U.S. competitors to have significant international businesses for a long time to come.

We're focused on profitably driving international expansion in three global arenas— franchise only markets, established company operations markets, and emerging, underdeveloped markets with huge populations.

When you look at our core franchise and company business in total for the year, I'm especially pleased with the consistently strong results we had across the board, with only a very few soft spots.

Our franchise restaurants generated franchisee fee growth of 15% in 2007 and I'm especially pleased with the consistent growth we are seeing from our great franchise business units. I'd like to give a special congratulation to our teams in Asia 19%, Caribbean Latin America 12%, Middle East Northern Africa 32% and South Africa 32%.

In our company ownership markets, our Australian and Mexico businesses had excellent years on top of strong year ago performance, which is the kind of consistency we are striving for. We were also pleased to see our KFC U.K. business turn around with exceptional same store sales growth in a challenging market. If you'll recall, we purchased the remaining 50% interest in 544 Pizza Hut Restaurants in the U.K. from Whitbread, PLC which had been an underperforming market. While the team has set a clear direction for a turnaround, the

YRI is a diverse, high-return business, opening a record 852 new traditional restaurants across six continents last year!

Yum!

1,000,000+ great customer maniacs around the globe put a smile on customers' faces every day!

business continues to struggle and while we are confident of achieving long-term success, the fact is our plans have not yet paid off. South Korea is another underperforming country, and we have put in new management to give the business a fresh set of eyes and the right new initiatives.

For the longer term, we are clearly mindful of the need to develop new growth opportunities, and that's why we are aggressively developing emerging markets with huge populations. Take India for example, a country with over a billion people, 60% under the age of 30, and an economy growing 8% annually over the past three years. We take pride in our progress at Pizza Hut, where we now have 140 restaurants in 35 cities and have been named the "Most Trusted Food Service Brand" in India for three years running by the *The Economic Times*. And we are enthusiastic about the prospects for KFC, which now has 31 units in 9 cities. We are consistently growing our presence and building sales momentum in this large and rapidly growing market. Like China, we are building an outstanding local team and putting the infrastructure in place to capitalize in India on what is clearly acknowledged as the next major market in the world. In Russia, I'm pleased to report our partnership with Rostik's, the country's number one fast food chicken chain, looks to be everything we'd hoped for. We've made major headway converting the majority of our approximately 100 restaurants to KFC's product line which our customers absolutely love. By the way, considering that it took us ten years to develop 100 restaurants in China and India, our partnership with Rostik's gave us a gigantic jumpstart with local operating expertise in Russia's very challenging operating environment. What's more, countries like Vietnam, a small country with a surprising 80 million people is on our radar screen. We now have 40 KFCs and 2 Pizza Hut casual dining restaurants there, with a target to have at least 100 KFCs by 2010. We are also making plans to leverage our leading KFC South African platform for further African expansion, targeting Nigeria first, and we'd like to replicate that on other parts of the continent. Today, KFC South Africa has 479 restaurants with the highest KFC transactions in the world and five-year average system sales growth of 29%. Additionally, we are making big strides in European markets, where McDonald's has a huge presence and we are basically on the ground floor of a giant skyscraper building. Most people are amazed to learn that our very highest KFC unit volumes in the world are in France, proving the universal appeal of the brand.

Finally, given the popularity of Taco Bell and the fact it is the second most profitable brand in the U.S., we are now planting the seeds to take it global. We are opening Taco Bells in the Philippines and Mexico, with plans to develop in Dubai, India, Spain and Japan over the next couple of years. While the potential is immense, the task is difficult because we have to establish the Mexican food category and build awareness of the brand, both of which are unfamiliar in most countries. We will learn as we go, but our intent is to go, and win big.

YRI made $480 million in operating profit during 2007 and together with China, accounts for over 50% of our operating profits compared to just 20% ten years ago. With the benefit of increasing global prosperity, our strong global competitive positioning, massive, under-penetrated markets, aggressive franchisee-led growth and exciting new growth drivers, you can see why we view YRI as our division with the greatest long-term potential. We are now truly a global powerhouse with a realistic new-unit development opportunity that is unrivaled by anyone in restaurants or retail. In fact, we think YRI's global potential will reach at least 40,000 restaurants to go along with our over 20,000 China estimate.

INTERNATIONAL DIVISION KEY MEASURES: 10% OPERATING PROFIT GROWTH; AT LEAST 5% SYSTEM SALES GROWTH; 750 NEW UNITS PER YEAR.

#3. Dramatically Improve U.S. Brand Positions, Consistency and Returns.

The single biggest opportunity for our U.S. brands is that we already have nearly 18,000 underleveraged traditional restaurants with minimal capacity constraints.

While we clearly believe we have identified the way to win big in the U.S., I'm obligated to report the reality is we are not achieving the kind of success we know we can. The fact is even though our category-leading U.S. based brands have continually demonstrated outstanding unit economics on a stand-alone basis and generated nearly $700 million in franchise and license fees, we have fallen short of our goal to grow profits at least 5% every year. It's even more disappointing to report that 2007 was a year where same store sales were flat and operating profits were down 3%. Frankly, the best thing I can say about our weak U.S. performance in 2007 is that we get to overlap it in 2008! This is especially true when you consider that last year's results were primarily impacted by two isolated, and now thankfully distant, highly publicized product supply and pest incidents that affected our largest and most profitable brand, Taco Bell — while Pizza Hut made progress and KFC basically stood still.

Nevertheless, we turned this adversity into an opportunity by using the lessons learned to take additional precautions to enhance our stringent food safety and operation standards for all of our brands.

There's no question our number one challenge is to turn the U.S. performance around. And as we put 2007 behind us, our poor results have only strengthened our resolve to take the bold steps necessary for us to win big going forward.

The way we see it, our nearly 18,000 underleveraged traditional restaurants represent our greatest opportunity. When you look at the top 10% of our highest performing restaurants, the volumes are almost twice what our system averages are. So clearly we can sell a whole lot more at each of our brands than we are today. More importantly, we have learned from our experience building a strong and growing business in China, and by studying the enormous success McDonald's had in the U.S. the past five years as they grew sales 6% from their existing assets. Our conclusions led us to implement five key strategic initiatives to help us unlock the value of our U.S. assets:

1) Create more balanced menu options
2) Grow multiple dayparts
3) Offer multiple proteins, desserts and beverages
4) Provide constant everyday value
5) Continually contemporize our facilities

Later in this report, each of our brand presidents will tell you how they are transforming their brands and attacking each of these areas. Our category-leading brand restaurants present tremendous upside and we are determined to capture it.

Given that Taco Bell is already the second most profitable quick-service restaurant brand in the U.S., we are now in the position to open a significant number of stand-alone Taco Bells along with KFC-Taco Bell multibranding units. With Taco Bell well-positioned in the quick-service restaurant space, we are driving net-unit development in the U.S. with this brand. We are targeting to do the same across our entire U.S. business by 2009 as our turnaround plan takes hold. When you consider McDonald's has almost 14,000 traditional units in the U.S. compared to only 5,000 traditional Taco Bells and 5,000 KFCs, there's plenty of territory we can still penetrate. We also continue to develop Long John Silver's and A&W All American Food as a multibranding option for our franchisees, while continuing to improve the appeal of both brands.

Our formula for success is working. When we put people capability first, then we satisfy more customers — and profitability will follow!

In addition to pursuing profit and new unit growth, we continue to pursue refranchising. We have successfully executed this concept since we started our company. If we can run our stores well and provide great returns to our shareholders, we'll own the restaurants ourselves. If our company operations are not getting margins that well exceed our cost of capital, we'll sell our restaurants to franchisees who can do a better job of running them. Taco Bell has earned the right to own, so we will only marginally reduce its ownership over time, continuing to own about 25% of the system. On the other hand, we will be taking total U.S. ownership down from 22% to possibly less than 10% by owning fewer Pizza Huts, KFCs and LJSs. The goal for this realignment is to improve operations with franchisees, increase our focus on brand building, and in so doing, generate proceeds that allow us to reinvest in growth opportunities that improve shareholder returns.

I have to acknowledge there are those who are skeptical about our ability to transform our U.S. business. Of course, seeing is believing. This only motivates our U.S. teams more and now we have to walk the talk. Given the transformational strategies we've developed and plan to implement over the next couple of years, we feel like we're playing on a big stage with a winning hand no one sees. As I said in December at our annual investor conference, our U.S. business is an outstanding "value investment" with tremendous asset leverage opportunity, and we are committed to winning big by unlocking this value over the next two to three years.

U.S. BRAND KEY MEASURES: 5% OPERATING PROFIT GROWTH; 2–3% SAME STORE SALES GROWTH

#4. Drive Industry-Leading, Long-Term Shareholder and Franchisee Value.

Any way you look at it Yum! Brands is an incredible cash machine, with each of our divisions generating free cash flow.

The good news is we already are a leader in Return On Invested Capital (ROIC), not only among restaurant companies but among large-cap global retailers and consumer packaged companies as well. So, we're going forward from a position of real strength.

Any way you look at it, Yum! Brands is an incredible cash machine, with each of our divisions generating free cash flow — or effectively funding their own capital investments. As this capital is deployed to high-return opportunities — for example, new restaurants in China, where the cash payback is only two years — we expect total returns to remain strong. These returns will further improve as we continue to refranchise restaurants, which will increase our franchise fees — currently amounting to $1.3 billion — with minimal capital investment.

We're proud of the fact that we are one of the few companies that can CONTINUE to make significant capital investments year after year (in the $600 to $750 million range), AND make great investments in large scale buybacks (reducing outstanding shares by 6% in 2007), AND pay a meaningful dividend (2%) AND grow EPS in the double digits. I think it's safe to say there are not many companies doing this.

ROIC AND STRONG SHAREHOLDER PAYOUT KEY MEASURES: 18% ROIC; 3-4% REDUCTIONS OF SHARES OUTSTANDING; 2% DIVIDEND TARGET

Winning Big: Going for Breakthrough

Our focus on consistency has allowed us to quintuple our stock price since our 1997 spin-off, making us one of the top performers on the New York Stock Exchange.

In closing, I want you to know we will continue to be galvanized around building what we call the Yum! Dynasty, with the result being one of the world's most consistent and highest performing companies. Our focus on consistency has allowed us to quintuple our stock price since our 1997 spin-off, making us one of the top performers on the New York Stock Exchange.

While we can certainly be proud of our progress: I'D LIKE US TO CONSIDER THIS AS IF WE WON THE FIRST SET OF A TENNIS MATCH 6–0. AND I'D LIKE TO CONSIDER THE START OF OUR SECOND DECADE AS THE START OF THE SECOND SET!!!!

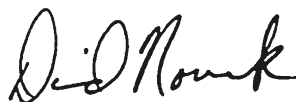
Have you ever wondered why is it that the player who wins the first set by a wide margin often goes on to lose the second set? When you think about it, I'm sure you'll agree it's for two reasons: the competitor who lost becomes even more determined and changes his game so he can win the second set; and at the same time, the player who won the first set becomes somewhat complacent. Well, our competitors are definitely out to raise their game and the last thing I want is to see our company become complacent. That's the absolute kiss of death. So we need to draw a line in the sand, and adopt a second set mentality to win big again in this decade.

If you look on the next page and on the inside of the back cover, you will see the road maps for our second set.

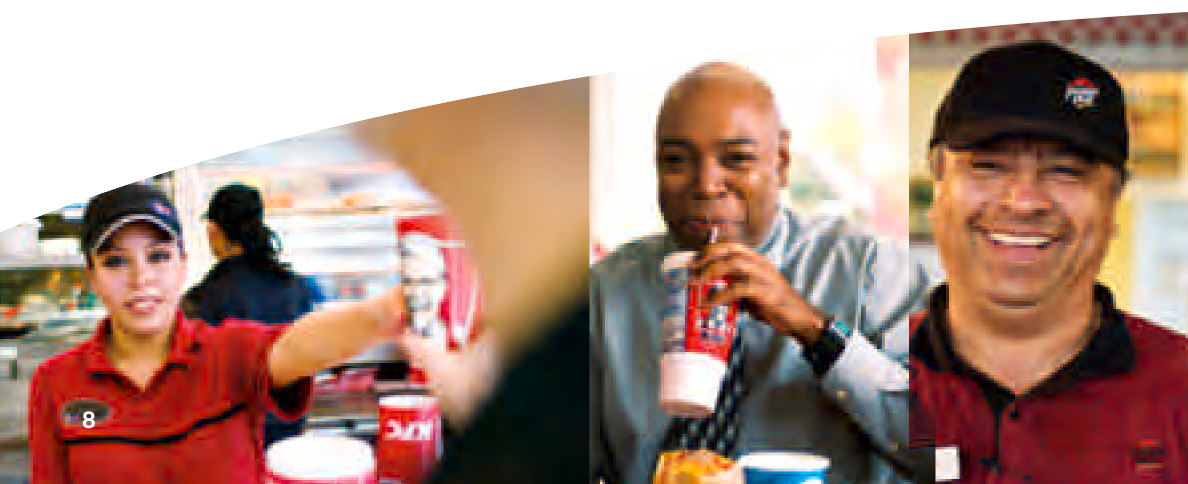
We've laid out our Yum! Dynasty Growth Model and our How We Win Together leadership principles. Winning big in our second decade means more aggressively taking Customer Mania, Believing in ALL People and Recognition forward as our foundational behaviors. Just as importantly, we owe it to ourselves and shareholders to drive for breakthrough results with a significantly higher sense of urgency. New behaviors like "Go for Breakthrough," "Build Know How" and "Take the Hill Teamwork" will be cascaded and implemented as job requirements and the way we win together. We are in the process of teaching a tool kit that will help ALL our franchisees, and restaurant support and field leaders make these behaviors a part of the way we attack the business every single day. The expectation is it will have a positive impact on all our restaurants around the world. Clearly, we all have a lot to learn and it will be a journey as each of us strives to grow our piece of Yum! to reach our full potential.

I'd like to thank our more than 1 million dedicated team members, restaurant managers, franchise partners and outstanding directors who are dedicated to winning big in everything they do. Never was this more evident than when we launched the world's largest Hunger Relief initiative in support of the United Nations World Food Programme and other hunger agencies. You'll see in this Report how our corporate social responsibility effort is helping hundreds of thousands of starving children move from hunger, to hope. We view this as both a privilege and responsibility. We will keep working on this serious global issue until it no longer is one. Believe me, our people are focused on WINNING BIG around the globe, from our business results to our corporate social responsibility. **Stay tuned. The best is yet to come!**

Yum to you!



David C. Novak
Chairman and Chief Executive Officer



We will continue to be galvanized around building what we call the Yum! Dynasty, with the result being one of the world's most consistent and highest performing companies.

Yum! dynasty growth model

our goal

Be the Best in the World at Building Great Brands and Running Great Restaurants!

our passion

Customer Mania… put a YUM on customers' faces around the world

our formula for success

People Capability First… satisfied customers and profitability follow

how we lead (with intentionality)

Step Change Thinkers
Know How Builders
Action Drivers
People Growers

how we grow

Build leading brands in China in every significant category	Drive aggressive, International expansion and build strong brands everywhere	Dramatically improve U.S. brand positions, consistency and returns	Drive industry-leading, long-term shareholder and franchisee value

how we win together (HWWT)²

Believe in All People
We Are Customer Maniacs
Recognize! Recognize! Recognize!
Go for Breakthrough
Build Know How
Take the Hill Teamwork

…as one system

1.3B

We're building a powerful portfolio of brands in the world's fastest-growing economy with 1.3 billion people.

OPEN

Powerful brands, outstanding tenured leadership teams, best-in-class operations and a unique distribution system lead the way for big wins in China!

Yum! China generated $375 million in operating profit and over $2 billion in revenue!

winning big in China!

2007 was an exceptionally strong year for Yum! in China. KFC and Pizza Hut continue to be the #1 quick-service brands in mainland China with over 2,500 restaurants in over 400 cities and provinces, but we're not stopping there. Not only are we going to continue building our two powerhouse brands across China, we're building leading brands in every significant category that emerges…not just chicken, not just pizza.

In 2007, we opened 471 new restaurants—more than one restaurant a day! And we're not just opening up new restaurants, we're doing it with strong same store sales growth. Over time, we want to open over 20,000 restaurants and plan to expand our average unit volumes, which are high already, to even higher levels. With unit growth, same store sales growth and high returns, we're winning BIG in China and the best is yet to come!

Sam Su, President, Yum! China Division

100+

We're serving over 4 billion customers in over 100 countries and territories outside of China and the U.S.!

OPEN

852 new restaurants across 6 continents—a new record!

Record operating profits of $480 million!

YRI is a very diversified business, with emerging markets in India, Russia, Vietnam and Africa!

winning big around the globe!

Our International Division (YRI) has had another exceptional year in 2007. Strong international system sales growth of 15% and a record 852 new unit openings drove $480 million in operating profits, up 18% over prior year. The KFC Brand in particular had a spectacular year internationally. Our big franchise businesses in Asia, the Middle East, South Africa and Europe excelled as did the company operated markets of KFC UK, Mexico and KFC Australia.

But we're even more excited by the potential for future growth than we are about the scale and breadth of our business today. Our two big brands, KFC and Pizza Hut, still have enormous unit growth opportunities as well as scope for unit volume gains through new layers like breakfast, beverages and additional proteins. We're ready to take Taco Bell global and to build our new pizza delivery brand, Pizza Hut Delivery (PHD). All in all, a world of opportunity everywhere we look.

Graham Allan, President, Yum! Restaurants International

#1

Yum! is #1 in four restaurant categories in the U.S.!

In 2007 we increased our Pizza Hut system same store sales by 2.8%. We drove these sales increases with new consumer-centric insights surrounding our great Classic Pizza products—Pan, Hand-Tossed, Cheesy Bites, and Stuffed Crust. We also brought back the delicious P'Zone—a full pound of abundant pizza ingredients, sealed inside a Hand-Tossed style crust. And at New Year's we introduced the revolutionary Pizza Mia, a value-oriented product, priced at 3 for $15!

We're also market testing the family-sized restaurant-quality line of Tuscani Pastas. This is a first for our QSR business, and is a completely unmet need in the QSR category—there is no restaurant-quality Home Meal Replacement pasta available today. The Tuscani Pasta products will go national in the spring of 2008.

Pizza, Pasta, and a third feature of our Home Meal Replacement family—Chicken products—are in our restaurants, or delivered to your door! Our WingStreet products and our blue-ribbon winning sauces are moving toward national distribution. We're already in over 1,100 units—and we'll add as many as 3,000 more points of distribution within the next few years based on a new agreement with our franchisees. By the end of 2009, we'll be in a position to advertise America's largest wing chain on national television!

We're America's Favorite Pizza, and will soon be America's Favorite Pasta, and America's Favorite Chicken Wing provider. We're confident that we'll continue to deliver breakthrough products and results at Pizza Hut for 2008 and beyond!

Scott Bergren
President and
Chief Concept Officer
Pizza Hut

KFC is one of the few brands in America that can boast about having a rich 55-year history, and you can't be in business that long without a lot of success along the way.

2007 was marked with several breakthroughs, the most significant of which was our conversion to zero grams trans fat cooking oil for all fried products. The switch was welcome news to customers who love our world famous taste, but were concerned about trans fat. This cemented our position as a leader in the QSR industry. Transformational? You bet!

After three years and a $500 million investment, nearly 80% of KFC restaurants have a fresh, new look. And, with our franchise partners, we also accelerated the testing of our vision restaurants. Outside, they are a dramatic red color and shout out to customers that something is different at KFC. Inside, they are warm and inviting, a place to share life with friends.

As a system, we are investing in our kitchens and improving the work flow to better serve customers, especially at lunch. And for our restaurant teams, we're generating pride and energy through an engaging program that was featured in the *Wall Street Journal* called "Creating a Great Place to Work."

Our dinner business continued to grow in 2007 as we gave moms even more reasons to connect with their families around the table. In fact, when we gave moms a bucket of our Original Recipe® chicken at an affordable value, we recorded the strongest dinner sales in our 55-year history.

We celebrated another record with the sale of our 500 millionth KFC Snacker®, proving customers still can't get enough of our tasty 99¢ sandwich. And our KFC Famous Bowls™ continue to be a favorite for customers who love getting all their favorites layered together in one place.

With an exciting new ad campaign combined with innovative products and processes launching in 2008, we are set up for accelerated growth next year and beyond. That means even more finger lickin' good years to come!

Gregg Dedrick
President and
Chief Concept Officer
KFC

Taco Bell is the second most profitable QSR brand in the U.S., with a 54% share of the Mexican QSR category. Much of this success can be attributed to our innovative spirit, which began 46 years ago with Founder Glen Bell. Whether it's our people, our products or our promotions, Taco Bell is a brand where *Left of Center Feels Right!*

2007 was no exception. Unique product offerings like our Steak Grilled Taquitos and Chili Cheese Nachos Bell Grande® encouraged customers to THINK OUTSIDE THE BUN®. And in 2008, we're spicing things up more than ever with products like our New Fiesta Platters—a complete meal of Soft Tacos or a Grilled Stuft Burrito served with seasoned rice, hearty beans, chips and chunky salsa. We've also introduced our new Fresco Menu that offers nine tasty and filling items—each full of the Taco Bell taste our customers love, all with less than 9 grams of fat each!

Not only are we offering THINK OUTSIDE THE BUN food products, but customers will also soon have the chance to "drink outside the bun" with Frutista Freeze™, our new proprietary frozen beverage launching this summer. Initially offered in Strawberry and Mango Strawberry, it's a refreshing, smoothly blended, frozen fruit drink topped with real fruit.

Innovation is also the name of the game when it comes to our Customer Promotions. For instance, we featured loyal customers in the first-ever "Avatarsement" for our Fourthmeal program, the late night meal between dinner and breakfast. And we really gave baseball and Taco Bell fans across America something to cheer about when they received a free Beef Crunchy Taco as part of our "Steal a Base, Steal a Taco" World Series promotion with Major League Baseball!

Looking forward, we believe that our future success lies not just in growing our share of the Mexican QSR category, but also in growing our relevance as a full-service QSR Mega Brand. Glen Bell's pioneer spirit will continue to drive us forward, ensuring that Taco Bell is always *Left of Center*—and never left behind!

Greg Creed
President and
Chief Concept Officer
Taco Bell

Since 1969, Long John Silver's has been bringing families together with our delicious, signature battered fish, chicken and shrimp. As the leader of the Quick-Service Restaurant Seafood category, we are satisfying customers with our traditional seafood items and new products like our mouth-watering Buttered Lobster Bites. We are continuing to transform the fast food experience with our Special Catch line of non-fried seafood products including Wild Alaskan Salmon, Grilled Tilapia, and Flame Grilled Shrimp. When you visit Long John Silver's you'll see what revolutionary QSR service is all about and why customers leave ringing the bell!

At A&W All American Food, we have been serving hometown favorites for nearly 90 years. With real jukebox music and a frosty mug of our signature A&W Root Beer Floats, our customers love the nostalgia. In 2007, we celebrated the fact that our burgers are the only burgers in the industry made with 100% U.S. Beef. The nation was called to action to join the "Moove to American" campaign in support of 100% U.S. Beef. Other A&W "hometown" favorites include the Papa burger, Coney dog and our Sweets & Treats dessert menu, so c'mon in and have some hometown fun!

Ben Butler
President
LJS/A&W All American Food

going for breakthrough in the U.S.

The foundation of our company is our portfolio of category-leading U.S.-based brands. With leadership positions in the quick-service chicken, pizza, Mexican-style food and seafood categories, no other restaurant company has the kind of power we have in the marketplace today. We're passionate and we're committed to dramatically improving our U.S. brand positions, consistency and returns. The single biggest advantage we have in the U.S. is our nearly 18,000 under-leveraged traditional restaurants. We see this as a significant value opportunity that we can use to bring more exciting brand news to life for our consumers. We know that our brands represent a promise that we make to YOU at every meal we serve. And we know we have the leaders and plans in place to drive sustainable sales and profit performance and deliver dramatic change in our U.S. business in the future. With Customer Maniacs around the globe putting smiles on our customers' faces, we are continuing to build breakthrough brands and bringing our brand promises to life!

Emil Brolick, President U.S. Brand Building, Yum! Brands Inc.

TACO
BELL

Taco Bell

Pizza Hut

Long John Silver's

A&W
All American Food

winning big with customer maniacs!

Now that we're moving into our second decade as a public company, we want our shareholders to know one thing: over 1,000,000 Customer Maniacs around the globe have made a personal commitment to building an operating culture around their passion for serving customers. Bringing our Customer Mania mindset and culture to life in every aspect of the business means we're putting the customer first in everything we do. And when we're 100% focused on the customer and running great restaurants, we're attacking the business every day with unmatched intensity. It's a focus on building consistency in beating year ago performance and it's putting process and discipline around what really matters. This vision for greatness means we're committed to executing the basics—**CHAMPS**—our core program for training, measuring and rewarding employee performance against key customer metrics. Excellent execution will drive the business as we go forward and I am here to tell you that we won't be satisfied until we have 100% CHAMPS execution and Same Store Sales Growth in every restaurant!

Roger Eaton, Chief Operating and Development Officer
Yum! Brands Inc.

champs

cleanliness

So clean it sparkles…because the customer sees everything. That's what KFC RGM Lenka Blahutova tells her team all the time. "I feel it's my responsibility to keep the restaurant clean and bright for my customers," she says. That's reflected in this restaurant's strong CHAMPS scores, especially in the area of Cleanliness. Everybody pitches in, Lenka says. In the afternoon hours, she says the team is busy cleaning, which reinforces her idea (and Colonel Sanders') that if you have time to lean, you have time to clean. "You can serve great product," Lenka says, "but you've got to serve it in a clean and friendly atmosphere." Lenka does just that in her restaurant for franchise partner AmRest Holdings, N.V.

Lenka Blahutova, KFC
Czech Republic

hospitality

She has a smile a mile wide. "We have fun. And when the team is happy, the customers are happy." That's how A&W RGM Becky Redig defines hospitality. "Give the customers what they want, when they want it." And that's how she and her team practice it for their franchise owner, Jim Bradjick, too. It pays off. Becky's CHAMPS scores are among the brand's highest. When her restaurant was chosen to test a line of desserts, called Sweets & Treats, her team did so well with the new line that the company decided to add them to the menu of every A&W. Now that's Customer Mania at its best!

Becky Redig,
A&W All American Food
Fond du Lac, Wisconsin

accuracy

Accuracy for this outstanding RGM means making and serving delicious pizzas the right way every time. That's just what the team at Pizza Hut RGM Marcie Dean's dine-in, carry-out restaurant delivers every time. Owned by Capital Pizza Hut, the restaurant has received a record nine consecutive perfect 100% CHAMPS Excellence Review inspections. "I don't have a lot of turnover," Marcie says, "We're a team through and through." Everyone pitches in to make sure the customer has a great experience. "It doesn't matter if you're a dishwasher or a cook, if you see someone in this restaurant needs help, you go and help that person. Teamwork ensures accuracy," Marcie says.

Marcie Dean, Pizza Hut
Skowhegan, Maine

maintenance

Everything in KFC RGM Loretta Lacy's restaurant runs smoothly, including her equipment. "You have to watch for everything and you have to think about taking care of the equipment all the time," she says. Displaying a high energy attitude, Loretta keeps her eye on all the moving parts for franchisee Patricia Painter. She does that while making sure that customers get the best product possible. With CHAMPS scores in the upper 90s, Loretta knows how important it is to keep everything running smoothly while you put smiles on your customers' faces.

Loretta Lacy, KFC
Charleston, West Virginia

speed with service

Things seem to always move fast at Taco Bell RGM Frank Villanueva's restaurant, but that's how Frank likes it. He wants his team to get things done fast—but with a smile. "If you smile, they can hear it through the speaker," Frank says. Frank's "can do" attitude and his CHAMPS scores in the high 90s helped propel him to being named Taco Bell's "Company RGM of the Year" during the Golden Bell Awards this year. "I credit my team," he says. "We hire the strongest candidates and they demonstrate their Customer Mania with speedy service every day."

Frank Villanueva, Taco Bell
Dallas, Texas

product quality

Perfect fish all the time. That's what Long John Silver's RGM Heather Wheeler delivers in her restaurant. Heather runs a $1 million training restaurant for the company and she follows all the company's procedures to ensure that her customers get the best product possible. "It's all about building great teams," she says, "and training those teams to ensure that only the highest grade products go into the meals we serve." Heather knows that customers evaluate the restaurant every time they come in. "If they know that you care," she says, "they will give you a commitment." Heather's customers have told her they love the fresh food and great service they get at her restaurant.

Heather Wheeler, Long John Silver's
Abingdon, Virginia

biggest movement to end world hunger!

Over 850 million people go to bed hungry in all corners of the globe. More people die from hunger each year than from war, turberculosis and AIDS combined. In fact, every five seconds, a child somewhere dies from hunger. These are sobering statistics. While our restaurants already donate $50 million of prepared food to the underprivileged in the United States, we wanted to do even more. We view this as our privilege, and responsibility.

So in 2007, we launched the world's most ambitious hunger relief effort in support of the United Nations World Food Programme (WFP). Our aim was to raise awareness, volunteerism and funds to feed the hungry across the globe. I'm extraordinarily proud of our employees, franchisees and customers, who, together with the YUM Foundation, donated $16 million to help solve hunger. This helped more than 1.2 million people move From Hunger To Hope. **Jonathan Blum, Senior Vice President, Chief Public Affairs Officer, Yum! Brands, Inc.**

WORLD HUNGER
Relief Week
OCTOBER 14 - 20, 2007

awareness

Our advertising, public relations, in-store promotions and on-line activities created awareness of the hunger issue in 95% of the world's countries, reaching 1.5 billion people with this message. This marketing campaign, the equivalent of $50 million, let the world know how committed we are to helping solve this global problem.

volunteerism

We launched the world's largest volunteer effort, with many of our 1 million employees system-wide donating 4 million volunteer hours to various hunger relief agencies during World Hunger Relief Week.

fundraising

In addition to the $10 million donated to the WFP, we also donated $6 million in cash and food to hunger relief agencies, food shelters and soup kitchens in the United States to feed hungry children.

Internationally, our donations fed 8.2 million school meals to 41,000 kids in Guatemala, El Salvador, Rwanda, Lesotho, India, Sri Lanka and Indonesia. We enabled the UN to feed 438,000 primary school children in 134 provinces across Ethiopia. We provided emergency feeding to 100,000 people in Bolivia affected by floods, 685,000 people in Somalia affected by civil conflict, 132,000 people in Pakistan affected by floods, 7,500 people in Peru who survived an earthquake, and 209,000 in Bangladesh who were affected by Cyclone Sidr.

We're proud to help hunger victims around the globe move From Hunger To Hope.

WFP/Kornelius Schiffer

winning big
with great results!

For the sixth straight year, we met our commitment to deliver EPS growth of at least 10%, delivering 15% growth in 2007. As you can see, we take our commitments to our shareholders very seriously, and consistency of performance is a top priority. We continued to expand our business around the world, opening a record 471 new units in Mainland China and a record 852 units in YRI. By once again adding more new international units than any other restaurant company, Yum! continues to improve its competitive position. In 2007, we returned a record $1.7 billion to our shareholders, with share repurchases of $1.4 billion and dividends of almost $300 million. Overall, you can expect that in 2008, Yum! Brands will once again prove we are not your ordinary restaurant company and will continue to WIN BIG around the globe! Rick Carucci, Chief Financial Officer, Yum! Brands, Inc.

Worldwide Sales

(In Billions)	2007	2006	2005	2004	2003	5-Year Growth[a]
UNITED STATES						
KFC						
Company sales	**$ 1.2**	$ 1.4	$ 1.4	$ 1.4	$ 1.4	(3%)
Franchisee sales [b]	**4.1**	3.9	3.8	3.6	3.5	3%
PH						
Company sales	**$ 1.3**	$ 1.4	$ 1.6	$ 1.6	$ 1.6	(3%)
Franchisee sales [b]	**4.1**	3.8	3.7	3.6	3.5	2%
TACO BELL						
Company sales	**$ 1.7**	$ 1.8	$ 1.8	$ 1.7	$ 1.6	2%
Franchisee sales [b]	**4.4**	4.5	4.4	4.0	3.8	4%
LONG JOHN SILVER'S						
Company sales	**$ 0.3**	$ 0.4	$ 0.5	$ 0.5	$ 0.5	NM
Franchisee sales [b]	**0.5**	0.4	0.3	0.3	0.3	NM
A&W						
Company sales	**$ –**	$ –	$ –	$ –	$ –	NM
Franchisee sales [b]	**0.2**	0.2	0.2	0.2	0.2	NM
TOTAL U.S.						
Company sales	**$ 4.5**	$ 5.0	$ 5.3	$ 5.2	$ 5.1	(1%)
Franchisee sales [b]	**13.3**	12.8	12.4	11.7	11.3	3%
INTERNATIONAL						
KFC						
Company sales	**$ 1.3**	$ 1.1	$ 1.1	$ 1.0	$ 0.9	9%
Franchisee sales [b]	**6.7**	5.7	5.2	4.7	4.1	13%
PIZZA HUT						
Company sales [c]	**$ 1.2**	$ 0.7	$ 0.6	$ 0.7	$ 0.5	18%
Franchisee sales [b]	**3.0**	3.1	3.0	2.6	2.4	7%
TACO BELL						
Company sales	**$ –**	$ –	$ –	$ –	$ –	NM
Franchisee sales [b]	**0.2**	0.2	0.2	0.2	0.1	13%
LONG JOHN SILVER'S						
Company sales	**$ –**	$ –	$ –	$ –	$ –	NM
Franchisee sales [b]	**–**	–	–	–	–	NM
A&W						
Company sales	**$ –**	$ –	$ –	$ –	$ –	NM
Franchisee sales [b]	**0.1**	0.1	0.1	0.1	0.1	NM
TOTAL INTERNATIONAL						
Company sales	**$ 2.5**	$ 1.8	$ 1.7	$ 1.7	$ 1.4	12%
Franchisee sales [b]	**10.0**	9.1	8.5	7.6	6.7	11%
CHINA						
KFC						
Company sales	**$ 1.7**	$ 1.3	$ 1.0	$ 0.9	$ 0.8	22%
Franchisee sales [b]	**1.1**	0.8	0.7	0.6	0.5	24%
PIZZA HUT						
Company sales	**$ 0.4**	$ 0.3	$ 0.2	$ 0.2	$ 0.1	NM
Franchisee sales [b]	**–**	–	–	–	–	NM
TOTAL CHINA						
Company sales	**$ 2.1**	$ 1.6	$ 1.2	$ 1.1	$ 0.9	24%
Franchisee sales [b]	**1.1**	0.8	0.7	0.6	0.5	23%
TOTAL WORLDWIDE						
Company sales	**$ 9.1**	$ 8.4	$ 8.2	$ 8.0	$ 7.4	6%
Franchisee sales [b]	**24.4**	22.7	21.6	19.9	18.5	7%

(a) Compounded annual growth rate; totals for U.S., International and Worldwide exclude the impact of Long John Silver's and A&W.
(b) Franchisee sales represents the combined estimated sales of unconsolidated affiliate and franchise and license restaurants. Franchisee sales, which are not included in our Company sales, generate franchise and license fees (typically at rates between 4% and 6%) that are included in our revenues.
(c) For years 2007 and 2006, Company sales for the International Division includes the impact of the acquisition of the remaining 50% ownership interest of our Pizza Hut U.K. unconsolidated affiliate.

Worldwide System Units

Year-end	2007	2006	% B/(W) Change
Company	**7,625**	7,736	(1%)
Unconsolidated affiliates	**1,314**	1,206	9%
Franchisees	**24,297**	23,516	3%
Licensees	**2,109**	2,137	(1%)
Total	**35,345**	34,595	2%

Year-end	2007	2006	2005	2004	2003	5-Year Growth[a]
UNITED STATES						
KFC	**5,358**	5,394	5,443	5,525	5,524	–
Pizza Hut	**7,515**	7,532	7,566	7,500	7,523	–
Taco Bell	**5,580**	5,608	5,845	5,900	5,989	(2%)
Long John Silver's	**1,081**	1,121	1,169	1,200	1,204	(2%)
A&W	**371**	406	449	485	576	(11%)
Total U.S. [b]	**19,905**	20,061	20,472	20,610	20,822	(1%)
INTERNATIONAL						
KFC	**6,942**	6,606	6,307	6,084	5,944	4%
Pizza Hut	**4,882**	4,788	4,701	4,528	4,357	3%
Taco Bell	**238**	236	243	237	247	(2%)
Long John Silver's	**38**	35	34	34	31	6%
A&W	**254**	238	229	210	183	7%
Total International	**12,354**	11,903	11,514	11,093	10,762	3%
CHINA						
KFC	2,592	2,258	1,981	1,657	1,410	17%
Pizza Hut	480	365	305	246	204	21%
Taco Bell	2	2	2	1	1	NM
Total China [c]	3,086	2,631	2,291	1,905	1,615	18%
Total [b][c]	35,345	34,595	34,277	33,608	33,199	2%

(a) Compounded annual growth rate; total U.S., International and Worldwide excludes the impact of Long John Silver's and A&W.
(b) Includes 6 Yan Can units in 2003.
(c) Includes 12 units, 6 units, 3 units and 1 unit in 2007, 2006 and 2005, and 2004, respectively, for an Asian food concept in China.

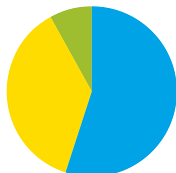
Breakdown of Worldwide System Units

Year-end 2007	Company	Unconsolidated Affiliate	Franchised	Licensed	Total
UNITED STATES					
KFC	971	–	4,302	85	5,358
Pizza Hut	1,292	–	4,852	1,371	7,515
Taco Bell	1,301	–	3,807	472	5,580
Long John Silver's	328	–	753	–	1,081
A&W	4	–	367	–	371
Total U.S.	3,896	–	14,081	1,928	19,905
INTERNATIONAL					
KFC	750	366	5,770	56	6,942
Pizza Hut	891	202	3,707	82	4,882
Taco Bell	1	–	195	42	238
Long John Silver's	–	–	37	1	38
A&W	–	–	254	–	254
Total International	1,642	568	9,963	181	12,354
CHINA					
KFC	1,618	746	228	–	2,592
Pizza Hut	455	–	25	–	480
Taco Bell	2	–	–	–	2
Total China [a]	2,087	746	253	–	3,086
Total [a]	7,625	1,314	24,297	2,109	35,345

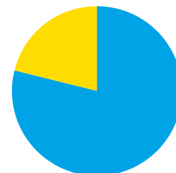
(a) Includes 12 units in 2007 for an Asian food concept in China.

Yum! Brands at-a-glance

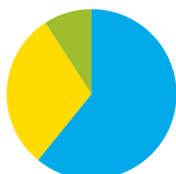
U.S. SALES BY BRAND | BY DAYPART | BY DISTRIBUTION CHANNEL



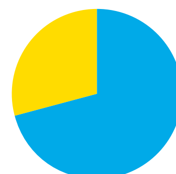
● **Dinner 55%** ● Lunch 37%
● Snacks/Breakfast 8%



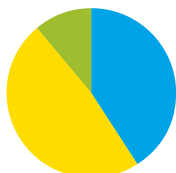
● **Dine Out 79%**
● Dine In 21%



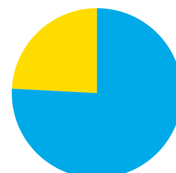
● **Dinner 61%** ● Lunch 30%
● Snacks/Breakfast 9%



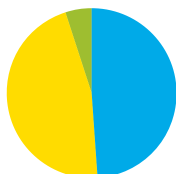
● **Dine Out 71%**
● Dine In 29%



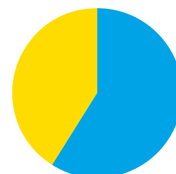
● Dinner 41% ● **Lunch 48%**
● Snacks/Breakfast 11%



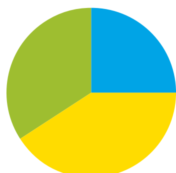
● **Dine Out 76%**
● Dine In 24%



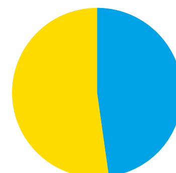
● **Dinner 49%** ● Lunch 46%
● Snacks/Breakfast 5%



● **Dine Out 59%**
● Dine In 41%



● Dinner 25% ● **Lunch 41%**
● Snacks/Breakfast 34%

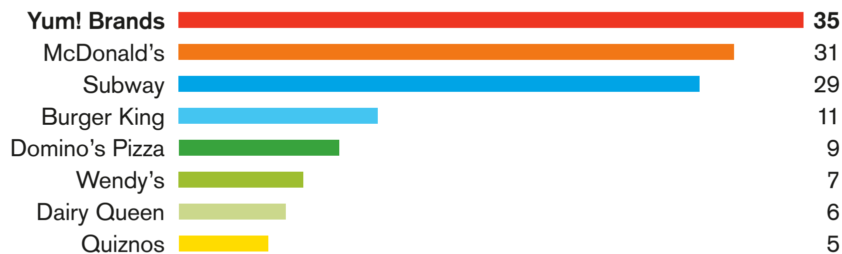


● **Dine Out 48%**
● Dine In 52%

Source: The NPD Group, Inc.; NPD Foodworld; CREST

Worldwide Units

2007 (In Thousands)



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

Introduction and Overview

The following Management's Discussion and Analysis ("MD&A"), should be read in conjunction with the Consolidated Financial Statements on pages 57 through 60 ("Financial Statements") and the Cautionary Statements on page 52. Throughout the MD&A, YUM! Brands, Inc. ("YUM" or the "Company") makes reference to certain performance measures as described below.

- The Company provides the percentage changes excluding the impact of foreign currency translation. These amounts are derived by translating current year results at prior year average exchange rates. We also provide the percentage changes excluding the extra week that certain of our businesses had in fiscal year 2005. We believe the elimination of the foreign currency translation and the 53rd week impact provides better year-to-year comparability without the distortion of foreign currency fluctuations or an extra week in fiscal year 2005.
- System sales growth includes the results of all restaurants regardless of ownership, including Company-owned, franchise, unconsolidated affiliate and license restaurants. Sales of franchise, unconsolidated affiliate and license restaurants generate 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 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 development.
- Worldwide same store sales is the estimated growth in sales of all restaurants that have been open one year or more. U.S. Company same store sales include only KFC, Pizza Hut and Taco Bell Company owned restaurants that have been open one year or more. U.S. same store sales for Long John Silver's and A&W restaurants are not included given the relative insignificance of the Company stores for these brands and the limited impact they currently have, and will have in the future, on our U.S. same store sales as well as our overall U.S. performance.
- Company restaurant margin as a percentage of sales is defined as Company sales less expenses incurred directly by our Company restaurants in generating Company sales divided by Company sales.

All Note references herein refer to the Notes to the Financial Statements on pages 61 through 84. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified. All per share and share amounts herein, and in the accompanying Financial Statements and Notes to the Financial Statements have been adjusted to reflect the June 26, 2007 stock split (see Note 3).

DESCRIPTION OF BUSINESS YUM is the world's largest restaurant company in terms of system restaurants with over 35,000 restaurants in more than 100 countries and territories operating under the KFC, Pizza Hut, Taco Bell, Long John Silver's or A&W All-American Food Restaurants brands. Four of the Company's restaurant brands — KFC, Pizza Hut, Taco Bell and Long John Silver's — are the global leaders in the chicken, pizza, Mexican-style food and quick-service seafood categories, respectively. Of the over 35,000 restaurants, 22% are operated by the Company, 72% are operated by franchisees and unconsolidated affiliates and 6% are operated by licensees.

YUM's business consists of three reporting segments: United States, the International Division and the China Division. The China Division includes mainland China, Thailand and KFC Taiwan and the International Division includes the remainder of our international operations. The China and International Divisions have been experiencing dramatic growth and now represent over half of the Company's operating profits. The U.S. business operates in a highly competitive marketplace resulting in slower profit growth, but continues to produce strong cash flows.

STRATEGIES The Company continues to focus on four key strategies:

Build Leading Brands in China in Every Significant Category The Company has developed the KFC and Pizza Hut brands into the leading quick service and casual dining restaurants, respectively, in mainland China. Additionally, the Company owns and operates the distribution system for its restaurants in mainland China which we believe provides a significant competitive advantage. Given this strong competitive position, a rapidly growing economy and a population of 1.3 billion in mainland China, the Company is rapidly adding KFC and Pizza Hut Casual Dining restaurants and testing the additional restaurant concepts of Pizza Hut Home Service (pizza delivery) and East Dawning (Chinese food). Our ongoing earnings growth model includes annual system-sales growth of 20% in mainland China driven by at least 425 new restaurants each year, which we expect to drive annual operating profit growth of 20% in the China Division.

Drive Aggressive International Expansion and Build Strong Brands Everywhere The Company and its franchisees opened over 850 new restaurants in 2007 in the Company's International Division, representing 8 straight years of opening over 700 restaurants. The International Division generated $480 million in operating profit in 2007 up from $186 million in 1998. The Company expects to continue to experience strong growth by building out existing markets and growing in new markets including India, France, Russia, Vietnam and Africa. Our ongoing earnings growth model includes annual operating profit growth of 10% driven by 750 new restaurant openings annually for the International Division. New unit development is expected to contribute to system sales growth of at least 5% (3% to 4% unit growth and 2% to 3% same store sales growth) each year.

Dramatically Improve U.S. Brand Positions, Consistency and Returns The Company continues to focus on improving its U.S. position through differentiated products and marketing and an improved customer experience. The Company also strives to provide industry leading new product innovation which adds sales layers and expands day parts. We are the leader in multibranding, with nearly 3,700 restaurants providing customers two or more of our brands at a single location. We continue to evaluate our returns and ownership positions with an earn the right to own philosophy on Company owned restaurants. Our ongoing earnings growth model calls for annual operating profit growth of 5% in the U.S. with same store sales growth of 2% to 3% and leverage of our General and Administrative ("G&A") infrastructure.

Drive Industry-Leading, Long-Term Shareholder and Franchisee Value The Company is focused on delivering high returns and returning substantial cash flows to its shareholders via share repurchases and dividends. The Company has one of the highest returns on invested capital in the Quick Service Restaurants ("QSR") industry. Additionally, 2007 was the third consecutive year in which the Company returned over $1.1 billion to its shareholders through share repurchases and dividends. The Company is targeting an annual dividend payout ratio of 35% to 40% of net income.

2007 HIGHLIGHTS

- Diluted earnings per share of $1.68 or 15% growth
- Worldwide system sales growth of 8% driven by new-unit growth in mainland China and the International Division
- Worldwide same store sales growth of 3% and operating profit growth of 8%
- Double digit operating profit growth of 30% from the China Division and 18% from the International Division, offsetting a 3% decline in the U.S.
- Effective tax rate of 23.7%
- Payout to shareholders of $1.7 billion through share repurchases and dividends, with repurchases helping to reduce our diluted share count by a net 4%

Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results

The following factors impacted comparability of operating performance for the years ended December 29, 2007, December 30, 2006 and December 31, 2005 and could impact comparability with our results in 2008.

MAINLAND CHINA COMMODITY INFLATION China Division restaurant margin as a percentage of sales declined to 20.1% during 2007 from 20.4% in 2006. This decline was driven by rising chicken costs in mainland China, which make up approximately 40% of mainland China's cost of food and paper, and higher restaurant labor costs in mainland China. Rising chicken costs are resulting from both lower than expected availability and increased demand in the market. The increased costs were partially offset in 2007 by strong same store sales growth, including the impact of menu pricing increases. In mainland China, we expect that high commodity inflation (including higher chicken costs) will continue into the first half of 2008 and moderate later in the year.

U.S. RESTAURANT PROFIT Our resulting U.S. restaurant margin as a percentage of sales decreased 1.3 percentage points in 2007 and increased 0.8 percentage points in 2006. Our U.S. restaurant profit was impacted in 2007 and 2006 by several key events and trends. These include the negative impact on the Taco Bell business of adverse publicity related to a produce-sourcing issue in the fourth quarter of 2006 and an infestation issue in one franchise store in February 2007, fluctuations in commodity costs, and lower self-insured property and casualty insurance reserves.

Taco Bell experienced significant sales declines at both Company and franchise stores in the fourth quarter 2006 and for almost all of 2007, particularly in the northeast U.S. where both issues originated. For the full year 2007, Taco Bell's Company same store sales were down 5%. Taco Bell's Company same store sales were flat in the fourth quarter of 2007 and we believe that Taco Bell will fully recover from these issues. However, our experience has been that recoveries of this type vary in duration.

In 2007, we experienced significant increases in commodity costs resulting in approximately $44 million of commodity inflation. This inflation was primarily driven by meats and cheese products. We expect these unfavorable commodity trends to continue in 2008 resulting in commodity inflation of approximately 5% for the full year, with the majority of this impact seen in the first half of the year. In 2006, restaurant profits were positively impacted versus 2005 by a decline in commodity costs, principally meats and cheese, of approximately $45 million.

The sizeable February 2008 beef recall in the U.S. had no impact on our results though the impact, if any, on beef prices going forward is not yet known.

Self-insurance property and casualty insurance expenses were down $27 million versus the prior year in both 2007 and 2006, exclusive of the estimated reduction due to refranchising stores. The favorability in insurance expenses was the result of improved loss trends, which we believe are primarily driven by safety and claims handling procedures we implemented over time, as well as workers' compensation reforms at the state level. We anticipate that given the significant favorability in 2007, property and casualty expense in 2008 will be significantly higher in comparison. The increased expenses are currently expected to be most impactful to our second quarter of 2008.

PIZZA HUT UNITED KINGDOM ACQUISITION On September 12, 2006, we completed the acquisition of the remaining fifty percent ownership interest of our Pizza Hut United Kingdom ("U.K.") unconsolidated affiliate from our partner, paying approximately $178 million in cash, including transaction costs and net of $9 million of cash assumed. Additionally, we assumed the full liability, as opposed to our fifty percent share, associated with the Pizza Hut U.K.'s capital leases of $97 million and short-term borrowings of $23 million. This unconsolidated affiliate operated more than 500 restaurants in the U.K.

Prior to the acquisition, we accounted for our fifty percent ownership interest using the equity method of accounting. Thus, we reported our fifty percent share of the net income of the unconsolidated affiliate (after interest expense and income taxes) as Other (income) expense in the Consolidated Statements of Income. We also recorded a franchise fee for the royalty received from the stores owned by the unconsolidated affiliate. Since the date of the acquisition, we have reported Company sales and the associated restaurant costs, G&A expense, interest expense and income taxes associated with the restaurants previously owned by the unconsolidated affiliate in the appropriate line items of our Consolidated Statement of Income. We no longer record franchise fee income for the restaurants previously owned by the unconsolidated affiliate, nor do we report other income under the equity method of accounting. As a result of this acquisition, Company sales and restaurant profit increased $576 million and $59 million, respectively, franchise fees decreased $19 million and G&A expenses increased $33 million in the year ended December 29, 2007 compared to the year ended December 30, 2006. As a result of this acquisition, Company sales and restaurant profit increased $164 million and $16 million, respectively, franchise fees decreased $7 million and G&A expenses increased $8 million in the year ended December 30, 2006 compared to the year ended December 31, 2005. The impacts on operating profit and net income were not significant in either year.

EXTRA WEEK IN 2005 Our fiscal calendar results in a 53rd week every five or six years. Fiscal year 2005 included a 53rd week in the fourth quarter for the majority of our U.S. businesses as well as our international businesses that report on a period, as opposed to a monthly, basis. In the U.S., we permanently accelerated the timing of the KFC business closing by one week in December 2005, and thus, there was no 53rd week benefit for this business. Additionally, all China Division businesses report on a monthly basis and thus did not have a 53rd week.

The following table summarizes the estimated increase (decrease) of the 53rd week on fiscal year 2005 revenues and operating profit:

	U.S.	International Division	Unallocated	Total
Revenues				
Company sales	$ 58	$ 27	$ —	$ 85
Franchise and license fees	8	3	—	11
Total Revenues	$ 66	$ 30	$ —	$ 96
Operating profit				
Franchise and license fees	$ 8	$ 3	$ —	$ 11
Restaurant profit	14	5	—	19
General and administrative expenses	(2)	(3)	(3)	(8)
Equity income from investments in unconsolidated affiliates	—	1	—	1
Operating profit	$ 20	$ 6	$ (3)	$ 23

MAINLAND CHINA 2005 BUSINESS ISSUES Our KFC business in mainland China was negatively impacted by the interruption of product offerings and negative publicity associated with a supplier ingredient issue experienced in late March 2005 as well as consumer concerns related to Avian Flu in the fourth quarter of 2005. As a result of the aforementioned issues, the China Division experienced system sales growth in 2005 of 11%, excluding foreign currency translation which was below our ongoing target of at least 22%. During the year ended December 30, 2006, the China Division recovered from these issues and achieved growth rates of 23% for both system sales and Company sales, both excluding foreign currency translation. During 2005, we entered into agreements with the supplier of the aforementioned ingredient. As a result, we recognized recoveries of approximately $24 million in Other income (expense) in our Consolidated Statement of Income for the year ended December 31, 2005.

SIGNIFICANT 2008 GAINS AND CHARGES In 2008, we expect that our results of operations will be significantly impacted by several events, including the sale of our interest in our unconsolidated affiliate in Japan and refranchising gains and charges related to our U.S. business.

In December 2007, we sold our interest in our unconsolidated affiliate in Japan for $128 million in cash (includes the impact of related foreign currency contracts that were settled in December 2007). Our international subsidiary that owned this interest operates on a fiscal calendar with a period end that is approximately one month earlier than our consolidated period close. Thus, consistent with our historical treatment of events occurring during the lag period, the pre-tax gain on the sale of this investment of approximately $87 million will be recorded in the first quarter of 2008. We also anticipate pre-tax gains from refranchising in the U.S. of $20 million to $50 million in 2008. We expect, that together these gains will be partially offset by charges relating to G&A productivity initiatives and realignment of resources, as well as investments in our U.S. brands to drive stronger growth. The net impact of all of the aforementioned gains and charges is expected to generate approximately $50 million in operating profit in 2008.

While we will no longer have an ownership interest in the entity that operates both KFCs and Pizza Huts in Japan, it will continue to be a franchisee as it was when it operated as an unconsolidated affiliate. Excluding the one-time gain, we do not expect that the sale of our interest in our Japan unconsolidated affiliate will have a significant impact on our subsequently reported results of operations in 2008 and beyond as the Other income we recorded representing our share of earnings of the unconsolidated affiliate has historically not been significant ($4 million in 2007).

FUTURE TAX LEGISLATION — MAINLAND CHINA On March 16, 2007, the National People's Congress in mainland China enacted new tax legislation that went into effect on January 1, 2008. Upon enactment, which occurred in the China Division's 2007 second fiscal quarter, the deferred tax balances of all Chinese entities, including our unconsolidated affiliates, were

adjusted. The impacts on our income tax provision and operating profit in the year ended December 29, 2007 were not significant. We currently estimate that these income tax rate changes will positively impact our 2008 net income between $10 million and $15 million compared to what it would have otherwise been had no new tax legislation been enacted.

MEXICO VALUE ADDED TAX ("VAT") EXEMPTION On October 1, 2007, Mexico enacted new legislation that eliminated a tax ruling that allowed us to claim an exemption related to VAT payments. Beginning on January 1, 2008, we will be required to remit VAT on all Company restaurant sales resulting in lower Company sales and restaurant profit. As a result of this new legislation, we estimate that our 2008 International Division's Company sales and restaurant profit will be unfavorably impacted by approximately $38 million and $34 million, respectively. Additionally, the International Division's system sales growth and restaurant margin as a percentage of sales will be negatively impacted by approximately 0.3% and 1.2 percentage points, respectively.

CHINA 2008 REPORTING ISSUES We have historically not consolidated an entity in China in which we have a majority ownership interest, instead accounting for the unconsolidated affiliate using the equity method of accounting. Our partners in this entity are essentially state-owned enterprises. We have not consolidated this entity due to the historical effective participation of our partners in the significant decisions of the entity that were made in the ordinary course of business as addressed in Emerging Issues Task Force ("EITF") Issue No. 96-16, "Investor's Accounting for an Investee When the Investor Has a Majority of the Voting Interest but the Minority Shareholder or Shareholders Have Certain Approval or Veto Rights". Concurrent with a decision that we made on January 1, 2008 regarding top management of the entity, we no longer believe that our partners effectively participate in the decisions that are made in the ordinary course of business. Accordingly, we will begin to consolidate this entity in 2008. The change will result in higher Company sales, restaurant profit, G&A expenses and Income tax provision, as well as lower franchise and license fees and Other income. Had this change occurred at the beginning of 2007, our China Division's Company sales, restaurant profit and G&A expenses would have increased approximately $227 million, $49 million and $5 million, respectively, and our franchise and license fees and Other income would have decreased $14 million and $13 million, respectively. The net impact of these changes and the resulting minority interest would have resulted in Operating profit increasing by $11 million with an offsetting increase in Income tax provision such that Net income would not have been impacted.

STORE PORTFOLIO STRATEGY From time to time we sell Company restaurants to existing and new franchisees where geographic synergies can be obtained or where franchisees' expertise can generally be leveraged to improve our overall operating performance, while retaining Company ownership of strategic U.S. and international markets. In the U.S., we are targeting Company ownership of restaurants potentially below 10% by year end 2010, down from its current level of 22%. Consistent with this strategy, 756 Company restaurants in the U.S. were sold to franchisees in 2006 and 2007. In the International Division, we expect to refranchise approximately 300 Pizza Huts in the U.K. over the next several years reducing our Pizza Hut Company ownership in that market from approximately 80% currently to approximately 40%. Refranchisings reduce our reported revenues and restaurant profits and increase the importance of system sales growth as a key performance measure. Additionally, G&A expenses will decline over time as a result of these refranchising activities. The timing of such declines will vary and often lag the actual refranchising activities as the synergies are typically dependent upon the size and geography of the respective deals. G&A expenses included in the tables below reflect only direct G&A that we are no longer incurring as a result of stores that were operated by us for all or some of the respective previous year and were no longer operated by us as of the last day of the respective year.

The following table summarizes our worldwide refranchising activities:

	2007	2006	2005
Number of units refranchised	**420**	622	382
Refranchising proceeds, pre-tax	**$ 117**	$ 257	$ 145
Refranchising net gains, pre-tax	**$ 11**	$ 24	$ 43

In addition to our refranchising program, from time to time we close restaurants that are poor performing, we relocate restaurants to a new site within the same trade area or we consolidate two or more of our existing units into a single unit (collectively "store closures"). Store closure (income) costs includes the net of gain or loss on sales of real estate on which we formerly operated a Company restaurant that was closed, lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves, and other facility-related expenses from previously closed stores.

The following table summarizes worldwide Company store closure activities:

	2007	2006	2005
Number of units closed	**204**	214	246
Store closure (income) costs	**$ (8)**	$ (1)	$ —

The impact on operating profit arising from refranchising and Company store closures is the net of (a) the estimated reductions in restaurant profit, which reflects the decrease in Company sales, and G&A expenses and (b) the estimated increase in franchise fees from the stores refranchised. The amounts presented below reflect the estimated historical results from stores that were operated by us for all or some portion of the respective previous year and were no longer operated by us as of the last day of the respective year. The amounts do not include results from new restaurants that we opened in connection with a relocation of an existing unit or any incremental impact upon consolidation of two or more of our existing units into a single unit.

The following table summarizes the estimated historical results of refranchising and Company store closures:

2007	**U.S.**	**International Division**	**China Division**	**Worldwide**
Decreased Company sales	**$ (449)**	**$ (181)**	**$ (34)**	**$ (664)**
Increased franchise and license fees	**20**	**9**	**—**	**29**
Decrease in total revenues	**$ (429)**	**$ (172)**	**$ (34)**	**$ (635)**

2006	U.S.	International Division	China Division	Worldwide
Decreased Company sales	$ (377)	$ (136)	$ (22)	$ (535)
Increased franchise and license fees	14	6	—	20
Decrease in total revenues	$ (363)	$ (130)	$ (22)	$ (515)

The following table summarizes the estimated impact on operating profit of refranchising and Company store closures:

2007	**U.S.**	**International Division**	**China Division**	**Worldwide**
Decreased restaurant profit	**$ (39)**	**$ (7)**	**$ (4)**	**$ (50)**
Increased franchise and license fees	**20**	**9**	**—**	**29**
Decreased general and administrative expenses	**7**	**3**	**—**	**10**
Increase (decrease) in operating profit	**$ (12)**	**$ 5**	**$ (4)**	**$ (11)**

2006	U.S.	International Division	China Division	Worldwide
Decreased restaurant profit	$ (38)	$ (5)	$ —	$ (43)
Increased franchise and license fees	14	6	—	20
Decreased general and administrative expenses	1	1	—	2
Increase (decrease) in operating profit	$ (23)	$ 2	$ —	$ (21)

Results of Operations

	2007	**% B/(W) vs. 2006**	2006	% B/(W) vs. 2005
Company sales	**$ 9,100**	**9**	$ 8,365	2
Franchise and license fees	**1,316**	**10**	1,196	7
Total revenues	**$ 10,416**	**9**	$ 9,561	2
Company restaurant profit	**$ 1,327**	**4**	$ 1,271	10
% of Company sales	**14.6%**	**(0.6)ppts.**	15.2%	1.2ppts.
Operating profit	**1,357**	**8**	1,262	9
Interest expense, net	**166**	**(8)**	154	(22)
Income tax provision	**282**	**1**	284	(7)
Net income	**$ 909**	**10**	$ 824	8
Diluted earnings per share[(a)]	**$ 1.68**	**15**	$ 1.46	14

(a) See Note 4 for the number of shares used in this calculation.

Restaurant Unit Activity

Worldwide	Company	Unconsolidated Affiliates	Franchisees	Total Excluding Licensees[(a)(b)]
Balance at end of 2005	7,587	1,648	22,666	31,901
New Builds	426	136	953	1,515
Acquisitions	556	(541)	(15)	—
Refranchising	(622)	(1)	626	3
Closures	(214)	(33)	(675)	(922)
Other	3	(3)	(39)	(39)
Balance at end of 2006	7,736	1,206	23,516	32,458
New Builds	**505**	**132**	**1,070**	**1,707**
Acquisitions	**9**	**6**	**(14)**	**1**
Refranchising	**(420)**	**(6)**	**426**	**—**
Closures	**(204)**	**(24)**	**(706)**	**(934)**
Other	**(1)**	**—**	**5**	**4**
Balance at end of 2007	**7,625**	**1,314**	**24,297**	**33,236**
% of Total	**23%**	**4%**	**73%**	**100%**

United States	Company	Unconsolidated Affiliates	Franchisees	Total Excluding Licensees[(a)]
Balance at end of 2005	4,686	—	13,605	18,291
New Builds	99	—	235	334
Acquisitions	—	—	—	—
Refranchising	(452)	—	455	3
Closures	(124)	—	(368)	(492)
Other	3	—	(22)	(19)
Balance at end of 2006	4,212	—	13,905	18,117
New Builds	**87**	**—**	**262**	**349**
Acquisitions	**8**	**—**	**(7)**	**1**
Refranchising	**(304)**	**—**	**304**	**—**
Closures	**(106)**	**—**	**(386)**	**(492)**
Other	**(1)**	**—**	**3**	**2**
Balance at end of 2007	**3,896**	**—**	**14,081**	**17,977**
% of Total	**22%**	**—**	**78%**	**100%**

International Division	Company	Unconsolidated Affiliates	Franchisees	Total Excluding Licensees[(a)(b)]
Balance at end of 2005	1,375	1,096	8,848	11,319
New Builds	47	35	703	785
Acquisitions	555	(541)	(14)	—
Refranchising	(168)	(1)	169	—
Closures	(47)	(25)	(303)	(375)
Other	—	(3)	(16)	(19)
Balance at end of 2006	1,762	561	9,387	11,710
New Builds	**54**	**18**	**780**	**852**
Acquisitions	**1**	**6**	**(7)**	**—**
Refranchising	**(109)**	**(6)**	**115**	**—**
Closures	**(66)**	**(11)**	**(314)**	**(391)**
Other	**—**	**—**	**2**	**2**
Balance at end of 2007	**1,642**	**568**	**9,963**	**12,173**
% of Total	**13%**	**5%**	**82%**	**100%**

(a) The Worldwide, U.S. and International Division totals exclude 2,109, 1,928 and 181 licensed units, respectively, at December 29, 2007. There are no licensed units in the China Division. Licensed units are generally units that offer limited menus and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums and amusement parks where a full scale traditional outlet would not be practical or efficient. As licensed units have lower average unit sales volumes than our traditional units and our current strategy does not place a significant emphasis on expanding our licensed units, we do not believe that providing further detail of licensed unit activity provides significant or meaningful information.

(b) The Worldwide and International Division totals at the end of 2007 exclude approximately 32 units from the 2006 acquisition of the Rostik's brand in Russia that have not yet been co-branded into Rostik's/KFC restaurants. The Rostik's units will be presented as franchisee new builds as the co-branding into Rostik's/KFC restaurants occurs.

China Division	Company	Unconsolidated Affiliates	Franchisees	Total Excluding Licensees
Balance at end of 2005	1,526	552	213	2,291
New Builds	280	101	15	396
Acquisitions	1	—	(1)	—
Refranchising	(2)	—	2	—
Closures	(43)	(8)	(4)	(55)
Other	—	—	(1)	(1)
Balance at end of 2006	1,762	645	224	2,631
New Builds	**364**	**114**	**28**	**506**
Acquisitions	**—**	**—**	**—**	**—**
Refranchising	**(7)**	**—**	**7**	**—**
Closures	**(32)**	**(13)**	**(6)**	**(51)**
Other	**—**	**—**	**—**	**—**
Balance at end of 2007	**2,087**	**746**	**253**	**3,086**
% of Total	**68%**	**24%**	**8%**	**100%**

Multibrand restaurants are included in the totals above. Multibrand conversions increase the sales and points of distribution for the second brand added to a restaurant but do not result in an additional unit count. Similarly, a new multibrand restaurant, while increasing sales and points of distribution for two brands, results in just one additional unit count. Franchise unit counts include both franchisee and unconsolidated affiliate multibrand units. Multibrand restaurant totals were as follows:

2007	**Company**	**Franchise**	**Total**
United States	**1,750**	**1,949**	**3,699**
International Division	**6**	**284**	**290**[(a)]
Worldwide	**1,756**	**2,233**	**3,989**

2006	Company	Franchise	Total
United States	1,802	1,631	3,433
International Division	11	192	203
Worldwide	1,813	1,823	3,636

(a) Includes 53 Pizza Hut Wing Street units that were not reflected as multibrand units at December 30, 2006.

For 2007 and 2006, Company multibrand unit gross additions were 86 and 212, respectively. For 2007 and 2006, franchise multibrand unit gross additions were 283 and 197, respectively. There are no multibrand units in the China Division.

System Sales Growth

	Increase		Increase excluding foreign currency translation		Increase excluding foreign currency translation and 53rd week	
	2007	2006	**2007**	2006	**2007**	2006
United States	**—**	—	**N/A**	N/A	**N/A**	1%
International Division	**15%**	7%	**10%**	7%	**10%**	9%
China Division	**31%**	26%	**24%**	23%	**24%**	23%
Worldwide	**8%**	4%	**6%**	4%	**6%**	5%

The explanations that follow for system sales growth consider year over year changes excluding, where applicable, the impact of foreign currency translation and the 53rd week in fiscal year 2005.

The increases in International Division, China Division and Worldwide system sales in 2007 and 2006 were driven by new unit development and same store sales growth, partially offset by store closures.

In 2007 U.S. system sales were flat as new unit development was largely offset by store closures. The increase in U.S. system sales in 2006 was driven by new unit development and same store sales growth, partially offset by store closures.

Revenues

	Amount		% Increase (Decrease)		% Increase (Decrease) excluding foreign currency translation		% Increase (Decrease) excluding foreign currency translation and 53rd week	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
Company sales								
United States	**$ 4,518**	$ 4,952	**(9)**	(6)	**N/A**	N/A	**N/A**	(5)
International Division	**2,507**	1,826	**37**	9	**31**	8	**31**	10
China Division	**2,075**	1,587	**31**	26	**24**	23	**24**	23
Worldwide	**9,100**	8,365	**9**	2	**6**	1	**6**	2
Franchise and license fees								
United States	**679**	651	**4**	3	**N/A**	N/A	**N/A**	4
International Division	**568**	494	**15**	10	**10**	10	**10**	11
China Division	**69**	51	**35**	25	**29**	21	**29**	21
Worldwide	**1,316**	1,196	**10**	7	**8**	6	**8**	8
Total revenues								
United States	**5,197**	5,603	**(7)**	(5)	**N/A**	N/A	**N/A**	(4)
International Division	**3,075**	2,320	**33**	9	**26**	9	**26**	10
China Division	**2,144**	1,638	**31**	26	**24**	23	**24**	23
Worldwide	**$10,416**	$ 9,561	**9**	2	**6**	2	**6**	3

The explanations that follow for revenue fluctuations consider year-over-year changes excluding, where applicable, the impact of foreign currency translation and the 53rd week in fiscal year 2005.

Excluding the favorable impact of the Pizza Hut U.K. acquisition, Worldwide Company sales decreased 1% in 2007. The decrease was driven by refranchising and store closures, partially offset by new unit development and same store sales growth. Excluding the favorable impact of the Pizza Hut U.K. acquisition, Worldwide Company sales were flat in 2006. Increases from new unit development and same store sales growth were offset by decreases in refranchising and store closures.

Excluding the unfavorable impact of the Pizza Hut U.K. acquisition, Worldwide franchise and license fees increased 9% and 8% in 2007 and 2006, respectively. These increases were driven by new unit development, same store sales growth and refranchising, partially offset by store closures.

In 2007, the decrease in U.S. Company sales was driven by refranchising, same store sales declines and store closures, partially offset by new unit development. In 2006, the decrease in U.S. Company sales was driven by refranchising and store closures, partially offset by new unit development.

In 2007, U.S. Company same store sales were down 3% due to transaction declines partially offset by an increase in average guest check. In 2006, U.S. Company same store sales were flat as a decrease in transactions was offset by an increase in average guest check.

In 2007, the increase in U.S. franchise and license fees was driven by refranchising and new unit development, partially offset by store closures. In 2006, the increase in U.S. franchise and license fees was driven by new unit development, refranchising and same store sales growth, partially offset by store closures.

Excluding the favorable impact of the Pizza Hut U.K. acquisition, International Division Company sales decreased 1% in 2007. The decrease was driven by refranchising and store closures, partially offset by same store sales growth and new unit development. Excluding the favorable impact of the Pizza Hut U.K. acquisition, International Division Company sales were flat in 2006. The impacts of refranchising and store closures were partially offset by new unit development and same store sales growth.

Excluding the unfavorable impact of the Pizza Hut U.K. acquisition, International Division franchise and license fees increased 14% and 13% in 2007 and 2006, respectively. The increases were driven by new unit development and same store sales, partially offset by store closures. 2007 was also favorably impacted by refranchising.

In 2007 and 2006, the increases in China Division Company sales and franchise and license fees were driven by new unit development and same store sales growth.

Company Restaurant Margins

2007	**U.S.**	**International Division**	**China Division**	**Worldwide**
Company sales	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Food and paper	**29.2**	**29.9**	**36.4**	**31.0**
Payroll and employee benefits	**30.5**	**26.1**	**13.2**	**25.3**
Occupancy and other operating expenses	**27.0**	**31.7**	**30.3**	**29.1**
Company restaurant margin	**13.3%**	**12.3%**	**20.1%**	**14.6%**

2006	U.S.	International Division	China Division	Worldwide
Company sales	100.0%	100.0%	100.0%	100.0%
Food and paper	28.2	32.2	35.4	30.5
Payroll and employee benefits	30.1	24.6	12.9	25.6
Occupancy and other operating expenses	27.1	31.0	31.3	28.7
Company restaurant margin	14.6%	12.2%	20.4%	15.2%

2005	U.S.	International Division	China Division	Worldwide
Company sales	100.0%	100.0%	100.0%	100.0%
Food and paper	29.8	33.1	36.2	31.4
Payroll and employee benefits	30.2	24.1	13.3	26.4
Occupancy and other operating expenses	26.2	30.7	33.1	28.2
Company restaurant margin	13.8%	12.1%	17.4%	14.0%

In 2007, the decrease in U.S. restaurant margin as a percentage of sales was driven by the impact of higher commodity costs (primarily cheese and meats) and higher wage rates, due primarily to state minimum wage rate increases. The decrease was partially offset by the favorable impact of lower self-insured property and casualty insurance expense driven by improved loss trends, as well as the favorable impact on restaurant margin of refranchising and closing certain restaurants.

In 2006, the increase in U.S. restaurant margin as a percentage of sales was driven by the impact of lower commodity costs (primarily meats and cheese), the impact of same store sales on restaurant margin (due to higher average guest check) and the favorable impact of lower self-insured property and casualty insurance expense. The increase was partially offset by higher occupancy and other costs, higher labor costs, primarily driven by wage rates and benefits, and the lapping of the favorable impact of the 53rd week in 2005. The higher occupancy and other costs were driven by increased advertising and higher utility costs.

In 2007, the increase in International Division restaurant margin as a percentage of sales was driven by the impact of same store sales growth on restaurant margin as well as the favorable impact of refranchising certain restaurants. The increase was almost fully offset by higher labor costs (primarily wage rates) and the impact of lower margins associated with Pizza Hut units in the U.K. which we now operate. As a percentage of sales, Pizza Hut U.K. restaurants negatively impacted payroll and employee benefits and occupancy and other expenses and positively impacted food and paper.

In 2006, the increase in International Division restaurant margin as a percentage of sales was driven by the impact of same store sales growth on restaurant margin as well as the favorable impact of refranchising and closing certain restaurants. These increases were offset by higher labor costs and higher food and paper costs.

In 2007, the decrease in China Division restaurant margin as a percentage of sales was driven by higher commodity costs (primarily chicken products), the impact of lower margins associated with new units during the initial periods of operation and higher labor costs. The decrease was partially offset by the impact of same store sales growth on restaurant margin.

In 2006, the increase in China Division restaurant margin as a percentage of sales was driven by the impact of same store sales growth on restaurant margin. The increase was partially offset by the impact of lower margins associated with new units during the initial periods of operations.

Worldwide General and Administrative Expenses

G&A expenses increased 9% in 2007, including a 2% unfavorable impact of foreign currency translation. Excluding the additional G&A expenses associated with acquiring the Pizza Hut U.K. business (which were previously netted within equity income prior to our acquisition of the remaining fifty percent of the business) and the unfavorable impact of foreign currency translation, G&A expense increased 4%. The increase was driven by higher annual incentive and other compensation costs, including amounts associated with strategic initiatives in China and other international growth markets.

G&A expenses increased 2% in 2006. The increase was primarily driven by higher compensation related costs, including amounts associated with investments in strategic initiatives in China and other international growth markets, partially offset by lapping higher prior year litigation related costs. The net impact of the additional G&A expenses associated with acquiring the Pizza Hut U.K. business, the favorable impact of lapping the 53rd week in 2005 and the unfavorable impact of foreign currency translation was not significant.

Worldwide Other (Income) Expense

	2007	2006	2005
Equity income from investments in unconsolidated affiliates	**$ (51)**	$ (51)	$ (51)
Gain upon sale of investment in unconsolidated affiliate[a]	**(6)**	(2)	(11)
Recovery from supplier[b]	**—**	—	(20)
Contract termination charge[c]	**—**	8	—
Wrench litigation income[d]	**(11)**	—	(2)
Foreign exchange net (gain) loss and other	**(3)**	(7)	—
Other (income) expense	**$ (71)**	$ (52)	$ (84)

(a) Fiscal years 2007 and 2006 reflects recognition of income associated with receipt of payments for a note receivable arising from the 2005 sale of our fifty percent interest in the entity that operated almost all KFCs and Pizza Huts in Poland and the Czech Republic to our then partner in the entity. Fiscal year 2005 reflects the gain recognized at the date of this sale.
(b) Relates to a financial recovery from a supplier ingredient issue in mainland China totaling $24 million in 2005, $4 million of which was recognized through equity income from investments in unconsolidated affiliates.
(c) Reflects an $8 million charge associated with the termination of a beverage agreement in the U.S. segment in 2006.
(d) Fiscal years 2007 and 2005 reflect financial recoveries from settlements with insurance carriers related to a lawsuit settled by Taco Bell Corporation in 2004.

Worldwide Closure and Impairment Expenses and Refranchising (Gain) Loss

See the Store Portfolio Strategy section for more detail of our refranchising and closure activities and Note 5 for a summary of the components of facility actions by reportable operating segment.

Operating Profit

			% Increase/ (Decrease)	
	2007	2006	**2007**	2006
United States	**$ 739**	$ 763	**(3)**	—
International Division	**480**	407	**18**	9
China Division	**375**	290	**30**	37
Unallocated and corporate expenses	**(257)**	(229)	**12**	(7)
Unallocated other income (expense)	**9**	7	**NM**	NM
Unallocated refranchising gain (loss)	**11**	24	**NM**	NM
Operating profit	**$ 1,357**	$ 1,262	**8**	9
United States operating margin	**14.2%**	13.6%	**0.6 ppts.**	0.8 ppts.
International Division operating margin	**15.6%**	17.6%	**(2.0) ppts.**	0.1 ppts.

Neither unallocated and corporate expenses, which comprise G&A expenses, nor unallocated refranchising gain (loss) are allocated to the U.S., International Division or China Division segments for performance reporting purposes. The increase in unallocated and corporate expenses in 2007 was driven by an increase in annual incentive compensation and project costs. The decrease in 2006 unallocated and corporate expenses was driven by the lapping of the unfavorable impact of 2005 litigation related costs.

U.S. operating profit decreased 3% in 2007. The decrease was driven by higher restaurant operating costs, principally commodities and labor, partially offset by lower G&A expenses, lower closure and impairment expenses and an increase in Other income.

Excluding the unfavorable impact of lapping the 53rd week in 2005, U.S. operating profit increased 3% in 2006. The increase was driven by the impact of same store sales on restaurant profit (due to higher average guest check) and franchise and license fees, new unit development and lower closures and impairment expenses. These increases were partially offset by the unfavorable impact of refranchising, higher G&A expenses and a charge associated with the termination of a beverage agreement in 2006. The impact of lower commodity costs and lower property and casualty insurance expense on restaurant profit was largely offset by higher other restaurant costs, including labor, advertising and utilities.

International Division operating profit increased 18% in 2007 including a 6% favorable impact from foreign currency translation. The increase was driven by the impact of same store sales growth and new unit development on restaurant profit and franchise and license fees. The increase was partially offset by higher G&A expenses (including expenses which were previously netted within equity income prior to our acquisition of the remaining fifty percent of the Pizza Hut U.K. business) and higher restaurant operating costs.

Excluding the unfavorable impact of lapping the 53rd week in 2005, International Division operating profit increased 11% in 2006. The increase was driven by the impact of same store sales growth and new unit development on franchise and license fees and restaurant profit. These increases were partially offset by higher restaurant operating costs and lower equity income from unconsolidated affiliates. Foreign currency translation did not have a significant impact.

China Division operating profit increased 30% in 2007 including a 7% favorable impact from foreign currency translation. The increase was driven by the impact of same store sales growth and new unit development on restaurant profit. The increase was partially offset by higher restaurant operating costs and G&A expenses.

China Division operating profit increased 37% in 2006 including a 4% favorable impact from foreign currency translation. The increase was driven by the impact of same store sales growth and new unit development on restaurant profit as well as an increase in equity income from our unconsolidated affiliates. These increases were partially offset by higher G&A expenses and the lapping of a prior year financial recovery from a supplier.

Interest Expense, Net

	2007	2006	2005
Interest expense	**$ 199**	$ 172	$ 147
Interest income	**(33)**	(18)	(20)
Interest expense, net	**$ 166**	$ 154	$ 127

Net interest expense increased $12 million or 8% in 2007. The increase was driven by an increase in borrowings in 2007 compared to 2006, partially offset by an increase in interest bearing cash equivalents in 2007 compared to 2006. Net interest expense increased $27 million or 21% in 2006. The increase was driven by both an increase in interest rates on the variable rate portion of our debt and increased borrowings as compared to prior year.

Income Taxes

	2007	2006	2005
Reported			
Income taxes	**$ 282**	$ 284	$ 264
Effective tax rate	**23.7%**	25.6%	25.8%

The reconciliation of income taxes calculated at the U.S. federal tax statutory rate to our effective tax rate is set forth below:

	2007	2006	2005
U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal tax benefit	**1.0**	2.0	1.6
Foreign and U.S. tax effects attributable to foreign operations	**(5.7)**	(7.8)	(8.4)
Adjustments to reserves and prior years	**2.6**	(3.5)	(1.1)
Repatriation of foreign earnings	**—**	(0.4)	2.0
Non-recurring foreign tax credit adjustments	**—**	(6.2)	(1.7)
Valuation allowance additions (reversals)	**(9.0)**	6.8	(1.1)
Other, net	**(0.2)**	(0.3)	(0.5)
Effective income tax rate	**23.7%**	25.6%	25.8%

Our 2007 effective income tax rate was positively impacted by valuation allowance reversals. In December 2007, the Company finalized various tax planning strategies based on completing a review of our international operations, distributed a $275 million intercompany dividend and sold our interest in our Japan unconsolidated affiliate. As a result, in the fourth quarter of 2007, we reversed approximately $82 million of valuation allowances associated with foreign tax credit carryovers that we now believe are more likely than not to be claimed on future tax returns. In 2007, benefits associated with our foreign and U.S. tax effects attributable to foreign operations were negatively impacted by $36 million of expense associated with the $275 million intercompany dividend and approximately $20 million of expense for adjustments to our deferred tax balances as a result of the Mexico tax law change enacted during the fourth quarter of 2007. These negative impacts were partially offset by a higher percentage of our income being earned outside the U.S. Additionally, the effective tax rate was negatively impacted by the year-over-year change in adjustments to reserves and prior years.

Our 2006 effective income tax rate was positively impacted by the reversal of tax reserves in connection with our regular U.S. audit cycle as well as certain out-of-year adjustments to reserves and accruals that lowered our effective income tax rate by 2.2 percentage points. The reversal of tax reserves was partially offset by valuation allowance additions on foreign tax credits for which, as a result of the tax reserve reversals, we believed were not likely to be utilized before they expired. We also recognized deferred tax assets for the foreign tax credit impact of non-recurring decisions to repatriate certain foreign earnings in 2007. However, we provided full valuation allowances on such assets as we did not believe it was more likely than not that they would be realized at that time.

Our 2005 effective income tax rate was positively impacted by valuation allowance reversals for certain deferred tax assets whose realization became more likely than not as well as the recognition of certain non-recurring foreign tax credits we were able to substantiate in 2005. The impact of these items was partially offset by tax expense associated with our 2005 decision to repatriate approximately $390 million in qualified foreign earnings. These earnings were eligible for a dividends received deduction in accordance with the American Jobs Creation Act of 2004.

Adjustments to reserves and prior years include the effects of the reconciliation of income tax amounts recorded in our Consolidated Statements of Income to amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. Adjustments to reserves and prior years also includes changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position. We evaluate these reserves on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements that we believe may impact our exposure.

Consolidated Cash Flows

Net cash provided by operating activities was $1,567 million compared to $1,299 million in 2006. The increase was primarily driven by higher net income, lower pension contributions and lower income tax payments in 2007.

In 2006, net cash provided by operating activities was $1,299 million compared to $1,233 million in 2005. The increase was driven by a higher net income, lower pension contributions and a 2006 partial receipt of the settlement related to the 2005 mainland China supplier ingredient issue. These factors were offset by higher income tax and interest payments in 2006.

Net cash used in investing activities was $432 million versus $476 million in 2006. The decrease was driven by the lapping of the acquisition of the remaining interest in our Pizza Hut U.K. unconsolidated affiliate in 2006 and proceeds from the sale of our interest in the Japan unconsolidated affiliate in December 2007, partially offset by the year over year change in proceeds from refranchising of restaurants and a 2007 increase in capital spending.

In December 2007, we sold our interest in our unconsolidated affiliate in Japan for $128 million (includes the impact of related foreign currency contracts that were settled in December 2007). The international subsidiary that owned this interest operates on a fiscal calendar with a period end that is approximately one month earlier than our consolidated period close. Thus, consistent with our historical treatment of events occurring during the lag period, the pre-tax gain on the sale of this investment of approximately $87 million will be recorded in the first quarter of 2008. However, the cash proceeds from this transaction were transferred from our international subsidiary to the U.S. in December 2007 and are thus reported on our Consolidated Statement of Cash Flows for the year ended December 29, 2007. The offset to this cash on our Consolidated Balance Sheet at December 29, 2007 is in accounts payable and other current liabilities.

In 2006, net cash used in investing activities was $476 million versus $345 million in 2005. The increase was driven by the 2006 acquisitions of the remaining interest in our Pizza Hut U.K. unconsolidated affiliate and the Rostik's brand and associated intellectual properties in Russia. The lapping of proceeds related to the 2005 sale of our fifty percent interest in our former Poland/Czech Republic unconsolidated affiliate also contributed to the increase. These factors were partially offset by an increase in proceeds from refranchising in 2006.

Net cash used in financing activities was $678 million versus $670 million in 2006. The increase was driven by higher share repurchases and higher dividend payments, partially offset by an increase in net borrowings.

In 2006, net cash used in financing activities was $670 million versus $827 million in 2005. The decrease was driven by an increase in net borrowings and lower share repurchases, partially offset by a reduction in the excess tax benefits from share-based compensation and higher dividend payments.

Consolidated Financial Condition

The increase in short-term borrowings at December 29, 2007 was primarily due to the classification of $250 million in Senior Unsecured Notes as short-term borrowings due to their May 2008 maturity date, partially offset by the repayment of two term-loans in the International Division during the year ended December 29, 2007. The increase in long-term debt was primarily due to the 2007 issuance of $600 million aggregate principal amount of 6.25% Senior Unsecured Notes that are due March 15, 2018 and $600 million aggregate principal amount of 6.875% Senior Unsecured Notes that are due November 15, 2037.

Liquidity and Capital Resources

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our franchise operations, which require a limited YUM investment. In each of the last six fiscal years, net cash provided by operating activities has exceeded $1 billion. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. Additionally, we estimate that refranchising proceeds, prior to income taxes, will total at least $400 million in 2008. 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. Unforeseen downturns in our business could adversely impact our cash flows from operations from the levels historically realized. However, we believe our ability to reduce discretionary spending and our borrowing capacity would allow us to meet our cash requirements in 2008 and beyond.

DISCRETIONARY SPENDING During 2007, we invested $742 million in our businesses, including approximately $307 million in the U.S., $189 million for the International Division and $246 million for the China Division. For 2008, we estimate capital spending will be between $700 and $750 million.

We returned approximately $1.7 billion to our shareholders through share repurchases and quarterly dividends in 2007. This is the third straight year that we returned over $1.1 billion to our shareholders. Under the authority of our Board of Directors, we repurchased 41.8 million shares of our Common Shares for $1.4 billion during 2007. At December 29, 2007, we had remaining capacity to repurchase up to $813 million of our outstanding Common Stock (excluding applicable transaction fees) under an October 2007 authorization by our Board of Directors that allowed us to repurchase $1.25 billion of the Company's outstanding Common Stock (excluding applicable transaction fees) to be purchased through October 2008. Subsequent to the Company's year end, our Board of Directors authorized additional share repurchases of up to an additional $1.25 billion of the Company's outstanding Common Stock (excluding applicable transaction fees) to be purchased through January 2009.

In October 2007, the Company announced that we plan to substantially increase the amount of share buybacks over the next two years; buying back a total of up to $4 billion of the Company's outstanding Common Stock, helping to reduce our diluted share count by as much as 20%. Since the announcement of this plan, the Company has repurchased $437 million of our outstanding Common Stock through December 29, 2007. We expect this two-year share repurchase program will be funded by a combination of the Company's ongoing free cash flow, additional debt and refranchising proceeds. The completion of this plan will depend on the Company's cash flows, credit rating, proceeds from our refranchising efforts and availability of other investment opportunities, among other factors.

During the year ended December 29, 2007, we paid cash dividends of $273 million. Additionally, on November 16, 2007 our Board of Directors approved cash dividends of $0.15 per share of Common Stock to be distributed on February 1, 2008 to shareholders of record at the close of business on January 11, 2008.

For 2008, we expect to return over $2 billion to shareholders through both cash dividends and significant share repurchases. We are now expecting a reduction in average diluted shares outstanding of approximately 8% for 2008 and an ongoing annual dividend payout ratio of 35%–40% of net income.

BORROWING CAPACITY On November 29, 2007, the Company executed an amended and restated five-year senior unsecured Revolving Credit Facility (the "Credit Facility") totaling $1.15 billion which replaced a five-year facility in the amount of $1.0 billion that was set to expire on September 7, 2009. 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. The Credit Facility 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. We were in compliance with all debt covenants at December 29, 2007.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit, less outstanding letters of credit or banker's acceptances, where applicable. At December 29, 2007, our unused Credit Facility totaled $971 million net of outstanding letters of credit of $179 million. There were no borrowings outstanding under the Credit Facility at December 29, 2007. The interest rate for borrowings under the Credit Facility ranges from 0.25% to 1.25% over the London Interbank Offered Rate ("LIBOR") or is determined by an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Rate plus 0.50%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, depends on our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

On November 29, 2007, the Company executed an amended and restated five-year revolving credit facility (the "International Credit Facility" or "ICF") totaling $350 million, which replaced a five-year facility also in the amount of $350 million that was set to expire on November 8, 2010. The ICF is unconditionally guaranteed by YUM and by YUM's principal domestic subsidiaries and contains covenants substantially identical to those of the Credit Facility. We were in compliance with all debt covenants at the end of 2007.

There were borrowings of $28 million and available credit of $322 million outstanding under the ICF at the end of 2007. The interest rate for borrowings under the ICF ranges from 0.31% to 1.50% over LIBOR or is determined by a Canadian Alternate Base Rate, which is the greater of the Citibank, N.A., Canadian Branch's publicly announced reference rate or the "Canadian Dollar Offered Rate" plus 0.50%. The exact spread over LIBOR or the Canadian Alternate Base Rate, as applicable, depends upon YUM's performance under specified financial criteria. Interest on any outstanding borrowings under the ICF is payable at least quarterly.

In 2006, we executed two short-term borrowing arrangements (the "Term Loans") on behalf of the International Division. There were borrowings of $183 million outstanding at the end of 2006 under the Term Loans, both of which expired and were repaid in the first quarter of 2007.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2008 through 2037 and interest rates ranging from 6.25% to 8.88%. The Senior Unsecured 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 December 29, 2007. This amount includes $600 million aggregate principal amount of 6.25% Senior Unsecured Notes due March 15, 2018 and $600 million aggregate principal amount of 6.875% Senior Unsecured Notes due November 15, 2037, both of which were issued in October 2007. We are using the proceeds from these notes to repay outstanding borrowings on our Credit Facility, for additional share repurchases and for general corporate purposes.

CONTRACTUAL OBLIGATIONS In addition to any discretionary spending we may choose to make, our significant contractual obligations and payments as of December 29, 2007 included:

	Total	Less than 1 Year	1–3 Years	3–5 Years	More than 5 Years
Long-term debt obligations[(a)]	**$ 5,034**	**$ 470**	**$ 375**	**$ 1,355**	**$ 2,834**
Capital leases[(b)]	**390**	**24**	**86**	**40**	**240**
Operating leases[(b)]	**3,886**	**462**	**798**	**640**	**1,986**
Purchase obligations[(c)]	**414**	**356**	**50**	**5**	**3**
Other long-term liabilities reflected on our Consolidated Balance Sheet under GAAP	**44**	**15**	**10**	**6**	**13**
Total contractual obligations	**$ 9,768**	**$ 1,327**	**$ 1,319**	**$ 2,046**	**$ 5,076**

(a) Debt amounts include principal maturities and expected interest payments. Rates utilized to determine interest payments for variable rate debt are based on an estimate of future interest rates. Excludes a fair value adjustment of $17 million included in debt related to interest rate swaps that hedge the fair value of a portion of our debt. See Note 13.

(b) These obligations, which are shown on a nominal basis, relate to 6,000 restaurants. See Note 14.

(c) Purchase obligations include agreements to purchase goods or services that are enforceable and legally binding on us and that specify all significant terms, including: fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. We have excluded agreements that are cancelable without penalty. Purchase obligations relate primarily to information technology, marketing, commodity agreements, purchases of property, plant and equipment as well as consulting, maintenance and other agreements.

We have not included in the contractual obligations table approximately $319 million for long-term liabilities for unrecognized tax benefits for various tax positions we have taken. These liabilities may increase or decrease over time as a result of tax examinations, and given the status of the examinations, we cannot reliably estimate the period of any cash settlement with the respective taxing authorities. These liabilities also include amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow. We have included in the contractual obligations table $9 million in liabilities for unrecognized tax benefits that we expect to settle in cash in the next year.

We have not included obligations under our pension and postretirement medical benefit plans in the contractual obligations table. Our most significant plan, the YUM Retirement Plan (the "U.S. Plan"), is a noncontributory defined benefit pension plan covering certain full-time U.S. salaried employees. Our funding policy with respect to the U.S. Plan is to contribute amounts necessary to satisfy minimum pension funding requirements, including requirements of the Pension Protection Act of 2006, plus such additional amounts from time to time as are determined to be appropriate to improve the U.S. Plan's funded status. The U.S. Plan's funded status is affected by many factors including discount rates and the performance of U.S. Plan assets. Based on current funding rules, we do not anticipate being required to make minimum pension funding payments in 2008, but we may make discretionary contributions during the year based on our estimate of the U.S. Plan's expected December 27, 2008 funded status. During 2007, we did not make a discretionary contribution to the U.S. Plan. At our September 30, 2007 measurement date, our pension plans in the U.S., which include the U.S. Plan and an unfunded supplemental executive plan, had a projected benefit obligation of $842 million and plan assets of $732 million.

The funding rules for our pension plans outside of the U.S. vary from country to country and depend on many factors including discount rates, performance of plan assets, local laws and tax regulations. Our most significant plans are in the U.K., including a plan for which we assumed full liability upon our purchase of the remaining fifty percent interest in our former Pizza Hut U.K. unconsolidated affiliate. Since our plan assets approximate our projected benefit obligation for our KFC U.K. pension plan, we did not make a significant contribution in 2007 and we do not anticipate any significant further, near term funding. The projected benefit obligation of our Pizza Hut U.K. pension plan exceeds plan assets by approximately $27 million at our November 30, 2007 measurement date. We anticipate taking steps to reduce this deficit in the near term, which could include a decision to partially or completely fund the deficit in 2008. However, given the level of cash flows from operations the Company anticipates generating in 2008, any funding decision would not materially impact our ability to maintain our planned levels of discretionary spending.

Our postretirement plan in the U.S. is not required to be funded in advance, but is pay as you go. We made postretirement benefit payments of $4 million in 2007. See Note 16 for further details about our pension and postretirement plans.

We have excluded from the contractual obligations table payments we may make for exposures for which we are self-insured, including workers' compensation, employment practices liability, general liability, automobile liability and property losses (collectively "property and casualty losses") and employee healthcare and long-term disability claims.

The majority of our recorded liability for self-insured employee healthcare, long-term disability and property and casualty losses represents estimated reserves for incurred claims that have yet to be filed or settled.

Off-Balance Sheet Arrangements

We had provided a partial guarantee of approximately $12 million of a franchisee loan pool related primarily to the Company's historical refranchising programs and, to a lesser extent, franchisee development of new restaurants at December 29, 2007. In support of this guarantee, we have provided a standby letter of credit of $18 million, under which we could potentially be required to fund a portion of the franchisee loan pool. The total loans outstanding under the loan pool were approximately $62 million at December 29, 2007.

The loan pool is funded by the issuance of commercial paper by a conduit established for that purpose. A disruption in the commercial paper markets may result in the Company and the participating financial institutions having to fund commercial paper issuances that have matured. Any Company funding under its guarantee or letter of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to net refranchising (gain) loss. New loans added to the loan pool in 2007 were not significant.

Our unconsolidated affiliates do not have significant amounts of debt outstanding as of December 29, 2007.

New Accounting Pronouncements Not Yet Adopted

See Note 2 to the Consolidated Financial Statements for further details of new accounting pronouncements not yet adopted.

Critical Accounting Policies and Estimates

Our reported results are impacted by the application of certain accounting policies that require us to make subjective or complex judgments. These judgments involve estimations of the effect of matters that are inherently uncertain and may significantly impact our quarterly or annual results of operations or financial condition. Changes in the estimates and judgments could significantly affect our results of operations, financial condition and cash flows in future years. A description of what we consider to be our most significant critical accounting policies follows.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS We evaluate our long-lived assets for impairment at the individual restaurant level except when there is an expectation that we will refranchise restaurants as a group. Impairment evaluations for individual restaurants that we are currently operating and have not offered for sale are performed on a semi-annual basis or whenever events or circumstances indicate that the carrying amount of a restaurant may not be recoverable (including a decision to close a restaurant). Our semi-annual impairment test includes those restaurants that have experienced two consecutive years of operating losses. Our semi-annual impairment evaluations require an estimation of cash flows over the remaining useful life of the primary asset of the restaurant, which can be for a period of over 20 years, and any terminal value. We limit assumptions about important factors such as sales growth and margin improvement to those that are supportable based upon our plans for the unit and actual results at comparable restaurants.

If the long-lived assets of a restaurant subject to our semi-annual test are not recoverable based upon forecasted, undiscounted cash flows, we write the assets down to their fair value. This fair value is determined by discounting the forecasted after tax cash flows, including terminal value, of the restaurant at an appropriate rate. The discount rate used is our weighted average cost of capital plus a risk premium where deemed appropriate.

We often refranchise restaurants in groups and, therefore, perform such impairment evaluations at the group level. These impairment evaluations are generally performed at the date such restaurants are offered for sale. Forecasted cash flows in such instances consist of estimated holding period cash flows and the expected sales proceeds. Expected sales proceeds are based on the most relevant of historical sales multiples or bids from buyers, and have historically been reasonably accurate estimations of the proceeds ultimately received.

See Note 2 for a further discussion of our policy regarding the impairment or disposal of long-lived assets.

IMPAIRMENT OF GOODWILL AND INDEFINITE-LIVED INTANGIBLE ASSETS We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. Goodwill is evaluated for impairment through the comparison of fair value of our reporting units to their carrying values. Our reporting units are our operating segments in the U.S. and our business management units internationally (typically individual countries). Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using either discounted expected future cash flows from operations or the present value of the estimated future franchise royalty stream plus any estimated sales proceeds from refranchising. Any estimated sales proceeds are based on relevant historical sales multiples. The discount rate used in determining fair value is our weighted average cost of capital plus a risk premium where deemed appropriate.

We have recorded intangible assets as a result of business acquisitions. These include trademark/brand intangible assets for KFC, LJS and A&W. We believe the value of a trademark/brand is derived from the royalty we avoid, in the case of Company stores, or receive, in the case of franchise stores, due to our ownership of the trademark/brand. We have determined that the KFC trademark/brand has an indefinite life and therefore it is not being amortized. Our impairment test for the KFC trademark/brand consists of a comparison of the fair value of the asset with its carrying amount. Future sales are the most important assumption in determining the fair value of the KFC trademark/brand.

In determining the fair value of our reporting units and the KFC trademark/brand, we limit assumptions about important factors such as sales growth, margin improvement and other factors impacting the fair value calculation to those that are supportable based upon our plans. For 2007, there was no impairment of goodwill or the KFC trademark/brand.

We have certain intangible assets, such as the LJS and A&W trademark/brand intangible assets, franchise contract rights, reacquired franchise rights and favorable/unfavorable operating leases, which are amortized over their expected useful lives. We base the expected useful lives of our trademark/brand intangible assets on a number of factors including the competitive environment, our future development plans for the applicable Concept and the level of franchisee commitment to the Concept. We generally base the expected useful lives of our franchise contract rights on their respective contractual terms including renewals when appropriate. We base the expected useful lives of reacquired franchise rights over a period for which we believe it is reasonable that we will operate a Company restaurant in the trade area. We base the expected useful lives of our favorable/unfavorable operating leases on the remaining lease term.

Our amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed impaired is written down to its estimated fair value, which is based on discounted cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the amortizable intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

See Note 2 for a further discussion of our policies regarding goodwill and intangible assets.

ALLOWANCES FOR FRANCHISE AND LICENSE RECEIVABLES/ LEASE GUARANTEES We reserve a franchisee's or licensee's entire receivable balance based upon pre-defined aging criteria and upon the occurrence of other events that indicate that we may not collect the balance due. As a result of reserving using this methodology, we have an immaterial amount of receivables that are past due that have not been reserved for at December 29, 2007.

We have also issued certain guarantees as a result of assigning our interest in obligations under operating leases, primarily as a condition to the refranchising of certain Company restaurants. Such guarantees are subject to the requirements of Statement of Financial Accounting Standards ("SFAS") No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). We recognize a liability for the fair value of such lease guarantees under SFAS 145 upon refranchising and upon any subsequent renewals of such leases when we remain contingently liable. The fair value of a guarantee is the estimated amount at which the liability could be settled in a current transaction between willing parties.

If payment on the guarantee becomes probable and estimable, we record a liability for our exposure under these lease assignments and guarantees. At December 29, 2007, we have recorded an immaterial liability for our exposure which we consider to be probable and estimable. The potential total exposure under such leases is significant, with approximately $325 million representing the present value, discounted at our pre-tax cost of debt, of the minimum payments of the assigned leases at December 29, 2007. Current 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 agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases and, historically, we have not been required to make such payments in significant amounts.

See Note 2 for a further discussion of our policies regarding franchise and license operations.

See Note 22 for a further discussion of our lease guarantees.

SELF-INSURED PROPERTY AND CASUALTY LOSSES We record our best estimate of the remaining cost to settle incurred self-insured property and casualty losses. The estimate is based on the results of an independent actuarial study and considers historical claim frequency and severity as well as changes in factors such as our business environment, benefit levels, medical costs and the regulatory environment that could impact overall self-insurance costs. Additionally, a risk margin to cover unforeseen events that may occur over the several years it takes for claims to settle is included in our reserve, increasing our confidence level that the recorded reserve is adequate.

See Note 22 for a further discussion of our insurance programs.

PENSION PLANS Certain of our employees are covered under defined benefit pension plans. The most significant of these plans are in the U.S. In accordance with SFAS No. 158 "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans" ("SFAS 158"), we have recorded the under-funded status of $110 million for these U.S. plans as a pension liability in our Consolidated Balance Sheet as of December 29, 2007. These U.S. plans had projected benefit obligations ("PBO") of $842 million and fair values of plan assets of $732 million in December 29, 2007.

The PBO reflects the actuarial present value of all benefits earned to date by employees and incorporates assumptions as to future compensation levels. Due to the relatively long time frame over which benefits earned to date are expected to be paid, our PBO's are highly sensitive to changes in discount rates. For our U.S. plans, we measured our PBO using a discount rate of 6.50% at September 30, 2007. This discount rate was determined with the assistance of our independent actuary. The primary basis for our discount rate determination is a model that consists of a hypothetical portfolio of ten or more corporate debt instruments rated Aa or higher by Moody's with cash flows that mirror our expected benefit payment cash flows under the plans. In considering possible bond portfolios, the model allows the bond cash flows for a particular year to exceed the expected benefit cash flows for that year. Such excesses are assumed to be reinvested at appropriate one-year forward rates and used to meet the benefit cash flows in a future year. The weighted average yield of this hypothetical portfolio was used to arrive at an appropriate discount rate. We also insure that changes in the discount rate as compared to the prior year are consistent with the overall change in prevailing market rates and make adjustments as necessary. A 50 basis point increase in this discount rate would have decreased our U.S. plans' PBO by approximately $65 million at our measurement date. Conversely, a 50 basis point decrease in this discount rate would have increased our U.S. plans' PBO by approximately $71 million at our measurement dates.

The pension expense we will record in 2008 is also impacted by the discount rate we selected at our measurement date. We expect pension expense for our U.S. plans to decrease approximately $19 million to $37 million in 2008. The decrease is primarily driven by a decrease in amortization of net loss of $17 million in 2008. A 50 basis point change in our weighted average discount rate assumption at our measurement date would impact our 2008 U.S. pension expense by approximately $10 million.

The assumption we make regarding our expected long-term rates of return on plan assets also impacts our pension expense. Our estimated long-term rate of return on U.S. plan assets represents the weighted-average of historical returns for each asset category, adjusted for an assessment of current market conditions. Our expected long-term rate of return on U.S. plan assets at September 30, 2007 was 8.0%. We believe this rate is appropriate given the composition of our plan assets and historical market returns thereon. A one percentage point increase or decrease in our expected long-term rate of return on plan assets assumption would decrease or increase, respectively, our 2008 U.S. pension plan expense by approximately $7 million.

The losses our U.S. plan assets have experienced, along with a decrease in discount rates over time, have largely contributed to an unrecognized net loss of $80 million included in Accumulated other comprehensive income (loss) for the U.S. plans at December 29, 2007. For purposes of determining 2007 expense, our funded status was such that we recognized $23 million of this loss in net periodic benefit cost. We will recognize approximately $6 million of such loss in 2008.

See Note 16 for further discussion of our pension and post-retirement plans.

STOCK OPTIONS AND STOCK APPRECIATION RIGHTS EXPENSE Compensation expense for stock options and stock appreciation rights ("SARs") is estimated on the grant date using a Black-Scholes option pricing model. Our specific weighted-average assumptions for the risk-free interest rate, expected term, expected volatility and expected dividend yield are documented in Note 17. Additionally, under SFAS No. 123 (revised 2004), "Share-Based Compensation" ("SFAS 123R") we are required to estimate pre-vesting forfeitures for purposes of determining compensation expense to be recognized. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

We have determined that it is appropriate to group our awards into two homogeneous groups when estimating expected term and pre-vesting forfeitures. These groups consist of grants made primarily to restaurant-level employees under our Restaurant General Manager Stock Option Plan (the "RGM Plan") and grants made to executives under our other stock award plans. Historically, approximately 15%–20% of total options and SARs granted have been made under the RGM Plan.

Grants under the RGM Plan typically cliff vest after four years and grants made to executives under our other stock award plans typically have a graded vesting schedule and vest 25% per year over four years. We use a single weighted-average expected term for our awards that have a graded vesting schedule as permitted by SFAS 123R. We revaluate our expected term assumptions using historical exercise and post-vesting employment termination behavior on a regular basis. Based on the results of this analysis, we have determined that six years is an appropriate expected term for awards to both restaurant level employees and to executives.

Upon each stock award grant we revaluate the expected volatility, including consideration of both historical volatility of our stock as well as implied volatility associated with our traded options. We have estimated forfeitures based on historical data. Based on such data, we believe that approximately 45% of all awards granted under the RGM Plan will be forfeited and approximately 20% of all awards granted to above-store executives will be forfeited.

INCOME TAX VALUATION ALLOWANCES AND UNRECOGNIZED TAX BENEFITS At December 29, 2007, we had a valuation allowance of $308 million primarily to reduce our net operating loss and tax credit carryforward benefits of $363 million, as well as our other deferred tax assets, to amounts that will more likely than not be realized. The net operating loss and tax credit carryforwards exist in federal, state and foreign jurisdictions and have varying carryforward periods and restrictions on usage. The estimation of future taxable income in these jurisdictions and our resulting ability to utilize net operating loss and tax credit carryforwards can significantly change based on future events, including our determinations as to the feasibility of certain tax planning strategies. Thus, recorded valuation allowances may be subject to material future changes.

As a matter of course, we are regularly audited by federal, state and foreign tax authorities. Effective December 31, 2006, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes". FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. At December 29, 2007, we had $376 million of unrecognized tax benefits, $194 million of which, if recognized, would affect the effective tax rate. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

See Note 20 for a further discussion of our income taxes.

Quantitative and Qualitative Disclosures About Market Risk

The Company is exposed to financial market risks associated with interest rates, foreign currency exchange rates and commodity prices. In the normal course of business and in accordance with our policies, we manage these risks through a variety of strategies, which may include the use of derivative financial and commodity instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use.

INTEREST RATE RISK We have a market risk exposure to changes in interest rates, principally in the U.S. We attempt to minimize this risk and lower our overall borrowing costs through the utilization of derivative financial instruments, primarily interest rate swaps. These swaps are entered into with financial institutions and have reset dates and critical terms that match those of the underlying debt. Accordingly, any change in market value associated with interest rate swaps is offset by the opposite market impact on the related debt.

At December 29, 2007 and December 30, 2006, a hypothetical 100 basis point increase in short-term interest rates would result, over the following twelve-month period, in a reduction of approximately $3 million and $9 million, respectively, in income before income taxes. The estimated reductions are based upon the level of variable rate debt and assume no changes in the volume or composition of that debt and include no impact from interest income related to cash and cash equivalents. In addition, the fair value of our derivative financial instruments at December 29, 2007 and December 30, 2006 would decrease approximately $31 million and $32 million, respectively. The fair value of our

Senior Unsecured Notes at December 29, 2007 and December 30, 2006 would decrease approximately $173 million and $69 million, respectively. Fair value was determined by discounting the projected cash flows.

FOREIGN CURRENCY EXCHANGE RATE RISK The combined International Division and China Division operating profits constitute approximately 54% of our operating profit in 2007, excluding unallocated income (expenses). In addition, the Company's net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately $1.5 billion as of December 29, 2007. Operating in international markets exposes the Company to movements in foreign currency exchange rates. The Company's primary exposures result from our operations in Asia-Pacific, the Americas and Europe. Changes in foreign currency exchange rates would impact the translation of our investments in foreign operations, the fair value of our foreign currency denominated financial instruments and our reported foreign currency denominated earnings and cash flows. For the fiscal year ended December 29, 2007, operating profit would have decreased $89 million if all foreign currencies had uniformly weakened 10% relative to the U.S. dollar. The estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

We attempt to minimize the exposure related to our investments in foreign operations by financing those investments with local currency debt when practical. In addition, we attempt to minimize the exposure related to foreign currency denominated financial instruments by purchasing goods and services from third parties in local currencies when practical. Consequently, foreign currency denominated financial instruments consist primarily of intercompany short-term receivables and payables. At times, we utilize forward contracts to reduce our exposure related to these intercompany short-term receivables and payables. The notional amount and maturity dates of these contracts match those of the underlying receivables or payables such that our foreign currency exchange risk related to these instruments is minimized.

COMMODITY PRICE RISK We are subject to volatility in food costs as a result of market risk associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements with our vendors.

Cautionary 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. The statements include those identified by such words as "may," "will," "expect," "project," "anticipate," "believe," "plan" and other similar terminology. These "forward-looking statements" reflect our current expectations regarding future events and operating and financial performance and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company and those specific to the industry, and could differ materially from expectations. Accordingly, you are cautioned not to place undue reliance on forward-looking statements.

Company risks and uncertainties include, but are not limited to, changes in effective tax rates; potential unfavorable variances between estimated and actual liabilities; our ability to secure distribution of products and equipment to our restaurants on favorable economic terms and our ability to ensure adequate supply of restaurant products and equipment in our stores; unexpected disruptions in our supply chain; effects and outcomes of any pending or future legal claims involving the Company; the effectiveness of operating initiatives and marketing, advertising and promotional efforts; our ability to continue to recruit and motivate qualified restaurant personnel; the ongoing financial viability of our franchisees and licensees; the success of our refranchising strategy; the success of our strategies for international development and operations; volatility of actuarially determined losses and loss estimates; and adoption of new or changes in accounting policies and practices including pronouncements promulgated by standard setting bodies.

Industry risks and uncertainties include, but are not limited to, economic and political conditions in the countries and territories where we operate, including effects of war and terrorist activities; new legislation and governmental regulations or changes in laws and regulations and the consequent impact on our business; new product and concept development by us and/or our food industry competitors; changes in competition in the food industry; publicity which may impact our business and/or industry; severe weather conditions; volatility of commodity costs; increases in minimum wage and other operating costs; availability and cost of land and construction; consumer preferences or perceptions concerning the products of the Company and/or our competitors, spending patterns and demographic trends; political or economic instability in local markets and changes in currency exchange and interest rates; and the impact that any widespread illness or general health concern may have on our business and/or the economy of the countries in which we operate.

Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of YUM! Brands, Inc. and Subsidiaries ("YUM") as of December 29, 2007 and December 30, 2006, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 29, 2007. These consolidated financial statements are the responsibility of YUM's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YUM as of December 29, 2007 and December 30, 2006, and the results of its operations and its cash flows for each of the years in the three-year period ended December 29, 2007, in conformity with U.S. generally accepted accounting principles.

As discussed in the Notes to the consolidated financial statements, YUM adopted the provisions of the Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, in 2007, Statement of Financial Accounting Standards (SFAS) No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, and Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in the Current Year*, in 2006, and SFAS No. 123R, *Share-based Payment*, in 2005.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), YUM's internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 25, 2008 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

KPMG LLP
Louisville, Kentucky
February 25, 2008

Report of Independent Registered Public Accounting Firm

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

We have audited the internal control over financial reporting of YUM! Brands, Inc. and Subsidiaries ("YUM") as of December 29, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. YUM's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in "Management's Report on Internal Control over Financial Reporting" appearing on page 56 of the Company's Annual Report. Our responsibility is to express an opinion on YUM's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, YUM maintained, in all material respects, effective internal control over financial reporting as of December 29, 2007, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of YUM as of December 29, 2007 and December 30, 2006, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 29, 2007, and our report dated February 25, 2008, expressed an unqualified opinion on those consolidated financial statements.

KPMG LLP

KPMG LLP
Louisville, Kentucky
February 25, 2008

Management's Responsibility for Financial Statements

To Our Shareholders:

We are responsible for the preparation, integrity and fair presentation of the Consolidated Financial Statements, related notes and other information included in this annual report. The financial statements were prepared in accordance with accounting principles generally accepted in the United States of America and include certain amounts based upon our estimates and assumptions, as required. Other financial information presented in the annual report is derived from the financial statements.

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. We have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we concluded that our internal control over financial reporting was effective as of December 29, 2007. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

The Consolidated Financial Statements have been audited and reported on by our independent auditors, KPMG LLP, who were given free access to all financial records and related data, including minutes of the meetings of the Board of Directors and Committees of the Board. We believe that management representations made to the independent auditors were valid and appropriate. Additionally, the effectiveness of our internal control over financial reporting has been audited and reported on by KPMG LLP.

The Audit Committee of the Board of Directors, which is composed solely of outside directors, provides oversight to our financial reporting process and our controls to safeguard assets through periodic meetings with our independent auditors, internal auditors and management. Both our independent auditors and internal auditors have free access to the Audit Committee.

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 29, 2007 provide reasonable assurance that our assets are reasonably safeguarded.

Richard T. Carucci
Chief Financial Officer

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control — Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 29, 2007.

Supplement to Yum! Brands, Inc. Annual Report to Shareholders

On June 14, 2007, David Novak, Yum Brands, Inc. Chairman and Chief Executive Officer submitted a certification to the New York Stock Exchange (the "NYSE") as required by Section 303A.12(a) of the NYSE Listed Company Manual. This certification indicated that Mr. Novak was not aware of any violations by the Company of NYSE Corporate Governance listing standards.

In connection with the filing of the Company's Form 10-K for the year ended December 29, 2007, the Company has included as exhibits certifications signed by Mr. Novak and Mr. Richard Carucci, Chief Financial Officer, pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

These statements are required by the NYSE as part of the Company's Annual Report to Shareholders.

Consolidated Statements of Income

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 (in millions, except per share data)	**2007**	2006	2005
Revenues			
Company sales	**$ 9,100**	$ 8,365	$ 8,225
Franchise and license fees	**1,316**	1,196	1,124
Total revenues	**10,416**	9,561	9,349
Costs and Expenses, Net			
Company restaurants			
Food and paper	**2,824**	2,549	2,584
Payroll and employee benefits	**2,305**	2,142	2,171
Occupancy and other operating expenses	**2,644**	2,403	2,315
	7,773	7,094	7,070
General and administrative expenses	**1,293**	1,187	1,158
Franchise and license expenses	**40**	35	33
Closures and impairment expenses	**35**	59	62
Refranchising (gain) loss	**(11)**	(24)	(43)
Other (income) expense	**(71)**	(52)	(84)
Total costs and expenses, net	**9,059**	8,299	8,196
Operating Profit	**1,357**	1,262	1,153
Interest expense, net	**166**	154	127
Income before Income Taxes	**1,191**	1,108	1,026
Income tax provision	**282**	284	264
Net Income	**$ 909**	$ 824	$ 762
Basic Earnings Per Common Share	**$ 1.74**	$ 1.51	$ 1.33
Diluted Earnings Per Common Share	**$ 1.68**	$ 1.46	$ 1.28
Dividends Declared Per Common Share	**$ 0.45**	$ 0.4325	$ 0.2225

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 (in millions)	**2007**	2006	2005
Cash Flows — Operating Activities			
Net income	**$ 909**	$ 824	$ 762
Depreciation and amortization	**542**	479	469
Closures and impairment expenses	**35**	59	62
Refranchising (gain) loss	**(11)**	(24)	(43)
Contributions to defined benefit pension plans	**(1)**	(43)	(74)
Deferred income taxes	**(95)**	(30)	(101)
Equity income from investments in unconsolidated affiliates	**(51)**	(51)	(51)
Distributions of income received from unconsolidated affiliates	**40**	32	44
Excess tax benefits from share-based compensation	**(74)**	(65)	(92)
Share-based compensation expense	**61**	65	62
Changes in accounts and notes receivable	**(4)**	24	(1)
Changes in inventories	**(31)**	(3)	(4)
Changes in prepaid expenses and other current assets	**(6)**	(33)	78
Changes in accounts payable and other current liabilities	**118**	(30)	(10)
Changes in income taxes payable	**70**	10	54
Other non-cash charges and credits, net	**65**	85	78
Net Cash Provided by Operating Activities	**1,567**	1,299	1,233
Cash Flows — Investing Activities			
Capital spending	**(742)**	(614)	(609)
Proceeds from refranchising of restaurants	**117**	257	145
Acquisition of remaining interest in unconsolidated affiliate, net of cash assumed	**—**	(178)	—
Proceeds from the sale of interest in Japan unconsolidated affiliate	**128**	—	—
Acquisition of restaurants from franchisees	**(4)**	(7)	(2)
Short-term investments	**6**	39	12
Sales of property, plant and equipment	**56**	57	81
Other, net	**7**	(30)	28
Net Cash Used in Investing Activities	**(432)**	(476)	(345)
Cash Flows — Financing Activities			
Proceeds from issuance of long-term debt	**1,195**	300	—
Repayments of long-term debt	**(24)**	(211)	(14)
Revolving credit facilities, three months or less, net	**(149)**	(23)	160
Short-term borrowings by original maturity			
More than three months — proceeds	**1**	236	—
More than three months — payments	**(184)**	(54)	—
Three months or less, net	**(8)**	4	(34)
Repurchase shares of Common Stock	**(1,410)**	(983)	(1,056)
Excess tax benefit from share-based compensation	**74**	65	92
Employee stock option proceeds	**112**	142	148
Dividends paid on Common Stock	**(273)**	(144)	(123)
Other, net	**(12)**	(2)	—
Net Cash Used in Financing Activities	**(678)**	(670)	(827)
Effect of Exchange Rate on Cash and Cash Equivalents	**13**	8	1
Net Increase in Cash and Cash Equivalents	**470**	161	62
Net Increase in Cash and Cash Equivalents of Mainland China for December 2004	**—**	—	34
Cash and Cash Equivalents — Beginning of Year	**319**	158	62
Cash and Cash Equivalents — End of Year	**$ 789**	$ 319	$ 158

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

YUM! Brands, Inc. and Subsidiaries

December 29, 2007 and December 30, 2006 (in millions)	**2007**	2006
ASSETS		
Current Assets		
Cash and cash equivalents	**$ 789**	$ 319
Accounts and notes receivable, less allowance: $21 in 2007 and $18 in 2006	**225**	220
Inventories	**128**	93
Prepaid expenses and other current assets	**142**	138
Deferred income taxes	**125**	57
Advertising cooperative assets, restricted	**72**	74
Total Current Assets	**1,481**	901
Property, plant and equipment, net	**3,849**	3,631
Goodwill	**672**	662
Intangible assets, net	**333**	347
Investments in unconsolidated affiliates	**153**	138
Other assets	**464**	369
Deferred income taxes	**290**	320
Total Assets	**$ 7,242**	$ 6,368
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	**$ 1,650**	$ 1,386
Income taxes payable	**52**	37
Short-term borrowings	**288**	227
Advertising cooperative liabilities	**72**	74
Total Current Liabilities	**2,062**	1,724
Long-term debt	**2,924**	2,045
Other liabilities and deferred credits	**1,117**	1,147
Total Liabilities	**6,103**	4,916
Shareholders' Equity		
Preferred stock, no par value, zero shares and 250 shares authorized in 2007 and 2006, respectively; no shares issued	**—**	—
Common Stock, no par value, 750 shares authorized; 499 shares and 530 shares issued in 2007 and 2006, respectively	**—**	—
Retained earnings	**1,119**	1,608
Accumulated other comprehensive income (loss)	**20**	(156)
Total Shareholders' Equity	**1,139**	1,452
Total Liabilities and Shareholders' Equity	**$ 7,242**	$ 6,368

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 29, 2007, December 30, 2006 and December 31, 2005 (in millions, except per share data)	Issued Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance at December 25, 2004	581	$ 659	$ 1,074	$ (131)	$ 1,602
Net income			762		762
Foreign currency translation adjustment arising during the period				(31)	(31)
Foreign currency translation adjustment included in net income				6	6
Minimum pension liability adjustment (net of tax impact of $8 million)				(15)	(15)
Net unrealized gain on derivative instruments (net of tax impact of $1 million)				1	1
Comprehensive Income					723
Dividends declared on Common Stock ($0.2225 per common share)			(129)		(129)
China December 2004 net income			6		6
Repurchase of shares of Common Stock	(43)	(974)	(82)		(1,056)
Employee stock option exercises (includes tax impact of $94 million)	17	242			242
Compensation-related events (includes tax impact of $5 million)	1	73			73
Balance at December 31, 2005	556	$ —	$ 1,631	$ (170)	$ 1,461
Adjustment to initially apply SAB No. 108			100		100
Net income			824		824
Foreign currency translation adjustment arising during the period (includes tax impact of $13 million)				59	59
Minimum pension liability adjustment (net of tax impact of $11 million)				17	17
Net unrealized gain on derivative instruments (net of tax impact of $3 million)				5	5
Comprehensive Income					905
Adjustment to initially apply SFAS No. 158 (net of tax impact of $37 million)				(67)	(67)
Dividends declared on Common Stock ($0.4325 per common share)			(234)		(234)
Repurchase of shares of Common Stock	(40)	(287)	(713)		(1,000)
Employee stock option and SARs exercises (includes tax impact of $68 million)	13	210			210
Compensation-related events (includes tax impact of $3 million)	1	77			77
Balance at December 30, 2006	530	$ —	$ 1,608	$ (156)	$ 1,452
Net income			**909**		**909**
Foreign currency translation adjustment arising during the period				**93**	**93**
Foreign currency translation adjustment included in net income				**1**	**1**
Pension and post-retirement benefit plans (net of tax impact of $55 million)				**96**	**96**
Net unrealized loss on derivative instruments (net of tax impact of $8 million)				**(14)**	**(14)**
Comprehensive Income					**1,085**
Adjustment to initially apply FIN 48			**(13)**		**(13)**
Dividends declared on Common Stock ($0.45 per common share)			**(231)**		**(231)**
Repurchase of shares of Common Stock	**(42)**	**(252)**	**(1,154)**		**(1,406)**
Employee stock option and SARs exercises (includes tax impact of $69 million)	**10**	**181**			**181**
Compensation-related events (includes tax impact of $5 million)	**1**	**71**			**71**
Balance at December 29, 2007	**499**	**$ —**	**$ 1,119**	**$ 20**	**$ 1,139**

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Tabular amounts in millions, except share data)

1.

Description of Business

YUM! Brands, Inc. and Subsidiaries (collectively referred to as "YUM" or the "Company") comprises the worldwide operations of KFC, Pizza Hut, Taco Bell, Long John Silver's ("LJS") and A&W All-American Food Restaurants ("A&W") (collectively the "Concepts"). YUM is the world's largest quick service restaurant company based on the number of system units, with more than 35,000 units of which approximately 44% are located outside the U.S. in more than 100 countries and territories. YUM was created as an independent, publicly-owned company on October 6, 1997 (the "Spin-off Date") via a tax-free distribution by our former parent, PepsiCo, Inc., of our Common Stock (the "Spin-off") to its shareholders. References to YUM throughout these Consolidated Financial Statements are made using the first person notations of "we," "us" or "our."

Through our widely-recognized Concepts, we develop, operate, franchise and license a system of both traditional and non-traditional quick service restaurants. Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, tasty and attractive food at competitive prices. Our traditional restaurants feature dine-in, carryout and, in some instances, drive-thru or delivery service. Non-traditional units, which are principally licensed outlets, include express units and kiosks which have a more limited menu and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient. We also operate multibrand units, where two or more of our Concepts are operated in a single unit. In addition, we continue to pursue the multibrand combination of Pizza Hut and WingStreet, a flavored chicken wings concept we have developed.

Beginning in 2005, we changed the China Division, which includes mainland China ("China"), Thailand and KFC Taiwan, reporting calendar to more closely align the timing of the reporting of its results of operations with our U.S. business. Previously our China business, like the rest of our international businesses, closed one month (or one period for certain of our international businesses) earlier than YUM's period end date to facilitate consolidated reporting. To maintain comparability of our consolidated results of operations, amounts related to our China business for December 2004 were not reflected in our Consolidated Statements of Income and net income for the China business for the one month period ended December 31, 2004 was recognized as an adjustment directly to consolidated retained earnings in the year ended December 31, 2005.

For the month of December 2004 the China business had revenues of $79 million and net income of $6 million. As mentioned previously, neither of these amounts is included in our Consolidated Statement of Income for the year ended December 31, 2005 and the net income figure was credited directly to retained earnings in the first quarter of 2005. Net income for the month of December 2004 was negatively impacted by costs incurred in preparation of opening a significant number of new stores in early 2005 as well as increased advertising expense, all of which was recorded in December's results of operations. Additionally, the net increase in cash for the China business in December 2004 has been presented as a single line item on our Consolidated Statement of Cash Flows for the year ended December 31, 2005. The $34 million net increase in cash was primarily attributable to short-term borrowings for working capital purposes, a majority of which were repaid prior to the end of the China business' first quarter of 2005.

2.

Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America 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.

PRINCIPLES OF CONSOLIDATION AND BASIS OF PREPARATION Intercompany accounts and transactions have been eliminated. Certain investments in businesses that operate our Concepts are accounted for by the equity method. Our lack of majority voting rights precludes us from controlling these affiliates, and thus we do not consolidate these affiliates. Our share of the net income or loss of those unconsolidated affiliates is included in other (income) expense.

We participate in various advertising cooperatives with our franchisees and licensees established to collect and administer funds contributed for use in advertising and promotional programs designed to increase sales and enhance the reputation of the Company and its franchise owners. Contributions to the advertising cooperatives are required for both company operated and franchise restaurants and are generally based on a percent of restaurant sales. In certain of these cooperatives we possess majority voting rights, and thus control and consolidate the cooperatives. We report all assets and liabilities of these advertising cooperatives that we consolidate as advertising cooperative assets, restricted and advertising cooperative liabilities in the Consolidated Balance Sheet. The advertising cooperatives assets, consisting primarily of cash received from the Company and franchisees and accounts receivable from franchisees, can only be used for selected purposes and are considered restricted. The advertising cooperative liabilities represent the corresponding obligation arising from the receipt of the contributions to purchase advertising and promotional programs. As the contributions to these cooperatives are designated and segregated for advertising, we act as an agent for the franchisees and licensees with regard to these contributions. Thus, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 45, "Accounting for Franchise Fee Revenue," we do not reflect franchisee and licensee contributions to these cooperatives in our Consolidated Statements of Income or Consolidated Statements of Cash Flows.

FISCAL YEAR Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal year 2005 included 53 weeks. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. In fiscal year 2005, the 53rd week added $96 million to total revenues and $23 million to total operating profit in our Consolidated Statement of Income. Our subsidiaries operate on similar fiscal calendars with period or month end dates suited to their businesses. The subsidiaries' period end dates are within one week of YUM's period end date with the exception of all of our international businesses except China. The international businesses except China close one period or one month earlier to facilitate consolidated reporting.

RECLASSIFICATIONS We have reclassified certain items in the accompanying Consolidated Financial Statements and Notes thereto for prior periods to be comparable with the classification for the fiscal year ended December 29, 2007. These reclassifications had no effect on previously reported net income.

Specifically, we reclassified $15 million for the cumulative impact of excess tax benefits from prior year exercises of share-based compensation that were inappropriately recognized as Deferred income taxes in 2006 to Common Stock. This correction also resulted in Net Cash Provided by Operating Activities decreasing by $3 million and $5 million versus previously reported amounts for the years ended 2006 and 2005, respectively, with an offsetting impact to Net Cash Used in Financing Activities.

Additionally, we have netted amounts previously presented as Wrench litigation (income) expense and AmeriServe and other charges (credits) in our Consolidated Statements of Income for 2006 and 2005 and included those amounts in Other (income) expense in the current year presentation. These two items resulted in a $1 million and $4 million increase in Other (income) expense in 2006 and 2005, respectively.

FRANCHISE AND LICENSE OPERATIONS We execute franchise or license agreements for each unit which set out the terms of our arrangement with the franchisee or licensee. Our franchise and license agreements typically require the franchisee or licensee to pay an initial, non-refundable fee and continuing fees based upon a percentage of sales. Subject to our approval and their payment of a renewal fee, a franchisee may generally renew the franchise agreement upon its expiration.

We incur expenses that benefit both our franchise and license communities and their representative organizations and our Company operated restaurants. These expenses, along with other costs of servicing of franchise and license agreements are charged to general and administrative ("G&A") expenses as incurred. Certain direct costs of our franchise and license operations are charged to franchise and license expenses. These costs include provisions for estimated uncollectible fees, franchise and license marketing funding, amortization expense for franchise related intangible assets and certain other direct incremental franchise and license support costs.

We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe that our franchisees or licensees are unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Net provisions for uncollectible franchise and license receivables of $2 million, $2 million and $3 million were included in Franchise and license expenses in 2007, 2006 and 2005, respectively.

REVENUE RECOGNITION Our revenues consist of sales by Company operated restaurants and fees from our franchisees and licensees. Revenues from Company operated restaurants are recognized when payment is tendered at the time of sale. The Company presents sales net of sales tax and other sales related taxes. We recognize initial fees received from a franchisee or licensee as revenue when we have performed substantially all initial services required by the franchise or license agreement, which is generally upon the opening of a store. We recognize continuing fees based upon a percentage of franchisee and licensee sales as earned. We recognize renewal fees when a renewal agreement with a franchisee or licensee becomes effective. We include initial fees collected upon the sale of a restaurant to a franchisee in refranchising (gain) loss.

DIRECT MARKETING COSTS We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. To the extent we participate in advertising cooperatives, we expense our contributions as incurred. Our advertising expenses were $556 million, $521 million and $519 million in 2007, 2006 and 2005, respectively. We report substantially all of our direct marketing costs in occupancy and other operating expenses.

RESEARCH AND DEVELOPMENT EXPENSES Research and development expenses, which we expense as incurred, are reported in G&A expenses. Research and development expenses were $39 million, $33 million and $33 million in 2007, 2006 and 2005, respectively.

SHARE-BASED EMPLOYEE COMPENSATION We account for share-based employee compensation in accordance with SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"). SFAS 123R requires all share-based payments to employees, including grants of employee stock options and stock appreciation rights ("SARs"), to be recognized in the financial statements as compensation cost over the service period based on their fair value on the date of grant. Compensation cost is recognized over the service period on a straight-line basis for the fair value of awards that actually vest.

IMPAIRMENT OR DISPOSAL OF LONG-LIVED ASSETS In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we review our long-lived assets related to each restaurant that we are currently operating and have not offered to refranchise, including any allocated intangible assets subject to amortization, semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure estimated fair market value by discounting estimated future cash flows.

In addition, when we decide to close a restaurant it is reviewed for impairment and depreciable lives are adjusted based on the expected disposal date. The impairment evaluation is based on the estimated cash flows from continuing use through the expected disposal date plus the expected terminal value.

We account for exit or disposal activities, including store closures, in accordance with SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" ("SFAS 146"). Store closure costs include costs of disposing of the assets as well as other facility-related expenses from previously closed stores. These store closure costs are generally expensed as incurred. Additionally, at the date we cease using a property under an operating lease, we record a liability for the net present value of any remaining lease obligations, net of estimated sublease income, if any. Any subsequent adjustments to that liability as a result of lease termination or changes in estimates of sublease income are recorded in store closure costs as well. To the extent we sell assets, primarily land, associated with a closed store, any gain or loss upon that sale is also recorded in store closure (income) costs.

Refranchising (gain) loss includes the gains or losses from the sales of our restaurants to new and existing franchisees and the related initial franchise fees, reduced by transaction costs. In executing our refranchising initiatives, we most often offer groups of restaurants. We classify restaurants as held for sale and suspend depreciation and amortization when (a) we make a decision to refranchise; (b) the stores can be immediately removed from operations; (c) we have begun an active program to locate a buyer; (d) significant changes to the plan of sale are not likely; and (e) the sale is probable within one year. We recognize estimated losses on refranchisings when the restaurants are classified as held for sale. When we have offered to refranchise stores or groups of stores for a price less than their carrying value, but do not believe the store(s) have met the criteria to be classified as held for sale, we recognize impairment at the offer date for any excess of carrying value over the expected sales proceeds plus holding period cash flows, if any. Such impairment is classified as refranchising loss. We recognize gains on restaurant refranchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity, and we are satisfied that the franchisee can meet its financial obligations. If the criteria for gain recognition are not met, we defer the gain to the extent we have a remaining financial exposure in connection with the sales transaction. Deferred gains are recognized when the gain recognition criteria are met or as our financial exposure is reduced. When we make a decision to retain a store, or group of stores, previously held for sale, we revalue the store at the lower of its (a) net book value at our original sale decision date less normal depreciation and amortization that would have been recorded during the period held for sale or (b) its current fair market value. This value becomes the store's new cost basis. We record any resulting difference between the store's carrying amount and its new cost basis to refranchising (gain) loss.

Considerable management judgment is necessary to estimate future cash flows, including cash flows from continuing use, terminal value, sublease income and refranchising proceeds. Accordingly, actual results could vary significantly from our estimates.

IMPAIRMENT OF INVESTMENTS IN UNCONSOLIDATED AFFILIATES We record impairment charges related to an investment in an unconsolidated affiliate whenever events or circumstances indicate that a decrease in the fair value of an investment has occurred which is other than temporary. In addition, we evaluate our investments in unconsolidated affiliates for impairment when they have experienced two consecutive years of operating losses. We recorded no impairment associated with our investments in unconsolidated affiliates during the years ended December 29, 2007, December 30, 2006 and December 31, 2005.

Considerable management judgment is necessary to estimate future cash flows. Accordingly, actual results could vary significantly from our estimates.

GUARANTEES We account for certain guarantees in accordance with Financial Accounting Standards Board ("FASB") Interpretation ("FIN") No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others, an interpretation of FASB Statements No. 5, 57 and 107 and a rescission of FASB Interpretation No. 34" ("FIN 45"). FIN 45 elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under guarantees issued. FIN 45 also clarifies that a guarantor is required to recognize, at inception of a guarantee, a liability for the fair value of certain obligations undertaken.

We have also issued guarantees as a result of assigning our interest in obligations under operating leases as a condition to the refranchising of certain Company restaurants. Such guarantees are subject to the requirements of SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). We recognize a liability for the fair value of such lease guarantees under SFAS 145 upon refranchising and upon any subsequent renewals of such leases when we remain contingently liable. The related expense in both instances is included in refranchising (gain) loss.

INCOME TAXES We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, we record deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. In addition, a valuation allowance is recorded to reduce the carrying amount of deferred tax assets if it is more likely than not all or a portion of the asset will not be realized.

Effective December 31, 2006, we adopted FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), an interpretation of SFAS 109. FIN 48 requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. FIN 48 also requires that changes in judgment that result in subsequent recognition, derecognition or change in a measurement of a tax position taken in a prior annual period (including any related interest and penalties) be recognized as a discrete item in the interim period in which the change occurs. Prior to adopting FIN 48, we provided reserves for potential exposures

when we considered it probable that a taxing authority may take a sustainable position on a matter contrary to our position and recorded any changes in judgment thereon as a component of our annual effective rate.

The Company recognizes interest and penalties accrued related to unrecognized tax benefits as components of its income tax provision.

See Note 20 for a further discussion of our income taxes.

CASH AND CASH EQUIVALENTS Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months) as part of managing our day-to-day operating cash receipts and disbursements. Included in cash equivalents are short-term, highly liquid debt securities of $481 million and $92 million classified as held-to-maturity at December 29, 2007 and December 30, 2006, respectively.

INVENTORIES We value our inventories at the lower of cost (computed on the first-in, first-out method) or net realizable value.

PROPERTY, PLANT AND EQUIPMENT We state property, plant and equipment at cost less accumulated depreciation and amortization. We calculate depreciation and amortization on a straight-line basis over the estimated useful lives of the assets as follows: 5 to 25 years for buildings and improvements, 3 to 20 years for machinery and equipment and 3 to 7 years for capitalized software costs. As discussed above, we suspend depreciation and amortization on assets related to restaurants that are held for sale.

LEASES AND LEASEHOLD IMPROVEMENTS We account for our leases in accordance with SFAS No. 13, "Accounting for Leases" ("SFAS 13") and other related authoritative guidance. When determining the lease term, we often include option periods for which failure to renew the lease imposes a penalty on the Company in such an amount that a renewal appears, at the inception of the lease, to be reasonably assured. The primary penalty to which we are subject is the economic detriment associated with the existence of leasehold improvements which might be impaired if we choose not to continue the use of the leased property.

We record rent expense for leases that contain scheduled rent increases on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are generally based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense as they accrue. We generally do not receive leasehold improvement incentives upon opening a store that is subject to a lease.

Prior to fiscal year 2006, we capitalized rent while we were constructing a restaurant even if such construction period was subject to a rent holiday. Such capitalized rent was then expensed on a straight-line basis over the remaining term of the lease upon opening of the restaurant. Effective January 1, 2006 as required by FASB Staff Position ("FSP") No. 13-1, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP 13-1"), we began expensing rent associated with leased land or buildings for construction periods whether rent was paid or we were subject to a rent holiday. The adoption of FSP 13-1 did not significantly impact our results of operations in 2007 or 2006 and we do not anticipate significant future impact.

INTERNAL DEVELOPMENT COSTS AND ABANDONED SITE COSTS We capitalize direct costs associated with the site acquisition and construction of a Company unit on that site, including direct internal payroll and payroll-related costs. Only those site-specific costs incurred subsequent to the time that the site acquisition is considered probable are capitalized. If we subsequently make a determination that a site for which internal development costs have been capitalized will not be acquired or developed, any previously capitalized internal development costs are expensed and included in G&A expenses.

GOODWILL AND INTANGIBLE ASSETS The Company accounts for acquisitions of restaurants from franchisees and other acquisitions of businesses that may occur from time to time in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). Goodwill in such acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets, and liabilities assumed. SFAS 141 specifies criteria to be used in determining whether intangible assets acquired in a business combination must be recognized and reported separately from goodwill. We base amounts assigned to goodwill and other identifiable intangible assets on independent appraisals or internal estimates. If a Company restaurant is sold within two years of acquisition, the goodwill associated with the acquisition is written off in its entirety. If the restaurant is refranchised beyond two years, the amount of goodwill written off is based on the relative fair value of the restaurant to the fair value of the reporting unit, as described below.

The Company accounts for recorded goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). In accordance with SFAS 142, we do not amortize goodwill and indefinite-lived intangible assets. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. Amortizable intangible assets are amortized on a straight-line basis.

In accordance with the requirements of SFAS 142, goodwill has been assigned to reporting units for purposes of impairment testing. Our reporting units are our operating segments in the U.S. (see Note 21) and our business management units internationally (typically individual countries). We evaluate goodwill and indefinite lived assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using either discounted expected future cash flows from operations or the present value of the estimated future franchise royalty stream plus any estimated sales proceeds from refranchising. Any estimated sales proceeds are based on relevant historical sales multiples. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. For 2007, 2006 and 2005, there was no impairment of goodwill identified during our annual impairment testing.

For indefinite-lived intangible assets, our impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. Fair value is an estimate of the price a

willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future cash flows associated with the intangible asset. We also perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. No impairment of indefinite-lived intangible assets was recorded in 2007, 2006 and 2005.

Our amortizable intangible assets are evaluated for impairment whenever events or changes in circumstances indicate that the carrying amount of the intangible asset may not be recoverable. An intangible asset that is deemed impaired is written down to its estimated fair value, which is based on discounted cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the amortizable intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

DERIVATIVE FINANCIAL INSTRUMENTS Historically we have engaged in transactions involving various derivative instruments to hedge interest rates and foreign currency denominated purchases, assets and liabilities. These derivative contracts are entered into with financial institutions. We do not use derivative instruments for trading purposes and we have procedures in place to monitor and control their use.

We account for these derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 133 requires that all derivative instruments be recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the results of operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. For derivative instruments that are designated and qualify as a net investment hedge, the effective portion of the gain or loss on the derivative instrument is reported in the foreign currency translation component of other comprehensive income (loss). Any ineffective portion of the gain or loss on the derivative instrument for a cash flow hedge or net investment hedge is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. See Note 15 for a discussion of our use of derivative instruments, management of credit risk inherent in derivative instruments and fair value information.

COMMON STOCK SHARE REPURCHASES From time to time, we repurchase shares of our Common Stock under share repurchase programs authorized by our Board of Directors. Shares repurchased constitute authorized, but unissued shares under the North Carolina laws under which we are incorporated. Additionally, our Common Stock has no par or stated value. Accordingly, we record the full value of share repurchases, upon the trade date, against Common Stock except when to do so would result in a negative balance in our Common Stock account. In such instances, on a period basis, we record the cost of any further share repurchases as a reduction in retained earnings. Due to the large number of share repurchases and the increase in our Common Stock market value over the past several years, our Common Stock balance is frequently zero at the end of any period. Accordingly, $1,154 million and $713 million in share repurchases were recorded as a reduction in retained earnings in 2007 and 2006, respectively. We have no legal restrictions on the payment of dividends. See Note 19 for additional information.

PENSION AND POST-RETIREMENT MEDICAL BENEFITS In the fourth quarter of 2006, we adopted the recognition and disclosure provisions of SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans—an amendment of FASB Statements No. 87, 88, 106 and 132(R)" ("SFAS 158"). SFAS 158 amends SFAS No. 87, "Employers' Accounting for Pensions" ("SFAS 87"), SFAS No. 88, "Employers' Accounting for Settlements and Curtailments of Defined Benefit Plans and for Termination Benefits" ("SFAS 88"), SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" ("SFAS 106") and SFAS No. 132(R), "Employers' Disclosures about Pensions and Other Postretirement Benefits."

SFAS 158 required the Company to recognize the funded status of its pension and post-retirement plans in the December 30, 2006 Consolidated Balance Sheet, with a corresponding adjustment to accumulated other comprehensive income, net of tax. Gains or losses and prior service costs or credits that arise in future years will be recognized as a component of other comprehensive income to the extent they have not been recognized as a component of net periodic benefit cost pursuant to SFAS 87 or SFAS 106.

The incremental effects of adopting the provisions of SFAS 158 on the Company's Consolidated Balance Sheet at December 30, 2006 are presented as follows. The adoption of SFAS 158 had no impact on the Consolidated Statement of Income.

	Before Application of SFAS 158	Adjustments	After Application of SFAS 158
Intangible assets, net	$ 350	$ (3)	$ 347
Deferred income taxes	283	37	320
Total assets	6,334	34	6,368
Accounts payable and other current liabilities	1,384	2	1,386
Other liabilities and deferred credits	1,048	99	1,147
Total liabilities	4,815	101	4,916
Accumulated other comprehensive loss	(89)	(67)	(156)
Total shareholders' equity	1,519	(67)	1,452

QUANTIFICATION OF MISSTATEMENTS In September 2006, the Securities and Exchange Commission (the "SEC") issued Staff Accounting Bulletin No. 108, "Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements" ("SAB 108"). SAB 108 provides interpretive guidance on how the effects of the carryover or reversal of prior year misstatements should be considered in quantifying a current year misstatement for the purpose of a materiality assessment. SAB 108 requires that registrants quantify a current year misstatement using an approach that considers both the impact of prior year misstatements that remain on the balance sheet and those that were recorded in the current year income statement

(the "Dual Method"). Historically, we quantified misstatements and assessed materiality based on a current year income statement approach. We were required to adopt SAB 108 in the fourth quarter of 2006.

The transition provisions of SAB 108 permit uncorrected prior year misstatements that were not material to any prior periods under our historical income statement approach but that would have been material under the dual method of SAB 108 to be corrected in the carrying amounts of assets and liabilities at the beginning of 2006 with the offsetting adjustment to retained earnings for the cumulative effect of misstatements. We have adjusted certain balances in the accompanying Consolidated Financial Statements at the beginning of 2006 to correct the misstatements discussed below which we considered to be immaterial in prior periods under our historical approach. The impact of the January 1, 2006 cumulative effect adjustment, net of any income tax effect, was an increase to retained earnings as follows:

Deferred Tax Liabilities Adjustments	$ 79
Reversal of Unallocated Reserve	6
Non-GAAP Conventions	15
Net Increase to January 1, 2006 Retained Earnings	$ 100

DEFERRED TAXES Our opening Consolidated Balance Sheet at Spin-off included significant deferred tax assets and liabilities. Over time we have determined that deferred tax liability amounts were recorded in excess of those necessary to reflect our temporary differences.

UNALLOCATED RESERVES A reserve was established in 1999 equal to certain out of year corrections recorded during that year such that there was no misstatement under our historical approach. No adjustments have been recorded to this reserve since its establishment and we do not believe the reserve is required.

NON-GAAP ACCOUNTING CONVENTIONS Prior to 2006, we used certain non-GAAP conventions to account for capitalized interest on restaurant construction projects, the leases of our Pizza Hut United Kingdom ("U.K.") unconsolidated affiliate and certain state tax benefits. The net income statement impact on any given year from the use of these non-GAAP conventions was immaterial both individually and in the aggregate under our historical approach. Below is a summary of the accounting policies we adopted effective the beginning of 2006 and the impact of the cumulative effect adjustment under SAB 108, net of any income tax effect. The impact of these accounting policy changes was not significant to our results of operations in 2006 or 2007.

INTEREST CAPITALIZATION SFAS No. 34, "Capitalization of Interest Cost" requires that interest be capitalized as part of an asset's acquisition cost. We traditionally have not capitalized interest on individual restaurant construction projects. We increased our 2006 beginning retained earnings balance by approximately $12 million for the estimated capitalized interest on existing restaurants, net of accumulated depreciation.

LEASE ACCOUNTING BY OUR PIZZA HUT UNITED KINGDOM UNCONSOLIDATED AFFILIATE Prior to our fourth quarter 2006 acquisition of the remaining fifty percent interest in our Pizza Hut U.K. unconsolidated affiliate, we accounted for our ownership under the equity method. The unconsolidated affiliate historically accounted for all of its leases as operating and we made no adjustments in recording equity income. We decreased our 2006 beginning retained earnings balance by approximately $4 million to reflect our fifty percent share of the cumulative equity income impact of properly recording certain leases as capital.

RECOGNITION OF CERTAIN STATE TAX BENEFITS We historically recognized certain state tax benefits on a cash basis as they were recognized on the respective state tax returns instead of in the year the benefit originated. We increased our 2006 beginning retained earnings by approximately $7 million to recognize these state tax benefits as deferred tax assets.

NEW ACCOUNTING PRONOUNCEMENTS NOT YET ADOPTED In September 2006, the FASB issued SFAS No. 157, "Fair Value Measures" ("SFAS 157"). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measures required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157, as issued, was effective for fiscal years beginning after November 15, 2007, the year beginning December 30, 2007 for the Company. In February 2008, the FASB issued FSP 157-2, "Effective Date of FASB Statement No. 157" which permits a one-year deferral for the implementation of SFAS 157 with regard to non-financial assets and liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). We intend to defer adoption of SFAS 157 for such items. We currently anticipate that neither the partial adoption of SFAS 157 in 2008 nor the full adoption in 2009 will materially impact the Company's results of operations or financial condition.

In the fourth quarter of 2006, we adopted the recognition and disclosure provisions of SFAS 158 as described previously. Additionally, SFAS 158 requires measurement of the funded status of pension and postretirement plans as of the date of a company's fiscal year that ends after December 15, 2008 (the year ended December 27, 2008 for the Company). Certain of our plans currently have measurement dates that do not coincide with our fiscal year end and thus we will be required to change their measurement dates in 2008. As permitted by SFAS 158, we will use the measurements performed in 2007 to estimate the effects of our changes to fiscal year end measurement dates. The impact of transitioning to fiscal year end measurement dates, including the net periodic benefit cost computed for the period between our previous measurement dates and our fiscal year ends, as well as changes in the fair value of plan assets and benefit obligations during the same periods, will be recorded directly to Shareholders' Equity. We do not currently anticipate any such amount will materially impact our financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" ("SFAS 159"). SFAS 159 provides companies with an option to report selected financial assets and financial liabilities at fair value. Unrealized gains and losses on items for which the fair value option has been elected are reported in earnings at each subsequent reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007, the year beginning December 30, 2007 for the Company. We did not elect to begin reporting any financial assets or liabilities at fair value upon adoption of SFAS 159 nor do we currently anticipate that the adoption of SFAS 159 will materially impact the Company going forward.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), "Business Combinations" ("SFAS 141R"). SFAS 141R, which is broader in scope than SFAS 141, applies to all transactions or other events in which an entity obtains control of one or more businesses, and requires that the acquisition method be used for such transactions or events. SFAS 141R, with limited exceptions, will require an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This will result in acquisition related costs and anticipated restructuring costs related to the acquisition being recognized separately from the business combination. This statement is effective as the beginning of an entity's first fiscal year beginning after December 15, 2008, the year beginning December 28, 2008 for the Company. The impact of SFAS 141R on the Company will be dependent upon the extent to which we have transactions or events occur that are within its scope.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements" ("SFAS 160"). SFAS 160 amends Accounting Research Bulletin No. 51, "Consolidated Financial Statements," and will change the accounting and reporting for noncontrolling interests, which are the portion of equity in a subsidiary not attributable, directly or indirectly to a parent. SFAS 160 is effective for fiscal years beginning on or after December 15, 2008, the year beginning December 28, 2008 for the Company and requires retroactive adoption of its presentation and disclosure requirements. We do not anticipate that the adoption of SFAS 160 will materially impact the Company.

3. Two-for-One Common Stock Split

On May 17, 2007, the Company announced that its Board of Directors approved a two-for-one split of the Company's outstanding shares of Common Stock. The stock split was effected in the form of a stock dividend and entitled each shareholder of record at the close of business on June 1, 2007 to receive one additional share for every outstanding share of Common Stock held. The stock dividend was distributed on June 26, 2007, with approximately 261 million shares of Common Stock distributed. All per share and share amounts in the accompanying Financial Statements and Notes to the Financial Statements have been adjusted to reflect the stock split.

4. Earnings Per Common Share ("EPS")

	2007	2006	2005
Net income	**$ 909**	$ 824	$ 762
Weighted-average common shares outstanding (for basic calculation)	**522**	546	572
Effect of dilutive share-based employee compensation	**19**	18	25
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	**541**	564	597
Basic EPS	**$ 1.74**	$ 1.51	$ 1.33
Diluted EPS	**$ 1.68**	$ 1.46	$ 1.28
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS compensation[a]	**5.7**	13.3	7.5

(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.

5. Items Affecting Comparability of Net Income and Cash Flows

SALE OF AN INVESTMENT IN UNCONSOLIDATED AFFILIATE — JAPAN In December 2007, we sold our interest in our unconsolidated affiliate in Japan for $128 million in cash (includes the impact of related foreign currency contracts that were settled in December 2007). Our international subsidiary that owned this interest operates on a fiscal calendar with a period end that is approximately one month earlier than our consolidated period close. Thus, consistent with our historical treatment of events occurring during the lag period, the pre-tax gain on the sale of this investment of approximately $87 million will be recorded in the first quarter of 2008. However, the cash proceeds from this transaction were transferred from our international subsidiary to the U.S. in December 2007 and are thus reported on our Consolidated Statement of Cash Flows for the year ended December 29, 2007. The offset to this cash on our Consolidated Balance Sheet at December 29, 2007 is in accounts payable and other current liabilities.

While we will no longer have an ownership interest in this entity that operates both KFCs and Pizza Huts in Japan, it will continue to be a franchisee as it was when it operated as an unconsolidated affiliate. This sale of our interest will result in lower Other income as we will no longer record our share of the entity's earnings under the equity method of accounting. Had this sale occurred at the beginning of 2007, our International Division's Other income would have decreased $4 million.

FACILITY ACTIONS Refranchising (gain) loss, store closure (income) costs and store impairment charges by reportable segment are as follows:

	2007	2006	2005
U.S.			
Refranchising net (gain) loss[a]	**$ (12)**	$ (20)	$ (40)
Store closure (income) costs[b]	**(9)**	(1)	2
Store impairment charges	**23**	38	44
Closure and impairment expenses	**$ 14**	$ 37	$ 46
International Division			
Refranchising net (gain) loss[a]	**$ 3**	$ (4)	$ (3)
Store closure (income) costs[b]	**1**	1	(1)
Store impairment charges	**13**	15	10
Closure and impairment expenses	**$ 14**	$ 16	$ 9
China Division			
Refranchising net (gain) loss[a]	**$ (2)**	$ —	$ —
Store closure (income) costs[b]	**—**	(1)	(1)
Store impairment charges	**7**	7	8
Closure and impairment expenses	**$ 7**	$ 6	$ 7
Worldwide			
Refranchising net (gain) loss[a]	**$ (11)**	$ (24)	$ (43)
Store closure (income) costs[b]	**(8)**	(1)	—
Store impairment charges	**43**	60	62
Closure and impairment expenses	**$ 35**	$ 59	$ 62

(a) Refranchising (gain) loss is not allocated to segments for performance reporting purposes.

(b) Store closure (income) costs include the net gain or loss on sales of real estate on which we formerly operated a Company restaurant that was closed, lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves, and other facility-related expenses from previously closed stores.

The following table summarizes the 2007 and 2006 activity related to reserves for remaining lease obligations for closed stores.

	Beginning Balance	Amounts Used	New Decisions	Estimate/ Decision Changes	CTA/ Other	Ending Balance
2007 Activity	**$ 36**	**(12)**	**8**	**1**	**1**	**$ 34**
2006 Activity	$ 44	(17)	8	1	—	$ 36

Assets held for sale at December 29, 2007 and December 30, 2006 total $9 million and $13 million, respectively, of U.S. property, plant and equipment, primarily land, on which we previously operated restaurants and are included in prepaid expenses and other current assets on our Consolidated Balance Sheets.

6. Supplemental Cash Flow Data

	2007	2006	2005
Cash Paid For:			
Interest	**$ 177**	$ 185	$ 132
Income taxes	**264**	304	232
Significant Non-Cash Investing and Financing Activities:			
Capital lease obligations incurred to acquire assets	**$ 59[a]**	$ 9	$ 7
Net investment in direct financing leases	**33**	—	—

(a) Includes the capital lease of an airplane (see Note 14).

During 2006 we assumed the full liability associated with capital leases of $97 million and short-term borrowings of $23 million when we acquired the remaining fifty percent ownership interest of our Pizza Hut U.K. unconsolidated affiliate (See Note 7). Previously, our fifty percent share of these liabilities were reflected in our Investment in unconsolidated affiliate balance under the equity method of accounting and were not presented as liabilities on our Consolidated Balance Sheet.

7. Pizza Hut United Kingdom Acquisition

On September 12, 2006, we completed the acquisition of the remaining fifty percent ownership interest of our Pizza Hut U.K. unconsolidated affiliate for $187 million in cash, including transaction costs and prior to $9 million of cash assumed. This unconsolidated affiliate owned more than 500 restaurants in the U.K. The acquisition was driven by growth opportunities we see in the market and the desire of our former partner in the unconsolidated affiliate to refocus its business to other industry sectors. Prior to this acquisition, we accounted for our ownership interest under the equity method of accounting. Our Investment in unconsolidated affiliate balance for the Pizza Hut U.K. unconsolidated affiliate was $51 million at the date of this acquisition.

Subsequent to the acquisition we consolidated all of the assets and liabilities of Pizza Hut U.K. These assets and liabilities were valued at fifty percent of their historical carrying value and fifty percent of their fair value upon acquisition. During 2007 we finalized our purchase price allocation such that assets and liabilities recorded for Pizza Hut U.K. due to the acquisition were as follows:

Current assets, including cash of $9	$ 27
Property, plant and equipment	338
Intangible assets	18
Goodwill	125
Total assets acquired	508
Current liabilities, other than capital lease obligations and short-term borrowings	107
Capital lease obligation, including current portion	97
Short-term borrowings	23
Other long-term liabilities	43
Total liabilities assumed	270
Net assets acquired (cash paid and investment allocated)	$ 238

All of the $18 million in intangible assets (primarily reacquired franchise rights) are subject to amortization with a weighted average life of approximately 18 years. The $125 million in goodwill is not expected to be deductible for income tax purposes and will be allocated to the International Division in its entirety.

Under the equity method of accounting, we reported our fifty percent share of the net income of the unconsolidated affiliate (after interest expense and income taxes) as Other (income) expense in the Consolidated Statements of Income. We also recorded a franchise fee for the royalty received from the stores owned by the unconsolidated affiliate. Since the date of acquisition, we have reported Company sales and the associated restaurant costs, G&A expense, interest expense and income taxes associated with the restaurants previously owned by the unconsolidated affiliate in the appropriate line items of our Consolidated Statements of Income. We no longer record franchise fee income for the restaurants previously owned by the unconsolidated affiliate nor do we report other income under the equity method of accounting. As a result of this acquisition, Company sales and restaurant profit increased $576 million and $59 million, respectively, franchise fees decreased $19 million and G&A expenses increased $33 million in 2007 compared to 2006. As a result of this acquisition, Company sales and restaurant profit increased $164 million and $16 million, respectively, franchise fees decreased $7 million and G&A expenses increased $8 million in 2006 compared to 2005. The impact of the acquisition on operating profit and net income was not significant in either year.

If the acquisition had been completed as of the beginning of the years ended December 30, 2006 and December 31, 2005, pro forma Company sales and franchise and license fees would have been as follows:

	2006	2005
Company sales	$ 8,886	$ 8,944
Franchise and license fees	$ 1,176	$ 1,095

The pro forma impact of the acquisition on net income and diluted earnings per share would not have been significant in 2006 and 2005. The pro forma information is not necessarily indicative of the results of operations had the acquisition actually occurred at the beginning of each of these periods nor is it necessarily indicative of future results.

8.

Franchise and License Fees

	2007	2006	2005
Initial fees, including renewal fees	**$ 49**	$ 57	$ 51
Initial franchise fees included in refranchising gains	**(10)**	(17)	(10)
	39	40	41
Continuing fees	**1,277**	1,156	1,083
	$ 1,316	$ 1,196	$ 1,124

9.

Other (Income) Expense

	2007	2006	2005
Equity income from investments in unconsolidated affiliates	**$ (51)**	$ (51)	$ (51)
Gain upon sale of investment in unconsolidated affiliate[(a)]	**(6)**	(2)	(11)
Recovery from supplier[(b)]	**—**	—	(20)
Contract termination charge[(c)]	**—**	8	—
Wrench litigation income[(d)]	**(11)**	—	(2)
Foreign exchange net (gain) loss and other	**(3)**	(7)	—
Other (income) expense	**$ (71)**	$ (52)	$ (84)

(a) Fiscal years 2007 and 2006 reflect recognition of income associated with receipt of payments for a note receivable arising from the 2005 sale of our fifty percent interest in the entity that operated almost all KFCs and Pizza Huts in Poland and the Czech Republic to our then partner in the entity. Fiscal year 2005 reflects the gain recognized at the date of this sale.

(b) Relates to a financial recovery from a supplier ingredient issue in mainland China totaling $24 million, $4 million of which was recognized through equity income from investments in unconsolidated affiliates. Our KFC business in mainland China was negatively impacted by the interruption of product offerings and negative publicity associated with a supplier ingredient issue experienced in late March 2005. During 2005, we entered into agreements with the supplier for a partial recovery of our losses.

(c) Reflects an $8 million charge associated with the termination of a beverage agreement in the U.S. segment.

(d) Fiscal years 2007 and 2005 reflect financial recoveries from settlements with insurance carriers related to a lawsuit settled by Taco Bell Corporation in 2004.

10.

Property, Plant and Equipment, net

	2007	2006
Land	**$ 548**	$ 541
Buildings and improvements	**3,649**	3,449
Capital leases, primarily buildings	**284**	221
Machinery and equipment	**2,651**	2,566
	7,132	6,777
Accumulated depreciation and amortization	**(3,283)**	(3,146)
	$ 3,849	$ 3,631

Depreciation and amortization expense related to property, plant and equipment was $514 million, $466 million and $459 million in 2007, 2006 and 2005, respectively.

11. Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	U.S.	International Division	China Division	Worldwide
Balance as of December 31, 2005	$ 384	$ 96	$ 58	$ 538
Acquisitions	—	123	—	123
Disposals and other, net[a]	(17)	18	—	1
Balance as of December 30, 2006	$ 367	$ 237	$ 58	$ 662
Acquisitions	**—**	**—**	**—**	**—**
Disposals and other, net[b]	**(9)**	**17**	**2**	**10**
Balance as of December 29, 2007	**$ 358**	**$ 254**	**$ 60**	**$ 672**

(a) Disposals and other, net for the International Division primarily reflects the impact of foreign currency translation on existing balances. Disposals and other, net for the U.S. Division, primarily reflects goodwill write-offs associated with refranchising.
(b) Disposals and other, net for the International Division primarily reflects adjustments to the Pizza Hut U.K. goodwill allocation and the impact of foreign currency translation on existing balances. Disposals and other, net for the U.S. Division, primarily reflects goodwill write-offs associated with refranchising.

Intangible assets, net for the years ended 2007 and 2006 are as follows:

	2007		2006	
	Gross Carrying Amount	**Accumulated Amortization**	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Franchise contract rights	**$ 157**	**$ (73)**	$ 153	$ (66)
Trademarks/brands	**221**	**(26)**	220	(18)
Favorable/unfavorable operating leases	**15**	**(12)**	15	(10)
Reacquired franchise rights	**17**	**(1)**	18	—
Other	**6**	**(2)**	5	(1)
	$ 416	**$ (114)**	$ 411	$ (95)
Unamortized intangible assets				
Trademarks/brands	**$ 31**		$ 31	

We have recorded intangible assets through past acquisitions representing the value of our KFC, LJS and A&W trademarks/brands. The value of a trademark/brand is determined based upon the value derived from the royalty we avoid, in the case of Company stores, or receive, in the case of franchise and licensee stores, for the use of the trademark/brand. We have determined that our KFC trademark/brand intangible asset has an indefinite life and therefore is not amortized. We have determined that our LJS and A&W trademarks/brands are subject to amortization and are being amortized over their expected useful lives which are currently thirty years.

Amortization expense for all definite-lived intangible assets was $19 million in 2007, $15 million in 2006 and $13 million in 2005. Amortization expense for definite-lived intangible assets will approximate $18 million annually in 2008 through 2012.

12. Accounts Payable and Other Current Liabilities

	2007	2006
Accounts payable	**$ 639**	$ 554
Accrued compensation and benefits	**372**	302
Dividends payable	**75**	119
Proceeds from sale of interest in Japan unconsolidated affiliate (See Note 5)	**128**	—
Other current liabilities	**436**	411
	$ 1,650	$ 1,386

13. Short-term Borrowings and Long-term Debt

	2007	2006
Short-term Borrowings		
Unsecured Term Loans, expire January 2007	**$ —**	$ 183
Current maturities of long-term debt	**268**	16
Other	**20**	28
	$ 288	$ 227
Long-term Debt		
Unsecured International Revolving Credit Facility, expires November 2012	**$ 28**	$ 174
Unsecured Revolving Credit Facility, expires November 2012	**—**	—
Senior, Unsecured Notes, due May 2008	**250**	251
Senior, Unsecured Notes, due April 2011	**648**	646
Senior, Unsecured Notes, due July 2012	**399**	399
Senior, Unsecured Notes, due April 2016	**300**	300
Senior, Unsecured Notes, due March 2018	**598**	—
Senior, Unsecured Notes, due November 2037	**597**	—
Capital lease obligations (See Note 14)	**282**	228
Other, due through 2019 (11%)	**73**	76
	3,175	2,074
Less current maturities of long-term debt	**(268)**	(16)
Long-term debt excluding SFAS 133 adjustment	**2,907**	2,058
Derivative instrument adjustment under SFAS 133 (See Note 15)	**17**	(13)
Long-term debt including SFAS 133 adjustment	**$ 2,924**	$ 2,045

On November 29, 2007, the Company executed an amended and restated five-year senior unsecured Revolving Credit Facility (the "Credit Facility") totaling $1.15 billion which replaced a five-year facility in the amount of $1.0 billion that was set to expire on September 7, 2009. 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. The Credit Facility 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. We were in compliance with all debt covenants at December 29, 2007.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit less outstanding letters of credit or banker's acceptances, where applicable. At December 29, 2007, our unused Credit Facility totaled $971 million, net of outstanding letters of credit of $179 million. There were no borrowings

under the Credit Facility at December 29, 2007. The interest rate for borrowings under the Credit Facility ranges from 0.25% to 1.25% over the London Interbank Offered Rate ("LIBOR") or is determined by an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Rate plus 0.50%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, depends on our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

On November 29, 2007, the Company executed an amended and restated five-year revolving credit facility (the "International Credit Facility" or "ICF") totaling $350 million, which replaced a five-year facility also in the amount of $350 million that was set to expire on November 8, 2010. The ICF is unconditionally guaranteed by YUM and by YUM's principal domestic subsidiaries and contains covenants substantially identical to those of the Credit Facility. We were in compliance with all debt covenants at the end of 2007.

There were borrowings of $28 million and available credit of $322 million outstanding under the ICF at the end of 2007. The interest rate for borrowings under the ICF ranges from 0.31% to 1.50% over LIBOR or is determined by a Canadian Alternate Base Rate, which is the greater of the Citibank, N.A., Canadian Branch's publicly announced reference rate or the "Canadian Dollar Offered Rate" plus 0.50%. The exact spread over LIBOR or the Canadian Alternate Base Rate, as applicable, depends upon YUM's performance under specified financial criteria. Interest on any outstanding borrowings under the ICF is payable at least quarterly.

In 2006, we executed two short-term borrowing arrangements (the "Term Loans") on behalf of the International Division. There were borrowings of $183 million outstanding at the end of 2006 under the Term Loans, both of which expired and were repaid in the first quarter of 2007.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes. The Senior Unsecured 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 December 29, 2007. This amount includes $600 million aggregate principal amount of 6.25% Senior Unsecured Notes that were issued in October 2007 and are due on March 15, 2018 and $600 million aggregate principal amount of 6.875% Senior Unsecured Notes that were issued in October 2007 and are due November 15, 2037 (together the "2007 Notes"). We are using the proceeds from the 2007 Notes to repay outstanding borrowings on our Credit Facility, for additional share repurchases and for general corporate purposes.

In anticipation of issuing the 2007 Notes, we entered into treasury locks and forward starting interest rate swaps with aggregate notional amounts of $100 million and $400 million, respectively, to hedge the interest rate risk attributable to changes in the United States Treasury Rates and the LIBOR, respectively, prior to issuance of the 2007 Notes. As these treasury locks and forward starting interest rate swaps were designated and highly effective in offsetting this variability in cash flows associated with the future interest payments, a resulting $1 million treasury lock gain and $22 million forward starting interest rate swap loss from settlement of these instruments is being amortized over ten and thirty years, respectively, as a decrease and increase in interest expense, respectively.

The following table summarizes all Senior Unsecured Notes issued that remain outstanding at December 29, 2007:

		Principal Amount	Interest Rate	
Issuance Date[(a)]	Maturity Date	(in millions)	Stated	Effective[(b)]
May 1998	May 2008	250	7.65%	7.81%
April 2001	April 2011	650	8.88%	9.20%
June 2002	July 2012	400	7.70%	8.04%
April 2006	April 2016	300	6.25%	6.03%
October 2007	March 2018	600	6.25%	6.38%
October 2007	November 2037	600	6.88%	7.29%

(a) Interest payments commenced six months after issuance date and are payable semi-annually thereafter.

(b) Includes the effects of the amortization of any (1) premium or discount; (2) debt issuance costs; and (3) gain or loss upon settlement of related treasury locks and forward starting interest rate swaps utilized to hedge the interest rate risk prior to the debt issuance. Excludes the effect of any swaps that remain outstanding as described in Note 15.

The annual maturities of short-term borrowings and long-term debt as of December 29, 2007, excluding capital lease obligations of $282 million and derivative instrument adjustments of $17 million, are as follows:

Year ended:	
2008	$ 273
2009	3
2010	3
2011	654
2012	433
Thereafter	1,555
Total	$ 2,921

Interest expense on short-term borrowings and long-term debt was $199 million, $172 million and $147 million in 2007, 2006 and 2005, respectively.

14.

Leases

At December 29, 2007 we operated more than 7,600 restaurants, leasing the underlying land and/or building in more than 6,000 of those restaurants with the vast majority of our commitments expiring within 15 to 20 years from the inception of the lease. Our longest lease expires in 2151. We also lease office space for headquarters and support functions, as well as certain office and restaurant equipment. We do not consider any of these individual leases material to our operations. Most leases require us to pay related executory costs, which include property taxes, maintenance and insurance.

In 2007, we entered into an agreement to lease a corporate aircraft to enhance our international travel capabilities. This lease provides for an upfront payment of $10 million and monthly payments for three years. At the end of the three-year period we have the option to purchase the aircraft. In accordance with SFAS No. 13, this lease has been classified as capital and we had a related capital lease obligation recorded of $41 million at December 29, 2007. Our lease is with CVS Corporation ("CVS"). One of the Company's directors is the Chairman, Chief Executive Officer and President of CVS. Multiple independent appraisals were obtained during the negotiation process to insure that the lease was reflective of an arms-length transaction.

Future minimum commitments and amounts to be received as lessor or sublessor under non-cancelable leases are set forth below:

	Commitments		Lease Receivables	
	Capital	Operating	Direct Financing	Operating
2008	$ 24	$ 462	$ 7	$ 41
2009	24	417	8	37
2010	62	381	8	35
2011	20	340	8	29
2012	20	300	8	24
Thereafter	240	1,986	58	124
	$ 390	$ 3,886	$ 97	$ 290

At December 29, 2007 and December 30, 2006, the present value of minimum payments under capital leases was $282 million and $228 million, respectively. At December 29, 2007 and December 30, 2006, unearned income associated with direct financing lease receivables was $46 million and $24 million, respectively.

The details of rental expense and income are set forth below:

	2007	2006	2005
Rental expense			
Minimum	**$ 474**	$ 412	$ 380
Contingent	**81**	62	51
	$ 555	$ 474	$ 431
Minimum rental income	**$ 23**	$ 21	$ 24

15. Financial Instruments

INTEREST RATE DERIVATIVE INSTRUMENTS We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our debt. Under the contracts, we agree with other parties to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. At both December 29, 2007 and December 30, 2006, interest rate derivative instruments outstanding had notional amounts of $850 million. These swaps have reset dates and floating rate indices which match those of our underlying fixed-rate debt and have been designated as fair value hedges of a portion of that debt. As the swaps qualify for the short-cut method under SFAS 133, no ineffectiveness has been recorded. The fair value of these swaps as of December 29, 2007 was a net asset of approximately $15 million, of which $16 million and $1 million were included in Other assets and Other liabilities and deferred credits, respectively. The fair value of these swaps as of December 30, 2006 was a liability of approximately $15 million, which were included in Other liabilities and deferred credits. The portion of this fair value which has not yet been recognized as an addition to interest expense at December 29, 2007 and December 30, 2006 has been included as an addition of $17 million and a reduction of $13 million, respectively, to long-term debt.

FOREIGN EXCHANGE DERIVATIVE INSTRUMENTS We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated intercompany short-term receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying receivables or payables. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. No material ineffectiveness was recognized in 2007, 2006 or 2005 for those foreign currency forward contracts designated as cash flow hedges.

DEFERRED AMOUNTS IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) As of December 29, 2007, we had a net deferred loss associated with cash flow hedges of approximately $10 million, net of tax, due to treasury locks, forward starting interest rate swaps and foreign currency forward contracts. The vast majority of this loss arose from the settlement of forward starting interest rate swaps entered into prior to the issuance of our Senior Unsecured Notes due in 2037, and is being reclassified into earnings through 2037 to interest expense. See Note 13 for further discussion of these forward starting interest rate swaps.

CREDIT RISKS Credit risk from interest rate swaps and foreign currency forward contracts is dependent both on movement in interest and currency rates and the possibility of non-payment by counterparties. We mitigate credit risk by entering into these agreements with high-quality counterparties, and settle both interest rate swaps and foreign currency forward contracts for the net of our payable and receivable with the counterparty under the agreement.

Accounts receivable consists primarily of amounts due from franchisees and licensees for initial and continuing fees. In addition, we have notes and lease receivables from certain of our franchisees. The financial condition of these franchisees and licensees is largely dependent upon the underlying business trends of our Concepts. This concentration of credit risk is mitigated, in part, by the large number of franchisees and licensees of each Concept and the short-term nature of the franchise and license fee receivables.

FAIR VALUE At December 29, 2007 and December 30, 2006, the fair values of cash and cash equivalents, accounts receivable and accounts payable approximated their carrying values because of the short-term nature of these instruments. The fair value of notes receivable approximates the carrying value after consideration of recorded allowances.

The carrying amounts and fair values of our other financial instruments subject to fair value disclosures are as follows:

	2007		2006	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt, excluding capital leases and the derivative instrument adjustments	**$ 2,913**	**$ 3,081**	$ 2,057	$ 2,230
Debt-related derivative instruments:				
Open contracts in a net asset (liability) position	**15**	**15**	(15)	(15)
Foreign currency-related derivative instruments:				
Open contracts in a net asset (liability) position	**—**	**—**	(7)	(7)
Lease guarantees	**22**	**26**	19	28
Guarantees supporting financial arrangements of certain franchisees and other third parties	**8**	**8**	7	7
Letters of credit	**—**	**1**	—	1

We estimated the fair value of debt, debt-related derivative instruments, foreign currency-related derivative instruments, guarantees and letters of credit using market quotes and calculations based on market rates.

16. Pension and Postretirement Medical Benefits

The following disclosures reflect our 2006 adoption of the recognition and disclosure provisions of SFAS 158 as discussed in Note 2.

PENSION BENEFITS We sponsor 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 (the "Plan"), is funded while benefits from the other U.S. plans are paid by the Company as incurred. During 2001, the plans covering our U.S. salaried employees were amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans. Benefits are based on years of service and earnings or stated amounts for each year of service. We also sponsor various defined benefit pension plans covering certain of our non-U.S. employees, the most significant of which are in the U.K. (including a plan for Pizza Hut U.K. employees that was sponsored by our unconsolidated affiliate prior to our acquisition of the remaining fifty percent interest in the unconsolidated affiliate in 2006). Our plans in the U.K. have previously been amended such that new employees are not eligible to participate in these plans.

OBLIGATION AND FUNDED STATUS AT MEASUREMENT DATE: The following chart summarizes the balance sheet impact, as well as benefit obligations, assets, and funded status associated with our U.S. pension plans and significant International pension plans based on actuarial valuations prepared as of a measurement date of September 30, 2007 and 2006, with the exception of the Pizza Hut U.K. pension plan where such information is presented as of a measurement date of November 30, 2007 and 2006.

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Change in benefit obligation				
Benefit obligation at beginning of year	**$ 864**	$ 815	**$ 152**	$ 57
Service cost	**33**	34	**9**	5
Interest cost	**50**	46	**8**	4
Participant contributions	**—**	—	**2**	1
Plan amendments	**4**	(3)	**—**	—
Acquisitions[(a)]	**—**	—	**4**	71
Curtailment gain	**(4)**	(1)	**—**	—
Exchange rate changes	**—**	—	**8**	14
Benefits and expenses paid	**(34)**	(29)	**(2)**	(1)
Actuarial (gain) loss	**(71)**	2	**(20)**	1
Benefit obligation at end of year	**$ 842**	$ 864	**$ 161**	$ 152
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 673**	$ 610	**$ 117**	$ 39
Actual return on plan assets	**93**	60	**11**	6
Employer contributions	**2**	35	**6**	19
Participant contributions	**—**	—	**2**	1
Acquisitions[(a)]	**—**	—	**—**	40
Benefits paid	**(33)**	(29)	**(2)**	(1)
Exchange rate changes	**—**	—	**5**	13
Administrative expenses	**(3)**	(3)	**—**	—
Fair value of plan assets at end of year	**$ 732**	$ 673	**$ 139**	$ 117
Funded status at end of year	**$ (110)**	$ (191)	**$ (22)**	$ (35)

(a) Relates to the acquisition of the remaining fifty percent interest in our Pizza Hut U.K. unconsolidated affiliate.

Amounts recognized in the Consolidated Balance Sheet:

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Accrued benefit asset—non-current	**$ —**	$ —	**$ 5**	$ —
Accrued benefit liability—current	**(6)**	(2)	**—**	—
Accrued benefit liability—non-current	**(104)**	(189)	**(27)**	(35)
	$ (110)	$ (191)	**$ (22)**	$ (35)

Amounts recognized as a loss in Accumulated Other Comprehensive Income:

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Actuarial net loss	**$ 77**	$ 216	**$ 13**	$ 31
Prior service cost	**3**	—	**—**	—
	$ 80	$ 216	**$ 13**	$ 31

The accumulated benefit obligation for the U.S. and International pension plans was $900 million and $916 million at December 29, 2007 and December 30, 2006, respectively.

INFORMATION FOR PENSION PLANS WITH AN ACCUMULATED BENEFIT OBLIGATION IN EXCESS OF PLAN ASSETS:

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Projected benefit obligation	**$ 73**	$ 864	**$ 80**	$ 79
Accumulated benefit obligation	**64**	786	**74**	75
Fair value of plan assets	**—**	673	**53**	44

INFORMATION FOR PENSION PLANS WITH A PROJECTED BENEFIT OBLIGATION IN EXCESS OF PLAN ASSETS:

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Projected benefit obligation	**$ 842**	$ 864	**$ 80**	$ 79
Accumulated benefit obligation	**770**	786	**74**	75
Fair value of plan assets	**732**	673	**53**	44

Based on current funding rules, we do not anticipate being required to make contributions to the Plan in 2008, but we may make discretionary contributions during the year based on our estimate of the Plan's expected December 27, 2008 funded status. The funding rules for our pension plans outside the U.S. vary from country to country and depend on many factors including discount rates, performance of plan assets, local laws and tax regulations. Since our plan assets currently approximate our projected benefit obligation for our KFC U.K. pension plan, we did not make a significant contribution in 2007 and we do not anticipate any significant near term funding. The projected benefit obligation of our Pizza Hut U.K. pension plan exceeds plan assets by approximately $27 million. We anticipate taking steps to reduce this deficit in the near term, which could include a decision to partially or completely fund the deficit in 2008.

We do not anticipate any plan assets being returned to the Company during 2008 for any plans.

COMPONENTS OF NET PERIODIC BENEFIT COST:

	U.S. Pension Plans			International Pension Plans[d]		
	2007	2006	2005	**2007**	2006	2005
Net periodic benefit cost						
Service cost	**$ 33**	$ 34	$ 33	**$ 9**	$ 5	$ 3
Interest cost	**50**	46	43	**8**	4	2
Amortization of prior service cost[a]	**1**	3	3	**—**	—	—
Expected return on plan assets	**(51)**	(47)	(45)	**(9)**	(4)	(2)
Amortization of net loss	**23**	30	22	**1**	1	—
Net periodic benefit cost	**$ 56**	$ 66	$ 56	**$ 9**	$ 6	$ 3
Additional loss recognized due to:						
Curtailment[b]	**$ —**	$ —	$ 1	**$ —**	$ —	$ —
Settlement[c]	**$ —**	$ —	$ 3	**$ —**	$ —	$ —

PENSION LOSSES IN ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS):

	U.S. Pension Plans	International Pension Plans
	2007	**2007**
Beginning of year	**$ 216**	**$ 31**
Net actuarial gain	**(116)**	**(17)**
Amortization of net loss	**(23)**	**(1)**
Prior service cost	**4**	**—**
Amortization of prior service cost	**(1)**	**—**
End of year	**$ 80**	**$ 13**

(a) Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.
(b) Curtailment losses have been recognized as refranchising losses as they have resulted primarily from refranchising activities.
(c) Settlement loss results from benefit payments from a non-funded plan exceeding the sum of the service cost and interest cost for that plan during the year.
(d) Excludes pension expense for the Pizza Hut U.K. pension plan of $4 million in both 2006 and 2005 related to periods prior to our acquisition of the remaining fifty percent interest in the unconsolidated affiliate.

The estimated net loss for the U.S. and International pension plans that will be amortized from accumulated other comprehensive loss into net periodic pension cost in 2008 is $6 million and $1 million, respectively. The estimated prior service cost for the U.S. pension plans that will be amortized from accumulated other comprehensive loss into net periodic pension cost in 2008 is $1 million.

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE BENEFIT OBLIGATIONS AT THE MEASUREMENT DATES:

	U.S. Pension Plans		International Pension Plans	
	2007	2006	**2007**	2006
Discount rate	**6.50%**	5.95%	**5.60%**	5.00%
Rate of compensation increase	**3.75%**	3.75%	**4.30%**	3.77%

WEIGHTED-AVERAGE ASSUMPTIONS USED TO DETERMINE THE NET PERIODIC BENEFIT COST FOR FISCAL YEARS:

	U.S. Pension Plans			International Pension Plans		
	2007	2006	2005	**2007**	2006	2005
Discount rate	**5.95%**	5.75%	6.15%	**5.00%**	5.00%	5.50%
Long-term rate of return on plan assets	**8.00%**	8.00%	8.50%	**7.07%**	6.70%	7.00%
Rate of compensation increase	**3.75%**	3.75%	3.75%	**3.78%**	3.85%	4.00%

Our estimated long-term rate of return on plan assets represents the weighted-average of expected future returns on the asset categories included in our target investment allocation based primarily on the historical returns for each asset category, adjusted for an assessment of current market conditions.

PLAN ASSETS Our pension plan weighted-average asset allocations at the measurement dates, by asset category are set forth below:

	U.S. Pension Plans		International Pension Plans	
Asset Category	**2007**	2006	**2007**	2006
Equity securities	**71%**	70%	**80%**	80%
Debt securities	**29**	30	**20**	20
Total	**100%**	100%	**100%**	100%

Our primary objectives regarding the Plan's assets, which make up 84% of total pension plan assets at the 2007 measurement dates, are to optimize return on assets subject to acceptable risk and to maintain liquidity, meet minimum funding requirements and minimize plan expenses. To achieve these objectives, we have adopted a passive investment strategy in which the asset performance is driven primarily by the investment allocation. Our target investment allocation is 70% equity securities and 30% debt securities, consisting primarily of low cost index mutual funds that track several sub-categories of equity and debt security performance. The investment strategy is primarily driven by our Plan's participants' ages and reflects a long-term investment horizon favoring a higher equity component in the investment allocation.

A mutual fund held as an investment by the Plan includes YUM stock in the amount of $0.4 million at September 30, 2007 and 2006 (less than 1% of total plan assets in each instance).

BENEFIT PAYMENTS The benefits expected to be paid in each of the next five years and in the aggregate for the five years thereafter are set forth below:

Year ended:	U.S. Pension Plans	International Pension Plans
2008	$ 43	$ 2
2009	34	2
2010	36	2
2011	39	2
2012	42	2
2013–2017	263	12

Expected benefits are estimated based on the same assumptions used to measure our benefit obligation on the measurement date and include benefits attributable to estimated further employee service.

POSTRETIREMENT MEDICAL BENEFITS Our postretirement plan provides health care benefits, principally to U.S. salaried retirees and their dependents, and includes retiree cost sharing provisions. During 2001, the plan was amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in this plan. Employees hired prior to September 30, 2001 are eligible for benefits if they meet age and service requirements and qualify for retirement benefits. We fund our postretirement plan as benefits are paid.

At the end of 2007 and 2006, the accumulated postretirement benefit obligation is $73 million and $68 million, respectively. The unrecognized actuarial loss recognized in Accumulated other comprehensive loss is $9 million at the end of 2007 and $4 million at the end of 2006. The net periodic benefit cost recorded in 2007, 2006 and 2005 was $5 million, $6 million and $8 million, respectively, the majority of which is interest cost on the accumulated postretirement benefit obligation. The weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the postretirement medical plan are identical to those as shown for the U.S. pension plans. Our assumed heath care cost trend rates for the following year as of 2007 and 2006 are 8.0% and 9.0%, respectively, both with an expected ultimate trend rate of 5.5% reached in 2012.

There is a cap on our medical liability for certain retirees. The cap for Medicare eligible retirees was reached in 2000 and the cap for non-Medicare eligible retirees is expected to be reached in 2011; once the cap is reached, our annual cost per retiree will not increase. A one-percentage-point increase or decrease in assumed health care cost trend rates would have less than a $1 million impact on total service and interest cost and on the post retirement benefit obligation. The benefits expected to be paid in each of the next five years are approximately $6 million and in aggregate for the five years thereafter are $33 million.

17. Stock Options and Stock Appreciation Rights

At year end 2007, we had four stock award plans in effect: the YUM! Brands, Inc. Long-Term Incentive Plan ("1999 LTIP"), the 1997 Long-Term Incentive Plan ("1997 LTIP"), the YUM! Brands, Inc. Restaurant General Manager Stock Option Plan ("RGM Plan") and the YUM! Brands, Inc. SharePower Plan ("SharePower"). Under all our plans, the exercise price of stock options and stock appreciation rights ("SARs") granted must be equal to or greater than the average market price or the ending market price of the Company's stock on the date of grant.

We may grant awards of up to 59.6 million shares and 90.0 million shares of stock under the 1999 LTIP, as amended, and 1997 LTIP, respectively. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, SARs, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include restricted stock and performance restricted stock units. Prior to January 1, 2002, we also could grant stock options, incentive stock options and SARs under the 1997 LTIP. Through December 29, 2007, we have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options and SARs under the 1999 LTIP. While awards under the 1999 LTIP can have varying vesting provisions and exercise periods, previously granted awards under the 1997 LTIP and 1999 LTIP vest in periods ranging from immediate to 10 years and expire ten to fifteen years after grant.

We may grant awards to purchase up to 30.0 million shares of stock under the RGM Plan. Potential awards to employees under the RGM Plan include stock options and SARs. RGM Plan awards granted have a four year cliff vesting period and expire ten years after grant. Certain RGM Plan awards are granted upon attainment of performance conditions in the previous year. Expense for such awards is recognized over a period that includes the performance condition period.

We may grant awards to purchase up to 28.0 million shares of stock under SharePower. Potential awards to employees under SharePower include stock options, SARs, restricted stock and restricted stock units. SharePower awards granted subsequent to the Spin-off Date consist only of stock options and SARs to date, which vest over a period ranging from one to four years and expire no longer than ten years after grant. Previously granted SharePower awards have expirations through 2017.

We estimated the fair value of each award made during 2007, 2006 and 2005 as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2007	2006	2005
Risk-free interest rate	**4.7%**	4.5%	3.8%
Expected term (years)	**6.0**	6.0	6.0
Expected volatility	**28.8%**	31.0%	36.6%
Expected dividend yield	**2.0%**	1.0%	0.9%

We believe it is appropriate to group our awards into two homogeneous groups when estimating expected term. These groups consist of grants made primarily to restaurant-level employees under the RGM Plan, which cliff vest after four years and expire ten years after grant, and grants made to executives under our other stock award plans, which typically have a graded vesting schedule of 25% per year over four years and expire ten years after grant. We use a single-weighted average expected term for our awards that have a graded vesting schedule as permitted by SFAS 123R. Based on analysis of our historical exercise and post-vesting termination behavior we have determined that six years is an appropriate term for both awards to our restaurant-level employees and awards to our executives.

When determining expected volatility, we consider both historical volatility of our stock as well as implied volatility associated with our traded options.

A summary of award activity as of December 29, 2007, and changes during the year then ended is presented below.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	**54,603**	**$ 14.93**		
Granted	**7,302**	**29.77**		
Exercised	**(10,564)**	**11.16**		
Forfeited or expired	**(2,204)**	**23.35**		
Outstanding at the end of the year	**49,137**	**$ 17.57**	**5.67**	**$ 1,030**
Exercisable at the end of the year	**30,516**	**$ 12.80**	**4.23**	**$ 786**

The weighted-average grant-date fair value of awards granted during 2007, 2006 and 2005 was $8.85, $8.52 and $8.89, respectively. The total intrinsic value of stock options and SARs exercised during the years ended December 29, 2007, December 30, 2006 and December 31, 2005, was $238 million, $215 million and $271 million, respectively.

As of December 29, 2007, there was $103 million of unrecognized compensation cost, which will be reduced by any forfeitures that occur, related to unvested awards that is expected to be recognized over a weighted-average period of 2.7 years. The total fair value at grant date of awards vested during 2007, 2006 and 2005 was $58 million, $57 million and $57 million, respectively.

The total compensation expense for stock options and SARs recognized was $56 million, $60 million and $58 million in 2007, 2006 and 2005, respectively. The related tax benefit recognized from this expense was $19 million, $21 million and $20 million in 2007, 2006 and 2005, respectively.

Cash received from stock options exercises for 2007, 2006 and 2005, was $112 million, $142 million and $148 million, respectively. Tax benefits realized on our tax returns from tax deductions associated with stock options and SARs exercised for 2007, 2006 and 2005 totaled $76 million, $68 million and $94 million, respectively.

The Company has a policy of repurchasing shares on the open market to satisfy award exercises and expects to repurchase approximately 10 million shares during 2008 based on estimates of stock option and SARs exercises for that period.

18. Other Compensation and Benefit Programs

EXECUTIVE INCOME DEFERRAL PROGRAM (THE "EID PLAN") The EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. These investment options are limited to cash, phantom shares of our Common Stock, phantom shares of a Stock Index Fund and phantom shares of a Bond Index Fund. Additionally, the EID Plan allows participants to defer incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the "Discount Stock Account"). Deferrals to the Discount Stock Account are similar to a restricted stock unit award in that participants will generally forfeit both the discount and incentive compensation amounts deferred to the Discount Stock Account if they voluntarily separate from employment during a vesting period that is two years. We expense the intrinsic value of the discount and, beginning in 2006, the incentive compensation over the requisite service period which includes the vesting period. Investments in cash, the Stock Index fund and the Bond Index fund will be distributed in cash at a date as elected by the employee and therefore are classified as a liability on our Consolidated Balance Sheets. We recognize compensation expense for the appreciation or depreciation of these investments. As investments in the phantom shares of our Common Stock can only be settled in shares of our Common Stock, we do not recognize compensation expense for the appreciation or the depreciation, if any, of these investments. Deferrals into the phantom shares of our Common Stock are credited to the Common Stock Account.

As of December 29, 2007, total deferrals to phantom shares of our Common Stock within the EID Plan totaled approximately 6.1 million shares. We recognized compensation expense of $9 million, $8 million and $4 million, including discount amortization of $5 million, $5 million and $4 million, in 2007, 2006 and 2005, respectively, for the EID Plan. These expense amounts do not include the salary or bonus actually deferred into Common Stock of $15 million, $17 million and $13 million in 2007, 2006 and 2005, respectively.

CONTRIBUTORY 401(K) PLAN We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for eligible U.S. salaried and hourly employees. Participants are able to elect to contribute up to 25% of eligible compensation on a pre-tax basis. Participants may allocate their contributions to one or any combination of 10 investment options within the 401(k) Plan. We match 100% of the participant's contribution to the 401(k) Plan up to 3% of eligible compensation and 50% of the participant's contribution on the next 2% of eligible compensation. We recognized as compensation expense our total matching contribution of $13 million in 2007 and $12 million in 2006 and 2005.

19. Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during 2007, 2006 and 2005. All amounts exclude applicable transaction fees.

	Shares Repurchased (thousands)			Dollar Value of Shares Repurchased		
Authorization Date	**2007**	2006	2005	**2007**	2006	2005
October 2007	**11,431**	—	—	**$ 437**	$ —	$ —
March 2007	**15,092**	—	—	**500**	—	—
September 2006	**15,274**	1,056	—	**469**	31	—
March 2006	**—**	20,145	—	**—**	500	—
November 2005	**—**	19,128	1,289	**—**	469	31
May 2005	**—**	—	20,279	**—**	—	500
January 2005	**—**	—	19,926	**—**	—	500
May 2004	**—**	—	1,068	**—**	—	25
Total	**41,797**	40,329	42,562	**$1,406**(a)	$1,000(b)	$1,056

(a) Amounts excludes the effects of $17 million in share repurchases (0.6 million shares) with trade dates prior to the 2006 fiscal year end but cash settlement dates subsequent to the 2006 fiscal year end and includes the effect of $13 million in share repurchases (0.4 million shares) with trade dates prior to the 2007 fiscal year end but cash settlement dates subsequent to the 2007 fiscal year.

(b) Amount includes effects of $17 million in share repurchases (0.6 million shares) with trade dates prior to the 2006 fiscal year end but cash settlement dates subsequent to the 2006 fiscal year end.

As of December 29, 2007, we have $813 million available for future repurchases (includes the impact of shares repurchased but not yet cash settled above) under our October 2007 share repurchase authorization. Additionally, in January 2008 our Board of Directors authorized additional share repurchases, through January 2009, of up to an additional $1.25 billion (excluding applicable transaction fees) of our outstanding Common Stock. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company.

ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity. Amounts included in other accumulated comprehensive loss for the Company's derivative instruments and unrecognized actuarial losses are recorded net of the related income tax effects. Refer to Note 16 for additional information about our pension accounting and Note 15 for additional information about our derivative instruments. The following table gives further detail regarding the composition of other accumulated comprehensive income (loss) at December 29, 2007 and December 30, 2006.

	2007	2006
Foreign currency translation adjustment	**$ 94**	$ —
Pension and post retirement losses, net of tax	**(64)**	(160)
Net unrealized losses on derivative instruments, net of tax	**(10)**	4
Total accumulated other comprehensive income (loss)	**$ 20**	$ (156)

20. Income Taxes

The details of our income tax provision (benefit) are set forth below:

		2007	2006	2005
Current:	Federal	**$ 229**	$ 181	$ 241
	Foreign	**151**	131	113
	State	**(3)**	2	11
		377	314	365
Deferred:	Federal	**(125)**	(33)	(66)
	Foreign	**27**	(13)	(20)
	State	**3**	16	(15)
		(95)	(30)	(101)
		$ 282	$ 284	$ 264

Included in the federal tax provision above for 2005 is approximately $20 million current tax provided on $500 million of earnings in our foreign investments which we repatriated to the U.S. in 2005. We made the determination to repatriate such earnings as the result of The American Jobs Creation Act of 2004 which became law on October 22, 2004 (the "Act"). The Act allowed a dividend received deduction of 85% of repatriated qualified foreign earnings in fiscal year 2005. The federal and state tax provision for 2006 includes $4 million current tax benefit as a result of the reconciliation of tax on repatriated earnings as recorded in our Consolidated Statements of Income to the amounts on our tax returns.

The deferred tax provision includes $120 million and $39 million of benefit in 2007 and 2005, respectively, and $4 million of expense in 2006 for changes in valuation allowances due to changes in determinations regarding the likelihood of the use of certain deferred tax assets that existed at the beginning of the year. The deferred tax provisions also include $16 million, $72 million and $26 million in 2007, 2006 and 2005, respectively, for increases in valuation allowances recorded against deferred tax assets generated during the year. Additionally, foreign currency translation and other adjustments contributed to the fluctuations. Total changes in valuation allowances were decreases of $37 million and $36 million in 2007 and 2005, respectively, and an increase of $112 million in 2006. See additional discussion of federal valuation allowances adjustments in the effective tax rate discussion below.

The deferred foreign tax provision includes $17 million and $2 million of expense in 2007 and 2006, respectively, for the impact of changes in statutory tax rates in various countries. The $17 million of expense for 2007 includes $20 million for the Mexico tax law change enacted during the fourth quarter of 2007. The 2007 deferred state tax provision includes $4 million ($3 million, net of federal tax) of benefit for the impact of state law changes. The 2006 deferred state tax provision includes $12 million ($8 million, net of federal tax) of expense for the impact of state law changes. The 2005 deferred state tax provision includes $8 million ($5 million, net of federal tax) of expense for the impact of state law changes.

U.S. and foreign income before income taxes are set forth below:

	2007	2006	2005
U.S.	**$ 527**	$ 626	$ 690
Foreign	**664**	482	336
	$ 1,191	$ 1,108	$ 1,026

The above U.S. income includes all income taxed in the U.S. even if the income is earned outside the U.S.

The reconciliation of income taxes calculated at the U.S. federal tax statutory rate to our effective tax rate is set forth below:

	2007	2006	2005
U.S. federal statutory rate	**35.0%**	35.0%	35.0%
State income tax, net of federal tax benefit	**1.0**	2.0	1.6
Foreign and U.S. tax effects attributable to foreign operations	**(5.7)**	(7.8)	(8.4)
Adjustments to reserves and prior years	**2.6**	(3.5)	(1.1)
Repatriation of foreign earnings	**—**	(0.4)	2.0
Non-recurring foreign tax credit adjustments	**—**	(6.2)	(1.7)
Valuation allowance additions (reversals)	**(9.0)**	6.8	(1.1)
Other, net	**(0.2)**	(0.3)	(0.5)
Effective income tax rate	**23.7%**	25.6%	25.8%

Our 2007 effective income tax rate was positively impacted by valuation allowance reversals. In December 2007, the Company finalized various tax planning strategies based on completing a review of our international operations, distributed a $275 million intercompany dividend and sold our interest in our Japan unconsolidated affiliate. As a result, in the fourth quarter of 2007, we reversed approximately $82 million of valuation allowances associated with foreign tax credit carryovers that we now believe are more likely than not to be claimed on future tax returns. In 2007, benefits associated with our foreign and U.S. tax effects attributable to foreign operations were negatively impacted by $36 million of expense associated with the $275 million intercompany dividend and approximately $20 million of expense for adjustments to our deferred tax balances as a result of the Mexico tax law change enacted during the fourth quarter of 2007. These negative impacts were partially offset by a higher percentage of our income being earned outside the U.S. Additionally, the effective tax rate was negatively impacted by the year-over-year change in adjustments to reserves and prior years.

Our 2006 effective income tax rate was positively impacted by the reversal of tax reserves in connection with our regular U.S. audit cycle as well as certain out-of-year adjustments to reserves and accruals that lowered our effective income tax rate by 2.2 percentage points. The reversal of tax reserves was partially offset by valuation allowance additions on foreign tax credits of approximately $36 million for which, as a result of the tax reserve reversals, we believed were not likely to be utilized before they expired. We also recognized deferred tax assets for the foreign tax credit impact of non-recurring decisions to repatriate certain foreign earnings in 2007. However, we provided full valuation allowances on such assets as we did not believe it was more likely than not that they would be realized at that time. The 2005 tax rate was favorably impacted by the reversal of valuation allowances and the recognition of certain non-recurring foreign tax credits that we were able to substantiate during 2005.

Adjustments to reserves and prior years include the effects of the reconciliation of income tax amounts recorded in our Consolidated Statements of Income to amounts reflected on our tax returns, including any adjustments to the Consolidated Balance Sheets. Adjustments to reserves and prior years also includes changes in tax reserves, including interest thereon, established for potential exposure we may incur if a taxing authority takes a position on a matter contrary to our position. We evaluate these reserves, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements, that we believe may impact our exposure.

The details of 2007 and 2006 deferred tax assets (liabilities) are set forth below:

	2007	2006
Net operating loss and tax credit carryforwards	**$ 363**	$ 337
Employee benefits, including share-based compensation	**209**	189
Self-insured casualty claims	**73**	85
Lease related liabilities	**115**	95
Various liabilities	**124**	92
Deferred income and other	**36**	66
Gross deferred tax assets	**920**	864
Deferred tax asset valuation allowances	**(308)**	(345)
Net deferred tax assets	**$ 612**	$ 519
Intangible assets and property, plant and equipment	**$ (156)**	$ (149)
Lease related assets	**(41)**	(23)
Other	**(58)**	(55)
Gross deferred tax liabilities	**(255)**	(227)
Net deferred tax assets (liabilities)	**$ 357**	$ 292
Reported in Consolidated Balance Sheets as:		
Deferred income taxes — current	**$ 125**	$ 57
Deferred income taxes — long-term	**290**	320
Accounts payable and other current liabilities	**(8)**	(8)
Other liabilities and deferred credits	**(50)**	(77)
	$ 357	$ 292

We have not provided deferred tax on certain undistributed earnings from our foreign subsidiaries as we believe they are indefinitely reinvested. This amount may become taxable upon an actual or deemed repatriation of assets from the subsidiaries or a sale or liquidation of the subsidiaries. We estimate that our total net undistributed earnings upon which we have not provided deferred tax total approximately $810 million at December 29, 2007. A determination of the deferred tax liability on such earnings is not practicable. Foreign operating and capital loss carryforwards totaling $705 million and state operating loss carryforwards totaling $1.1 billion at year end 2007 are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income. These losses will expire as follows: $27 million in 2008, $113 million between 2009 and 2012, $1.1 billion between 2013 and 2027 and $601 million may be carried forward indefinitely. In addition, tax credits totaling $99 million are available to reduce certain federal and state liabilities, of which $26 million will expire between 2009 and 2012, $66 million will expire between 2013 and 2027 and $7 million may be carried forward indefinitely.

Effective December 31, 2006, we adopted FIN 48 which requires that a position taken or expected to be taken in a tax return be recognized in the financial statements when it is more likely than not (i.e. a likelihood of more than fifty percent) that the position would be sustained upon examination by tax authorities. A recognized tax position is then measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement. Upon adoption, we recognized an additional $13 million for unrecognized tax benefits, which we accounted for as a reduction to our opening balance of retained earnings.

The Company had $376 million of unrecognized tax benefits at December 29, 2007, $194 million of which, if recognized, would affect the effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

	2007
Balance upon adoption at December 31, 2006	**$ 318**
Additions on tax positions related to the current year	**105**
Additions for tax positions of prior years	**17**
Reductions for tax positions of prior years	**(49)**
Reductions for settlements	**(6)**
Reductions due to statute expiration	**(11)**
Foreign currency translation adjustment	**2**
Balance at December 29, 2007	**$ 376**

The balance of unrecognized tax benefits previously disclosed upon adoption as of December 31, 2006 increased from $283 million to $318 million as a result of additional uncertain temporary tax positions identified in 2007. These unrecognized tax benefits were properly recorded on our Consolidated Balance Sheet at December 31, 2006, but were not identified as uncertain tax positions for disclosure purposes. As these items were temporary in nature, there was no change to the disclosed amount of $185 million of unrecognized tax benefits which, if recognized, would affect the effective income tax rate.

The major jurisdictions in which the Company files income tax returns include the U.S. federal jurisdiction, China, the United Kingdom, Mexico and Australia. As of December 29, 2007, the earliest years that the Company was subject to examination in these jurisdictions were 1999 in the U.S., 2004 in China, 2000 in the United Kingdom, 2001 in Mexico and 2003 in Australia. In addition, the Company is subject to various U.S. state income tax examinations, for which, in the aggregate, we had significant unrecognized tax benefits at December 29, 2007. The Company believes that it is reasonably possible that its unrecognized tax benefits may decrease by approximately $110 million in the next 12 months. Of this amount, approximately $95 million relates to items temporary in nature which will have no impact on the 2008 effective tax rate. The remaining $15 million decrease in unrecognized tax benefits relate to various positions, each of which are individually insignificant, which if recognized upon audit settlement or statute expiration, will affect the effective income tax rate by approximately $12 million.

At December 29, 2007, long-term liabilities of $319 million, including $51 million for the payment of accrued interest and penalties, are included in Other liabilities and deferred credits as reported on the Consolidated Balance Sheet. Total accrued interest and penalties recorded at December 29, 2007 were $58 million. During 2007, accrued interest decreased by $16 million, of which $11 million affected the 2007 effective tax rate. The Company recognizes accrued interest and penalties related to unrecognized tax benefits as components of its income tax provision.

See Note 22 for further discussion of certain proposed Internal Revenue Service adjustments.

21.

Reportable Operating Segments

We are principally engaged in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut, Taco Bell, LJS and A&W concepts. KFC, Pizza Hut, Taco Bell, LJS and A&W operate throughout the U.S. and in 104, 96, 14, 6 and 10 countries and territories outside the U.S., respectively. Our five largest international markets based on operating profit in 2007 are China, United Kingdom, Asia Franchise, Australia and Mexico. At the end of fiscal year 2007, we had investments in 6 unconsolidated affiliates outside the U.S. which operate principally KFC and/or Pizza Hut restaurants. These unconsolidated affiliates operate in China and Japan. Subsequent to the fiscal year ended 2007 the Company sold its interest in its unconsolidated affiliate in Japan (See Note 5 for further discussion).

We identify our operating segments based on management responsibility. The China Division includes mainland China, Thailand, KFC Taiwan, and the International Division includes the remainder of our international operations. For purposes of applying SFAS No. 131, "Disclosure About Segments of An Enterprise and Related Information" ("SFAS 131") in the U.S., we consider LJS and A&W to be a single operating segment. We consider our KFC, Pizza Hut, Taco Bell and LJS/A&W operating segments in the U.S. to be similar and therefore have aggregated them into a single reportable operating segment.

	Revenues		
	2007	2006	2005
United States	**$ 5,197**	$ 5,603	$ 5,929
International Division[(a)]	**3,075**	2,320	2,124
China Division[(a)]	**2,144**	1,638	1,296
	$ 10,416	$ 9,561	$ 9,349

	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2007	2006	2005
United States	**$ 739**	$ 763	$ 760
International Division[(b)]	**480**	407	372
China Division[(b)]	**375**	290	211
Unallocated and corporate expenses	**(257)**	(229)	(246)
Unallocated other income (expense)[(c)]	**9**	7	13
Unallocated refranchising gain (loss)[(d)]	**11**	24	43
Total operating profit	**1,357**	1,262	1,153
Interest expense, net	**(166)**	(154)	(127)
Income before income taxes	**$ 1,191**	$ 1,108	$ 1,026

	Depreciation and Amortization		
	2007	2006	2005
United States	**$ 247**	$ 259	$ 266
International Division	**161**	115	107
China Division	**117**	95	82
Corporate	**17**	10	14
	$ 542	$ 479	$ 469

	Capital Spending		
	2007	2006	2005
United States	**$ 304**	$ 329	$ 333
International Division	**189**	118	96
China Division	**246**	165	159
Corporate	**3**	2	21
	$ 742	$ 614	$ 609

	Identifiable Assets		
	2007	2006	2005
United States	**$ 2,884**	$ 2,909	$ 3,118
International Division[(e)]	**2,254**	2,100	1,536
China Division[(e)]	**1,116**	869	746
Corporate[(f)]	**988**	490	397
	$ 7,242	$ 6,368	$ 5,797

	Long-Lived Assets[(g)]		
	2007	2006	2005
United States	**$ 2,595**	$ 2,604	$ 2,800
International Division[(h)]	**1,429**	1,357	804
China Division[(h)]	**757**	595	517
Corporate	**73**	84	103
	$ 4,854	$ 4,640	$ 4,224

(a) Includes revenues of $1.3 billion, $673 million and $483 million for entities in the United Kingdom for 2007, 2006 and 2005, respectively. Includes revenues of $1.9 billion, $1.4 billion and $1.0 billion in mainland China for 2007, 2006 and 2005, respectively.

(b) Includes equity income of unconsolidated affiliates of $4 million, $10 million and $21 million in 2007, 2006 and 2005, respectively, for the International Division. Includes equity income of unconsolidated affiliates of $47 million, $41 million, and $30 million in 2007, 2006 and 2005, respectively, for the China Division.

(c) Includes net gains of approximately $6 million, $2 million and $11 million in 2007, 2006 and 2005, respectively, associated with the sale of our Poland/Czech Republic business. See Note 9.

(d) Refranchising gain (loss) is not allocated to the U.S., International Division or China Division segments for performance reporting purposes.

(e) Includes investment in unconsolidated affiliates of $63 million, $64 million and $117 million for 2007, 2006 and 2005, respectively, for the International Division. Includes investment in unconsolidated affiliates of $90 million, $74 million and $56 million for 2007, 2006 and 2005, respectively, for the China Division.

(f) Primarily includes deferred tax assets, property, plant and equipment, net, related to our office facilities and cash.

(g) Includes property, plant and equipment, net, goodwill, and intangible assets, net.

(h) Includes long-lived assets of $843 million, $813 million and $271 million for entities in the United Kingdom for 2007, 2006 and 2005, respectively. Includes long-lived assets of $651 million, $495 million and $430 million in mainland China for 2007, 2006 and 2005, respectively.

See Note 5 for additional operating segment disclosures related to impairment, store closure (income) costs and the carrying amount of assets held for sale.

22. Guarantees, Commitments and Contingencies

LEASE GUARANTEES AND CONTINGENCIES As a result of (a) assigning our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributing certain Company restaurants to unconsolidated affiliates; and (c) guaranteeing certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2026. As of December 29, 2007, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was approximately $400 million. The present value of these potential payments discounted at our pre-tax cost of debt at December 29, 2007 was approximately $325 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 agreement in the event of non-payment under the lease. 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 at December 29, 2007 and December 30, 2006 was not material.

FRANCHISE LOAN POOL GUARANTEES We have provided a partial guarantee of approximately $12 million of a franchisee loan pool related primarily to the Company's historical refranchising programs and, to a lesser extent, franchisee development of new restaurants, at December 29, 2007. In support of this guarantee, we have provided a standby letter of credit of $18 million under which we could potentially be required to fund a portion of the franchisee loan pool. The total loans outstanding under the loan pool were approximately $62 million at December 29, 2007.

The loan pool is funded by the issuance of commercial paper by a conduit established for that purpose. A disruption in the commercial paper markets may result in the Company and the participating financial institutions having to fund commercial paper issuances that have matured. Any funding under the guarantee or letter of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to net refranchising (gain) loss. New loans added to the loan pool in 2007 were not significant.

All outstanding loans in another franchisee loan pool we previously partially guaranteed were paid in full during 2007. No further loans will be made from this loan pool.

UNCONSOLIDATED AFFILIATES GUARANTEES From time to time we have guaranteed certain lines of credit and loans of unconsolidated affiliates. At December 29, 2007 there are no guarantees outstanding for unconsolidated affiliates. Our unconsolidated affiliates had total revenues of $1.4 billion for the year ended December 29, 2007 and assets and debt of approximately $665 million and $22 million, respectively, at December 29, 2007.

INSURANCE PROGRAMS We are self-insured for a substantial portion of our current and prior years' coverage including workers' compensation, employment practices liability, general liability, automobile liability and property losses (collectively, "property and casualty losses"). To mitigate the cost of our exposures for certain property and casualty losses, we make annual decisions to self-insure the risks of loss up to defined maximum per occurrence retentions on a line by line basis or to combine certain lines of coverage into one loss pool with a single self-insured aggregate retention. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence or aggregate retention. The insurers' maximum aggregate loss limits are significantly above our actuarially determined probable losses; therefore, we believe the likelihood of losses exceeding the insurers' maximum aggregate loss limits is remote.

In the U.S. and in certain other countries, we are also self-insured for healthcare claims and long-term disability for eligible participating employees subject to certain deductibles and limitations. We have accounted for our retained liabilities for property and casualty losses, healthcare and long-term disability claims, including reported and incurred but not reported claims, based on information provided by independent actuaries.

Due to the inherent volatility of actuarially determined property and casualty loss estimates, it is reasonably possible that we could experience changes in estimated losses which could be material to our growth in quarterly and annual net income. We believe that we have recorded reserves for property and casualty losses at a level which has substantially mitigated the potential negative impact of adverse developments and/or volatility.

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. We provide reserves for such claims and contingencies when payment is probable and estimable in accordance with SFAS No. 5, "Accounting for Contingencies."

On November 26, 2001, a lawsuit against Long John Silver's, Inc. ("LJS") styled *Kevin Johnson, on behalf of himself and all others similarly situated v. Long John Silver's, Inc.* ("Johnson") was filed in the United States District Court for the Middle District of Tennessee, Nashville Division. Johnson's suit alleged that LJS's former "Security/Restitution for Losses" policy (the "Policy") provided for deductions from Restaurant General Managers' ("RGMs") and Assistant Restaurant General Managers' ("ARGMs") salaries that violate the salary basis test for exempt personnel under regulations issued pursuant to the U.S. Fair Labor Standards Act ("FLSA"). Johnson alleged that all RGMs and ARGMs who were employed by LJS for the three year period prior to the lawsuit — i.e., since November 26, 1998 — should be treated as the equivalent of hourly employees and thus were eligible under the FLSA for overtime for any hours worked over 40 during all weeks in the recovery period. In addition, Johnson claimed that the potential members of the class are entitled to certain liquidated damages and attorneys' fees under the FLSA.

LJS believed that Johnson's claims, as well as the claims of all other similarly situated parties, should be resolved in individual arbitrations pursuant to LJS's Dispute Resolution Program ("DRP"), and that a collective action to resolve these claims in court was clearly inappropriate under the current state of the law. Accordingly, LJS moved to compel arbitration in the Johnson case. The Court determined on June 7, 2004 that Johnson's individual claims should be referred to arbitration. Johnson appealed, and the decision of the District Court was affirmed in all respects by the United States Court of Appeals for the Sixth Circuit on July 5, 2005.

On December 19, 2003, counsel for plaintiff in the above referenced Johnson lawsuit, filed a separate demand for arbitration with the American Arbitration Association ("AAA") on behalf of former LJS managers Erin Cole and Nick Kaufman (the "Cole Arbitration"). Claimants in the Cole Arbitration demand a class arbitration on behalf of the same putative class — and the same underlying FLSA claims — as were alleged in the Johnson lawsuit. The complaint in the Cole Arbitration subsequently was amended to allege a practice of deductions (distinct from the allegations as to the Policy) in violation of the FLSA salary basis test. LJS has denied the claims and the putative class alleged in the Cole Arbitration.

Arbitrations under LJS's DRP, including the Cole Arbitration, are governed by the rules of the AAA. In October 2003, the AAA adopted its Supplementary Rules for Class Arbitrations ("AAA Class Rules"). The AAA appointed an arbitrator for the Cole Arbitration. On June 15, 2004, the arbitrator issued a clause construction award, ruling that the DRP does not preclude class arbitration. LJS moved to vacate the clause construction award in the United States District Court for the District of South Carolina. On September 15, 2005, the federal court in South Carolina ruled that it did not have jurisdiction to hear LJS's motion to vacate. LJS appealed the U.S. District Court's ruling to the United States Court of Appeals for the Fourth Circuit.

On January 5, 2007, LJS moved to dismiss the clause construction award appeal and that motion was granted by the Fourth Circuit on January 10, 2007. While judicial review of the clause construction award was pending in the U.S. District Court, the arbitrator permitted claimants to move for a class determination award, which was opposed by LJS. On September 19, 2005, the arbitrator issued a class determination award, certifying a class of LJS's RGMs and ARGMs employed between December 17, 1998, and August 22, 2004, on FLSA claims, to proceed on an opt-out basis under the AAA Class Rules. That class determination award was upheld on appeal by the United States District Court for the District of South Carolina on January 20, 2006, and the arbitrator declined to reconsider the award. LJS appealed the ruling of the United States District Court to the United States Court of Appeals for the Fourth Circuit. On January 28, 2008, the Fourth Circuit issued its ruling, affirming the decision of the District Court, and thereby affirming the class determination award of the arbitrator. LJS is currently considering the merits of an appeal to the United States Supreme Court.

In light of the decision of the Fourth Circuit, LJS now believes that it is probable the Cole Arbitration will proceed on a class basis, governed by the opt-out collective action provisions of the AAA Class Rules. LJS also believes, however, that each individual should not be able to recover for more than two years (and a maximum three years) prior to the date they file a consent to join the arbitration. We have provided for the estimated costs of the Cole Arbitration, based on our current projection of eligible claims, the amount of each eligible claim, the estimable claim recovery rates for class actions of this type, the estimated legal fees incurred by the claimants and the results of settlement negotiations in this and other wage and hour litigation matters. But in view of the novelties of proceeding under the AAA Class Rules and the inherent uncertainties of litigation, there can be no assurance that the outcome of the arbitration will not result in losses in excess of those currently provided for in our Consolidated Financial Statements.

On September 2, 2005, a collective action lawsuit against the Company and KFC Corporation, originally styled *Parler v. Yum Brands, Inc., d/b/a KFC, and KFC Corporation*, was filed in the United States District Court for the District of Minnesota. Plaintiffs allege that they and other current and former KFC Assistant Unit Managers ("AUMs") were improperly classified as exempt employees under the FLSA. Plaintiffs seek overtime wages and liquidated damages. On January 17, 2006, the District Court dismissed the claims against the Company with prejudice, leaving KFC Corporation as the sole defendant. Plaintiffs amended the complaint on September 8, 2006, to add related state law claims on behalf of a putative class of KFC AUMs employed in Illinois, Minnesota, Nevada, New Jersey, New York, Ohio, and Pennsylvania. On October 24, 2006, plaintiffs moved to decertify the conditionally certified FLSA action, and KFC Corporation did not oppose the motion. On June 4, 2007, the District Court decertified the collective action and dismissed all opt-in plaintiffs without prejudice. Subsequently, plaintiffs filed twenty-seven new cases around the country, most of which allege a statewide putative collective/class action. Plaintiffs also filed 324 individual arbitrations with the American Arbitration Association ("AAA"). KFC filed a motion with the Judicial Panel on Multidistrict Litigation ("JPML") to transfer all twenty-eight pending cases to a single district court for coordinated pretrial proceedings pursuant to the Multidistrict Litigation ("MDL") statute, 28 U.S.C. § 1407. KFC also filed a motion with the Minnesota District Court to enjoin the 324 AAA arbitrations on the ground that Plaintiffs waived the right to arbitrate by their participation in the Minnesota (Parler) litigation. Finally, KFC filed a motion in the new Minnesota action to deny certification of a collective or class action on the ground that Plaintiffs are judicially and equitably estopped from proceeding collectively on behalf of a class in light of positions they took in the Parler case. The Court denied KFC's motion without prejudice. On January 3, 2008, the JPML granted KFC's motion to transfer all of the pending court cases to the Minnesota District Court for discovery and pre-trial proceedings. On January 4, 2008, KFC's motion to enjoin the 324 arbitrations on the ground that plaintiffs have waived their right to arbitrate was granted.

We believe that KFC has properly classified its AUMs as exempt under the FLSA and applicable state law, and accordingly intend to vigorously defend against all claims in these lawsuits. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On August 4, 2006, a putative class action lawsuit against Taco Bell Corp. styled *Rajeev Chhibber vs. Taco Bell Corp.* was filed in Orange County Superior Court. On August 7, 2006, another putative class action lawsuit styled *Marina Puchalski v. Taco Bell Corp.* was filed in San Diego County Superior Court. Both lawsuits were filed by a Taco Bell RGM purporting to represent all current and former RGMs who worked at corporate-owned restaurants in California from August 2002 to the present. The lawsuits allege violations of California's wage and hour laws involving unpaid overtime and meal and rest period violations and seek unspecified amounts in damages and penalties. As of September 7, 2006, the Orange County case was voluntarily dismissed by the plaintiff and both cases have been consolidated in San Diego County. Discovery is underway, with pre-certification discovery cutoff set for June 2, 2008 and a July 1, 2008 deadline for plaintiffs to file their motion for class certification.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On September 10, 2007, a putative class action against Taco Bell Corp., the Company and other related entities styled *Sandrika Medlock v. Taco Bell Corp.*, was filed in United States District Court, Eastern District, Fresno, California. The case was filed on behalf of all hourly employees who have worked for the defendants within the last four years and alleges numerous violations of California labor laws including unpaid overtime, failure to pay wages on termination, denial of meal and rest breaks, improper wage statements, unpaid business expenses and unfair or unlawful business practices in violation of California Business & Professions Code §17200. The Company was dismissed from the case without prejudice on January 10, 2008, and discovery is underway.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On December 21, 2007, a putative class action lawsuit against KFC U.S. Properties, Inc. styled Baskall v. KFC U.S. Properties, Inc., was filed in San Diego County Superior Court on behalf of all current and former RGMs, AUMs and Shift Supervisors who worked at KFC's California restaurants since December 18, 2003. The lawsuit alleges violations of California's wage and hour and unfair competition laws, including denial of sufficient meal and rest periods, improperly itemized pay stubs, and delays in issuing final paychecks, and seeks unspecified amounts in damages, injunctive relief, and attorneys' fees and costs. KFC has not yet been served with the complaint.

KFC denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the United States District Court for the Northern District of California styled *Moeller, et al. v. Taco Bell Corp.* On August 4, 2003, plaintiffs filed an amended complaint that alleges, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its approximately 220 company-owned restaurants in California (the "California Restaurants") accessible to the class. Plaintiffs contend that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the path of travel and use of the facilities by persons with mobility-related disabilities do not comply with the U.S. Americans with Disabilities Act (the "ADA"), the Unruh Civil Rights Act (the "Unruh Act"), and the California Disabled Persons Act (the "CDPA"). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either $4,000 under the Unruh Act or $1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class.

On February 23, 2004, the District Court granted Plaintiffs' motion for class certification. The District Court certified a Rule 23(b)(2) mandatory injunctive relief class of all individuals with disabilities who use wheelchairs or electric scooters for mobility who, at any time on or after December 17, 2001, were denied, or are currently being denied, on the basis of disability, the full and equal enjoyment of the California Restaurants. The class includes claims for injunctive relief and minimum statutory damages.

Pursuant to the parties' agreement, on or about August 31, 2004, the District Court ordered that the trial of this action be bifurcated so that stage one will resolve Plaintiffs' claims for equitable relief and stage two will resolve Plaintiffs' claims for damages. The parties are currently proceeding with the equitable relief stage of this action. During this stage, Taco Bell filed a motion to partially decertify the class to exclude from the Rule 23(b)(2) class claims for monetary damages. The District Court denied the motion. Plaintiffs filed their own motion for partial summary judgment as to liability relating to a subset of the California Restaurants. The District Court denied that motion as well.

On May 17, 2007, a hearing was held on Plaintiffs' Motion for Partial Summary Judgment seeking judicial declaration that Taco Bell was in violation of accessibility laws as to three specific issues: indoor seating, queue rails and door opening force. On August 8, 2007, the court granted Plaintiffs' motion in part with regard to dining room seating. In addition, the court granted Plaintiffs' motion in part with regard to door opening force at some restaurants (but not all) and denied the motion with regard to queue lines.

At a status conference on September 27, 2007, the court set a trial date of November 10, 2008 with respect to not more than 20 restaurants to determine the issue of liability and common issues. Discovery related to the subject of the mini-trial is underway. The parties are in discussions intended to get to mediation.

Taco Bell has denied liability and intends to vigorously defend against all claims in this lawsuit. Taco Bell has taken certain steps to address potential architectural and structural compliance issues at the restaurants in accordance with applicable state and federal disability access laws. The costs associated with addressing these issues have not, and are not expected to significantly impact our results of operations. It is not possible at this time to reasonably estimate the probability or amount of liability for monetary damages on a class wide basis to Taco Bell.

According to the Centers for Disease Control ("CDC"), there was an outbreak of illness associated with a particular strain of E. coli 0157:H7 in the northeast United States during November and December 2006. Also according to the CDC, the outbreak from this particular strain was associated with eating at Taco Bell restaurants in Pennsylvania, New Jersey, New York, and Delaware. The CDC concluded that the outbreak ended on or about December 6, 2006. The CDC has stated that it received reports of 71 persons who became ill in association with the outbreak in the above-mentioned area during the above time frame, and that no deaths have been reported.

On December 6, 2006, a lawsuit styled *Tyler Vormittag, et. al. v. Taco Bell Corp, Taco Bell of America, Inc. and Yum! Brands, Inc.* was filed in the Supreme Court of the State of New York, County of Suffolk. Mr. Vormittag, a minor, alleges he became ill after consuming food purchased from a Taco Bell restaurant in Riverhead, New York, which was allegedly contaminated with E. coli 0157:H7. Subsequently, twenty-six other cases have been filed naming the Company, Taco Bell Corp., Taco Bell of America, K.F.C. Company (alleged owner/operator of the Taco Bell restaurant claimed to be at issue in one case), and/or Yum! Restaurant Services Group, Inc. and alleging similar facts on behalf of other customers.

According to the allegations common to all the Complaints, each Taco Bell customer became ill after ingesting contaminated food in late November or early December 2006 from Taco Bell

restaurants located in the northeast states implicated in the outbreak. Discovery is in the preliminary stages. However, the Company believes, based on the allegations, that the stores identified in fourteen of the Complaints are in fact not owned by the Company or any of its subsidiaries. As such, the Company believes that at a minimum it is not liable for any losses at these stores. Three of these Complaints have been dismissed without prejudice pending settlement discussions with plaintiffs' counsel. A fourth was dismissed with prejudice as against the Company on the ground that neither the Company nor any of its subsidiaries owned or operated the store at issue.

Additionally, the Company has received a number of claims from customers who have alleged injuries relating to the E.coli outbreak, but have not filed lawsuits. Several of these claims have been settled.

We have provided for the estimated costs of these claims and litigation, based on a projection of potential claims and their amounts as well as the results of settlement negotiations in similar matters. But in view of the inherent uncertainties of litigation, there can be no assurance that the outcome of the litigation will not result in losses in excess of those currently provided for in our Consolidated Financial Statements.

On March 14, 2007, a lawsuit styled *Boskovich Farms, Inc. v. Taco Bell Corp. and Does 1 through 100* was filed in the Superior Court of the State of California, Orange County. Boskovich Farms, a supplier of produce to Taco Bell, alleges in its Complaint, among other things, that it suffered damage to its reputation and business as a result of publications and/or statements it claims were made by Taco Bell in connection with Taco Bell's reporting of results of certain tests conducted during investigations on green onions used at Taco Bell restaurants. The Company believes that the Complaint should properly be heard in an alternative dispute resolution forum according to the contractual terms governing the relationship of the parties. The Company filed a motion to compel ADR and stay the litigation on May 1, 2007. The Court entered an order granting this motion on June 14, 2007. Boskovich filed a writ petition to set aside the trial court's ruling compelling ADR; the writ petition was denied in October 2007. The parties are currently in the process of selecting a mediator. The Company denies liability and intends to vigorously defend against all claims in any arbitration and the lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

PROPOSED INTERNAL REVENUE SERVICE ADJUSTMENTS In early 2007, the Internal Revenue Service (the "IRS") informed the Company of its intent to propose certain adjustments based on its position that the Company did not file Gain Recognition Agreements ("GRAs") in connection with certain transfers of foreign subsidiaries among its affiliated group. In the fourth quarter of 2007, prior to any adjustments being proposed, the Company and the IRS settled this matter for an amount that was not significant to the Company's financial results or condition.

23. Selected Quarterly Financial Data (Unaudited)

2007	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**	**Total**
Revenues:					
Company sales	**$1,942**	**$2,073**	**$2,243**	**$2,842**	**$ 9,100**
Franchise and license fees	**281**	**294**	**321**	**420**	**1,316**
Total revenues	**2,223**	**2,367**	**2,564**	**3,262**	**10,416**
Restaurant profit[(a)]	**288**	**310**	**353**	**376**	**1,327**
Operating profit	**316**	**310**	**401**	**330**	**1,357**
Net income	**194**	**214**	**270**	**231**	**909**
Diluted earnings per common share	**0.35**	**0.39**	**0.50**	**0.44**	**1.68**
Dividends declared per common share	**—**	**0.15**	**—**	**0.30**	**0.45**

2006	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$1,819	$1,912	$1,989	$2,645	$ 8,365
Franchise and license fees	266	270	289	371	1,196
Total revenues	2,085	2,182	2,278	3,016	9,561
Restaurant profit[(a)]	284	301	321	365	1,271
Operating profit	282	307	344	329	1,262
Net income	170	192	230	232	824
Diluted earnings per common share	0.30	0.34	0.41	0.41	1.46
Dividends declared per common share	0.0575	0.075	—	0.30	0.4325

(a) Restaurant profit is defined as Company sales less expenses incurred directly by Company restaurants in generating Company sales. These expenses are presented as subtotals on our Consolidated Statements of Income.

Selected Financial Data

YUM! Brands, Inc. and Subsidiaries

(in millions, except per share and unit amounts)

	Fiscal Year				
	2007	2006	2005	2004	2003
Summary of Operations					
Revenues					
Company sales	**$ 9,100**	$ 8,365	$ 8,225	$ 7,992	$ 7,441
Franchise and license fees	**1,316**	1,196	1,124	1,019	939
Total	**10,416**	9,561	9,349	9,011	8,380
Closures and impairment expenses[(a)]	**(35)**	(59)	(62)	(38)	(40)
Refranchising gain (loss)[(a)]	**11**	24	43	12	4
Operating profit[(b)]	**1,357**	1,262	1,153	1,155	1,059
Interest expense, net	**166**	154	127	129	173
Income before income taxes and cumulative effect of accounting change	**1,191**	1,108	1,026	1,026	886
Income before cumulative effect of accounting change	**909**	824	762	740	618
Cumulative effect of accounting change, net of tax[(c)]	**—**	—	—	—	(1)
Net income	**909**	824	762	740	617
Basic earnings per common share	**1.74**	1.51	1.33	1.27	1.05
Diluted earnings per common share	**1.68**	1.46	1.28	1.21	1.01
Cash Flow Data					
Provided by operating activities	**$ 1,567**	$ 1,299	$ 1,233	$ 1,186	$ 1,099
Capital spending, excluding acquisitions	**742**	614	609	645	663
Proceeds from refranchising of restaurants	**117**	257	145	140	92
Repurchase shares of Common Stock	**1,410**	983	1,056	569	278
Dividends paid on common shares	**273**	144	123	58	—
Balance Sheet					
Total assets	**$ 7,242**	$ 6,368	$ 5,797	$ 5,696	$ 5,620
Long-term debt	**2,924**	2,045	1,649	1,731	2,056
Total debt	**3,212**	2,272	1,860	1,742	2,066
Other Data					
Number of stores at year end					
Company	**7,625**	7,736	7,587	7,743	7,854
Unconsolidated Affiliates	**1,314**	1,206	1,648	1,662	1,512
Franchisees	**24,297**	23,516	22,666	21,858	21,471
Licensees	**2,109**	2,137	2,376	2,345	2,362
System	**35,345**	34,595	34,277	33,608	33,199
U.S. Company same store sales growth[(d)]	**(3)%**	—	4%	3%	—
International Division system sales growth[(e)]					
Reported	**15%**	7%	9%	14%	13%
Local currency[(f)]	**10%**	7%	6%	6%	5%
China Division system sales growth[(e)]					
Reported	**31%**	26%	13%	23%	23%
Local currency[(f)]	**24%**	23%	11%	23%	23%
Shares outstanding at year end[(g)]	**499**	530	556	581	583
Cash dividends declared per common share[(g)]	**$ 0.45**	$ 0.4325	$ 0.2225	$ 0.15	$ —
Market price per share at year end[(g)]	**$ 38.54**	$ 29.40	$ 23.44	$ 23.14	$ 16.82

Fiscal years 2007, 2006, 2004 and 2003 include 52 weeks and fiscal year 2005 includes 53 weeks.

Fiscal years 2007, 2006 and 2005 include the impact of the adoption of Statement of Financial Accounting Standards ("SFAS") No. 123R (Revised 2004), "Share Based Payment," ("SFAS 123R"). This resulted in a $37 million, $39 million and $38 million decrease in net income, for 2007, 2006 and 2005, respectively. This translates to a decrease of $0.07 to both basic and diluted earnings per share for 2007 and 2006, and a decrease of $0.07 and $0.06 to basic and diluted earnings per share, respectively, for 2005. If SFAS 123R had been effective for prior years presented, both reported basic and diluted earnings per share would have decreased $0.06 for 2004 and 2003 consistent with previously disclosed pro-forma information.

The selected financial data should be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

(a) See Note 5 to the Consolidated Financial Statements for a description of Closures and Impairment Expenses and Refranchising Gain (Loss) in 2007, 2006 and 2005.

(b) Fiscal years 2007, 2006, 2005, 2004 and 2003 included $11 million income, $1 million income, $4 million income, $30 million income and $16 million expense, respectively, related to Wrench litigation and AmeriServe. The Wrench litigation relates to a lawsuit against Taco Bell Corporation, which was settled in 2004, including financial recoveries from settlements with insurance carriers. Amounts related to AmeriServe are the result of cash recoveries related to the AmeriServe bankruptcy reorganization process for which we incurred significant expense in years prior to those presented here (primarily 2000). AmeriServe was formerly our primary distributor of food and paper supplies to our U.S. stores.

(c) Fiscal year 2003 includes the impact of the adoption of SFAS No. 143, "Accounting for Asset Retirement Obligations," which addresses the financial accounting and reporting for legal obligations associated with the retirement of long-lived assets and the associated asset retirement costs.

(d) U.S. Company same-store sales growth only includes the results of Company owned KFC, Pizza Hut and Taco Bell restaurants that have been open one year or more. U.S. same store sales for Long John Silver's and A&W restaurants are not included given the relative insignificance of the Company stores for these brands and the limited impact they currently have and will have in the future, on our U.S. same store sales, as well as our overall U.S. performance.

(e) International Division and China Division system sales growth includes the results of all restaurants regardless of ownership, including Company owned, franchise, unconsolidated affiliate and license restaurants. Sales of franchise, unconsolidated affiliate and license restaurants generate 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 we present on the Consolidated Statements of Income; however, the 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 our revenue drivers, Company and franchise same store sales as well as net unit development. Additionally, we began reporting information for our international business in two separate operating segments (the International Division and the China Division) in 2005 as a result of changes in our management structure. Segment information for periods prior to 2005 has been restated to reflect this reporting.

(f) Local currency represents the percentage change excluding the impact of foreign currency translation. 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.

(g) Adjusted for the two for one stock split on June 26, 2007. See Note 3 to the Consolidated Financial Statements.

Board of Directors

David C. Novak 55
Chairman, Chief Executive Officer and President,
Yum! Brands, Inc.

Samuel Su 55
Vice Chairman, Yum! Brands, Inc.
President, Yum! Restaurants China

David W. Dorman 54
Senior Advisor and Managing Director, Warburg Pincus, LLC

Massimo Ferragamo 50
Chairman, Ferragamo USA, Inc.,
a subsidiary of Salvatore Ferragamo Italia

J. David Grissom 69
Chairman, Mayfair Capital, Inc. and
Chairman, The Glenview Trust Company

Bonnie G. Hill 66
President, B. Hill Enterprises, LLC

Robert Holland, Jr. 67
Consultant

Kenneth Langone 72
Founder, Chairman,
Chief Executive Officer and President,
Invemed Associates, LLC

Jonathan S. Linen 64
Advisor to Chairman, American Express Company

Thomas C. Nelson 45
Chairman, Chief Executive Officer and President,
National Gypsum Company

Thomas M. Ryan 55
Chairman, Chief Executive Officer and President of
CVS Caremark Corporation and CVS Pharmacy, Inc.

Jackie Trujillo 72
Chairman Emeritus,
Harman Management Corporation

Senior Officers

David C. Novak 55
Chairman, Chief Executive Officer and President,
Yum! Brands, Inc.

Graham D. Allan 52
President, Yum! Restaurants International

Scott O. Bergren 61
President and Chief Concept Officer, Pizza Hut

Jonathan D. Blum 49
Senior Vice President, Public Affairs, Yum! Brands, Inc.

Emil J. Brolick 60
President of U.S. Brand Building

Harvey Brownlee, Jr. 47
Chief Operating Officer, KFC, U.S.A.

Ben Butler 46
President, Long John Silver's/A&W

Anne P. Byerlein 49
Chief People Officer, Yum! Brands, Inc.

Christian L. Campbell 57
Senior Vice President, General Counsel, Secretary and
Chief Franchise Policy Officer, Yum! Brands, Inc.

Richard T. Carucci 50
Chief Financial Officer, Yum! Brands, Inc.

Greg Creed 50
President and Chief Concept Officer, Taco Bell

Gregg R. Dedrick 48
President and Chief Concept Officer, KFC

Roger Eaton 47
Chief Operating and Development Officer Designate,
Yum! Brands, Inc.

Peter R. Hearl 56
Chief Operating and Development Officer, Yum! Brands, Inc.

Timothy P. Jerzyk 55
Senior Vice President, Investor Relations
and Treasurer, Yum! Brands, Inc.

Ted F. Knopf 56
Senior Vice President, Finance and Corporate Controller,
Yum! Brands, Inc.

Patrick C. Murtha 50
Chief Operating Officer, Pizza Hut, U.S.A.

Rob Savage 47
Chief Operating Officer, Taco Bell, U.S.A.

Samuel Su 55
Vice Chairman, Yum! Brands, Inc.
President, Yum! Restaurants China

Shareholder Information

ANNUAL MEETING The Annual Meeting of Shareholders will be held at Yum! Brands' headquarters, Louisville, Kentucky, at 9:00 a.m. (EDT), Thursday, May 15, 2008. Proxies for the meeting will be solicited by an independent proxy solicitor. This Annual Report is not part of the proxy solicitation.

Inquiries Regarding Your YUM! Holdings

REGISTERED SHAREHOLDERS (those who hold YUM shares in their own names) should address communications concerning statements, address changes, lost certificates and other administrative matters to:

American Stock Transfer & Trust Company
59 Maiden Lane
Plaza Level
New York, NY 10038
Phone: (888) 439-4986
International: (718) 921-8124
www.amstock.com
or
Shareholder Coordinator
Yum! Brands, Inc.
1441 Gardiner Lane, Louisville, KY 40213
Phone: (888) 298-6986
E-mail: yum.investor@yum.com

In all correspondence or phone inquires, please provide your name, your Social Security Number, and your YUM account number if you know it.

REGISTERED SHAREHOLDERS can access their accounts and complete the following functions online at the Web site of American Stock Transfer & Trust ("AST"): www.amstock.com.

- Access account balance and other general account information
- Change an account's mailing address
- View a detailed list of holdings represented by certificates and the identifying certificate numbers
- Request a certificate for shares held by AST
- Replace a lost or stolen certificate
- Retrieve a duplicate Form 1099-B
- Purchase shares of YUM through the Company's Direct Stock Purchase Plan
- Sell shares held by AST

Access accounts online at the following URL: *https://secure.amstock.com/Shareholder/sh_login.asp.* Your account number and Social Security Number are required. If you do not know your account number, please call AST at (888) 439-4986 or YUM Shareholder Coordinator at (888) 298-6986.

BENEFICIAL SHAREHOLDERS (those who hold YUM shares in the name of a bank or broker) should direct communications about all administrative matters related to their accounts to their stockbroker.

YUMBUCKS AND SHAREPOWER PARTICIPANTS (employees with YUMBUCKS options or SharePower options) should address all questions regarding your account, outstanding options or shares received through option exercises to:

Merrill Lynch/SharePower
Stock Option Plan Services
P.O. Box 30446
New Brunswick, NJ 08989-0446
Phone: (800) 637-2432 (U.S.A., Puerto Rico and Canada)
(732) 560-9444 (all other locations)

In all correspondence, please provide your account number (for U.S. citizens, this is your Social Security Number), your address, your telephone number and mention either YUMBUCKS or SharePower. For telephone inquiries, please have a copy of your most recent statement available.

EMPLOYEE BENEFIT PLAN PARTICIPANTS

Capital Stock Purchase Program . . . . (888) 439-4986
YUM Savings Center . . . . (888) 875-4015
YUM Savings Center . . . . . . (617) 847-1013 (outside U.S.)
P.O. Box 5166
Boston, MA 02206-5166

Please have a copy of your most recent statement available when calling. Press 0#0# for a customer service representative and give the representative the name of the plan.

Shareholder Services

DIRECT STOCK PURCHASE PLAN A prospectus and a brochure explaining this convenient plan are available from our transfer agent:

American Stock Transfer & Trust Company
P.O. Box 922
Wall Street Station
New York, NY 10269-0560
Attn: DRIP Dept.
Phone: (888) 439-4986

LOW-COST INVESTMENT PLAN Investors may purchase their initial shares of stock through NAIC's Low-Cost Investment Plan. For details contact:

National Association of Investors Corporation (NAIC)
711 West Thirteen Mile Road
Madison Heights, MI 48071
Phone: (877) ASK-NAIC (275-6242)
www.better-investing.org

FINANCIAL AND OTHER INFORMATION Visit the Investors Page of the company's Web site, www.yum.com/investors, for stock and dividend information and other YUM information of interest to investors. Earnings and other financial results, corporate news and company information are also available online.

Copies of Yum! Brands' SEC Forms 8-K, 10-K and 10-Q and quarterly earnings releases are available free of charge. Contact Yum! Brands' Shareholder Relations at (888) 298-6986 or e-mail yum.investor@yum.com

Securities analysts, portfolio managers, representatives of financial institutions and other individuals with questions regarding Yum! Brands' performance are invited to contact:

Tim Jerzyk
Senior Vice President, Investor Relations/Treasurer
Yum! Brands, Inc.
1441 Gardiner Lane
Louisville, KY 40213
Phone: (502) 874-8006

INDEPENDENT AUDITORS
KPMG LLP
400 West Market Street, Suite 2600
Louisville, KY 40202
Phone: (502) 587-0535

Capital Stock Information

The following table sets forth the high and low stock prices, as well as cash dividends declared on common stock, for each quarter in the two-year period ended December 29, 2007:

	2007			2006		
Quarter	**Dividends Declared Per Share**	**High**	**Low**	Dividends Declared Per Share	High	Low
First	**$ —**	**$ 31.03**	**$ 27.69**	$ 0.0575	$ 25.59	$ 23.38
Second	**0.15**	**34.37**	**28.85**	0.075	26.84	23.83
Third	**—**	**34.80**	**29.62**	—	25.96	22.47
Fourth	**0.30**	**40.27**	**31.45**	0.30	31.74	25.59

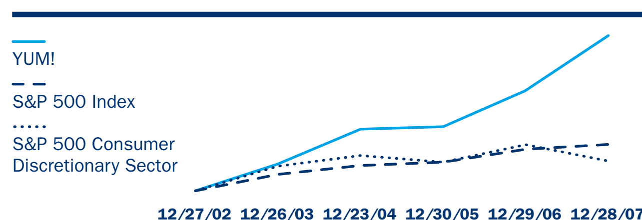
STOCK TRADING SYMBOL — YUM
The New York Stock Exchange is the principal market for YUM Common Stock.

SHAREHOLDERS At year-end 2007, Yum! Brands had approximately 85,000 registered shareholder accounts of record of YUM Common Stock.

DIVIDEND POLICY Yum! Brands initiated payment of quarterly dividends to our shareholders in 2004. Future dividend payments have been targeted to equal a payout ratio of 35% to 40% of net income.

Stock Performance Graph

This graph compares the cumulative total return of our Common Stock to the cumulative total return of the S&P 500 Stock Index and the S&P 500 Consumer Discretionary Sector, a peer group that includes YUM, for the period from December 27, 2002 to December 28, 2007, the last trading day of our 2007 fiscal year. The graph assumes that the value of the investment in our Common Stock and each index was $100 at December 27, 2002 and that all dividends were reinvested.



YUM	**$ 100**	**$ 140**	**$ 193**	**$ 197**	**$ 250**	**$ 333**
S&P 500	$ 100	$ 125	$ 138	$ 143	$ 162	$ 169
S&P Consumer Discretionary	$ 100	$ 137	$ 153	$ 144	$ 169	$ 145

Franchise Inquiries

DOMESTIC FRANCHISING INQUIRY PHONE LINE
(866) 2YUMYUM (298-6986)

INTERNATIONAL FRANCHISING INQUIRY PHONE LINE
(972) 338-8100 ext. 4480

ONLINE FRANCHISE INFORMATION
http://www.yum.com/franchising/default.asp

Yum! Brands' Annual Report contains many of the valuable trademarks owned and used by Yum! Brands and subsidiaries and affiliates in the United States and worldwide.

The papers, paper mills and printer utilized in the production of this Annual Report are all certified to Forest Stewardship Council (FSC) standards, which promote environmentally appropriate, socially beneficial and economically viable management of the world's forests.

Design: Sequel Studio, New York **Photography:** Paul Elledge Photography

how we win together

Yum!

(hwwt)²

believe in all people

We trust in positive intentions and believe everyone has the potential to make a difference. We actively seek diversity in others to expand our thinking and make the best decision. We coach and support every individual to grow to their full capability.

we are customer maniacs

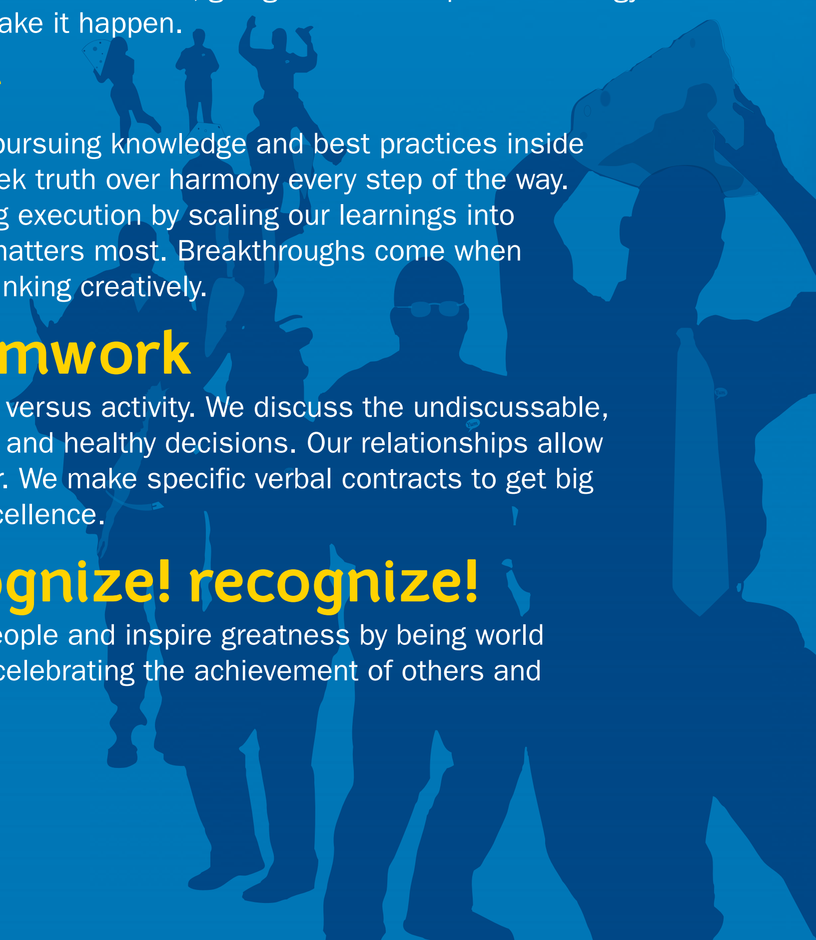
Customers rule. Every customer sees it, feels it and knows it in every restaurant. We make sure we have great RGMs who build great teams. 100% CHAMPS with a Yes Attitude is the expectation.

go for breakthrough

We begin by asking ourselves, "What can I do NOW to get breakthrough results in my piece of Yum?!" Our intentionality drives step change thinking. We imagine how big something can be and work future-back, going full out with positive energy and personal accountability to make it happen.

build know how

We grow by being avid learners, pursuing knowledge and best practices inside and outside our company. We seek truth over harmony every step of the way. We consistently drive outstanding execution by scaling our learnings into process and tools around what matters most. Breakthroughs come when we get people with knowledge thinking creatively.



take the hill teamwork

We team together to drive action versus activity. We discuss the undiscussable, always promoting healthy debate and healthy decisions. Our relationships allow us to ask the earth of each other. We make specific verbal contracts to get big things done with urgency and excellence.

recognize! recognize! recognize!

We attract and retain the best people and inspire greatness by being world famous for recognition. We love celebrating the achievement of others and have lots of fun doing it!

Alone We're Delicious. Together We're Yum!