Section 86.1 Information for Canadian Shareholders of Yum! Brands, Inc. and Additional Information for Québec Income Tax Filers

On October 31, 2016 (the “Distribution Date”), Yum! Brands, Inc. (“YUM!”) completed a reorganization in which it spun-off its subsidiary Yum China Holdings, Inc. (“Yum China”). If you received Yum China common shares in this reorganization, this summary contains important Canadian tax information that may be relevant to you.¹

Where a Canadian shareholder of share(s) of a foreign company (“distributing company”) receives a distribution of shares (“spin-off shares”) as a result of the distributing company’s eligible corporate reorganization (“spin-off”), section 86.1 of the federal Canadian Income Tax Act may permit such a spin-off share distribution to pass to the shareholder on a rollover (i.e., tax-deferred) basis, provided the shareholder complies with certain filing requirements specified in section 86.1.

This memo provides a basic overview of the filing requirements pursuant to section 86.1 as they may apply to the October 31, 2016 YUM! spin-off of Yum China, which has been approved by the Canada Revenue Agency as eligible for relief under section 86.1 for Canadian tax purposes. Additional information for Québec income tax filers is provided in a separate section below.

Please note that this memo provides only a basic overview of the filing requirements and offers no accounting or tax guidance, as a tax advisor should be consulted for those purposes. If there is ever a conflict between this information (or any communication or statement made to you) and any official plan or award documents, the official plan or award documents shall govern.

A Summary of the Spin-Off Events

YUM!’s Distribution Date transactions affecting Canadian shareholders involved:

- The distribution of Yum China common shares to holders of YUM! common shares, on a pro-rata basis.

- Generally, each YUM! common shareholder received one (1) Yum China common share for every one (1) YUM! common share owned as of the close of business on October 19, 2016.

- The distribution agent did not distribute any fractional shares in connection with the spin-off, rather fractional shares were aggregated into whole shares which were sold in the open market at prevailing market prices. A YUM! shareholder who would have otherwise received a fractional share was entitled to the aggregate cash proceeds of the sale (net of brokerage fees and other costs) on a pro-rata basis, if the proceeds exceeded $20.00 with respect to the shareholder.

¹ Certain taxpayers are not affected by the filing requirements pursuant to Section 86.1 (i.e. non-residents of Canada, shareholders that held YUM! shares in an RRSP, RRIF, TFSA or other Canadian tax-exempt plan).
Basic Overview - Section 86.1 Election Requirements

In order for the spin-off shares on an eligible distribution to pass to the shareholder on a rollover basis, paragraph 86.1(2)(f) of the Income Tax Act requires the shareholder to provide the following documentation and information to the Canada Revenue Agency (“CRA”):

1. A letter addressed to the CRA stating that the taxpayer wishes section 86.1 of the Income Tax Act to apply to the distribution (the taxpayer must use a letter as there is currently no prescribed form for this specific election);

2. The letter must be filed with the taxpayer’s income tax return within the prescribed filing time for the tax year in which the distribution took place (late filings may be accepted, but penalties may apply);

3. The letter must state the following information about the shares of the distributing company (“original shares”) the taxpayer owned immediately before the distribution of the spin-off shares to the shareholder:
   i. The number of the original shares owned;
   ii. The aggregate adjusted cost basis of all the original shares to the taxpayer (i.e. the price the shareholder paid on acquisition of all the taxpayer’s YUM! common shares);
   iii. The aggregate fair market value of the original shares (see section “Determining the Fair Market Value of the Shares” below);

4. The letter must state the following information about the spin-off and original shares the taxpayer owned immediately after the distribution:
   i. The number of the original shares owned;
   ii. The aggregate fair market value of the original shares (see section “Determining the Fair Market Value of the Shares” below);
   iii. The number of the spin-off shares received;
   iv. The aggregate fair market value of the spin-off shares (see section “Determining the Fair Market Value of the Shares” below).

For greater certainty, the original and spin-off shares are the YUM! common shares, and Yum China common shares, respectively.

Determining the Cost of the Shares

The cost of the original shares is determined by the allocation of the tax basis between a YUM common share and a Yum China common share based on their relative fair market value immediately after the distribution of the Yum China common shares. The fair market value determination is not prescribed or defined under the Income Tax Act. One possible approach is to use the New York Stock Exchange market closing price on November 1, 2016 for YUM! common stock (USD $60.69 per share), and the New York Stock Exchange closing price on November 1, 2016 for Yum China common stock (USD $26.19 per share) as an indication of the fair market value. Based on that
approach and the assumptions in Table 1, 69.85% of a YUM! shareholder’s aggregate tax basis in his or her shares of YUM! immediately prior to the distribution would be allocated to such shareholder’s shares of YUM! common stock, and 30.15% would be allocated to such shareholder’s shares of Yum China common stock received in the distribution. Other approaches to determine fair market value may be possible and you are not bound by this approach and should consult with your tax advisor about using another approach.

**TABLE 1**

**Tax basis allocation**

<table>
<thead>
<tr>
<th># of Shares Owned</th>
<th>Assumed Beginning Basis (A)</th>
<th>Price</th>
<th>FMV of Shares Owned Post Distribution</th>
<th>Percentage of Total FMV (B)</th>
<th>Allocated Tax Basis = (A) x (B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>YUM! common stock</td>
<td>1,000</td>
<td>$50,000.00</td>
<td>$60.69(^1)</td>
<td>69.85%(^4)</td>
<td>$34,925</td>
</tr>
<tr>
<td>Yum China common stock</td>
<td>1,000</td>
<td>$26.19(^2)</td>
<td>$26,190(^4)</td>
<td>30.15%(^6)</td>
<td>$15,075</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>$86,880</strong></td>
<td><strong>100%</strong></td>
<td><strong>$50,000</strong></td>
</tr>
</tbody>
</table>

\(^1\) Closing market price of YUM! common stock on November 1, 2016
\(^2\) Closing market price of Yum China common stock on November 1, 2016
\(^3\) 1,000 shares x $60.69
\(^4\) 1,000 shares x $26.19
\(^5\) 60,690/86,880
\(^6\) 26,190/86,880

**Additional Information for Québec Income Tax Filers**

Québec income tax filers who wish to take advantage of the section 86.1 rollover for the YUM! distribution for both, the federal and Québec tax purposes, should enclose, in their Québec income tax returns, a copy of the section 86.1 election letter addressed to the CRA and also a separate letter addressed to Revenu Québec explaining that the enclosed copy of the letter to the CRA is in compliance with subsection 578.1(f) of the Québec Taxation Act and sets out the information required by subsection 578.3(2) of the Québec Taxation Act. Québec filers should additionally enclose a copy of the CRA letter which confirms the eligibility of the October 31, 2016 spin-off of Yum China from YUM!.