

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 for the fiscal year ended December 26, 2015

OR

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

For the transition period from _____ to _____

Commission file number 1-13163

YUM! BRANDS, INC.

(Exact name of registrant as specified in its charter)

North Carolina

(State or other jurisdiction of
incorporation or organization)

13-3951308

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

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

40213
(Zip Code)

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

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

<u>Title of Each Class</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock, no par value	New York Stock Exchange

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

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

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

The aggregate market value of the voting stock (which consists solely of shares of Common Stock) held by non-affiliates of the registrant as of June 13, 2015 computed by reference to the closing price of the registrant's Common Stock on the New York Stock Exchange Composite Tape on such date was approximately \$39,200,000,000. All executive officers and directors of the registrant have been deemed, solely for the purpose of the foregoing calculation, to be "affiliates" of the registrant. The number of shares outstanding of the registrant's Common Stock as of February 9, 2016 was 408,711,522 shares.

Documents Incorporated by Reference

Portions of the definitive proxy statement furnished to shareholders of the registrant in connection with the annual meeting of shareholders to be held on May 20, 2016 are incorporated by reference into Part III.

Forward-Looking Statements

In this Form 10-K, as well as in other written reports and oral statements, we present “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with those safe harbor provisions.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as “may,” “will,” “estimate,” “intend,” “seek,” “expect,” “project,” “anticipate,” “believe,” “plan,” “could,” “target,” “predict,” “likely,” “should,” “forecast,” “outlook,” “model,” “ongoing” or other similar terminology. Forward-looking statements are based on our current expectations, estimates, assumptions or projections concerning future results or events, including, without limitation, statements regarding the intended capital return to shareholders as well as the related borrowing required to fund such capital return, the planned separation of the Yum! Brands and Yum! China businesses, the timing of any such separation, the future earnings and performance as well as capital structure of Yum! Brands, Inc. or any of its businesses, including the Yum! Brands and Yum! China businesses on a standalone basis if the separation is completed. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results to differ materially from those indicated by those statements. We cannot assure you that any of our expectations, estimates or projections will be achieved. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of this Form 10-K and (ii) the factors described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of this Form 10-K. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. The forward-looking statements included in this announcement are only made as of the date of this announcement and we disclaim any obligation to publicly update any forward-looking statement to reflect subsequent events or circumstances.

PART I

Item 1. Business.

YUM! Brands, Inc. (referred to herein as “YUM”, the “Registrant” or the “Company”), was incorporated under the laws of the state of North Carolina in 1997. The principal executive offices of YUM are located at 1441 Gardiner Lane, Louisville, Kentucky 40213, and the telephone number at that location is (502) 874-8300. Our website address is <http://yum.com>.

YUM, together with its subsidiaries, is referred to in this Form 10-K annual report (“Form 10-K”) as the Company. The terms “we,” “us” and “our” are also used in the Form 10-K to refer to the Company. Throughout this Form 10-K, the terms “restaurants,” “stores” and “units” are used interchangeably. While YUM! Brands, Inc., referred to as the Company, does not directly own or operate any restaurants, throughout this document we may refer to restaurants that are owned or operated by our subsidiaries as being Company-owned.

Financial Information about Operating Segments and General Development of the Business

As of December 26, 2015, YUM consists of five operating segments:

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

Effective January, 2016 the India Division was segmented by brand, integrated into the global KFC, Pizza Hut and Taco Bell Divisions, and is no longer a separate operating segment. While our consolidated results will not be impacted, we will restate our historical segment information during 2016 for consistent presentation.

Operating segment information for the years ended December 26, 2015, December 27, 2014 and December 28, 2013 for the Company is included in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) and in the related Consolidated Financial Statements in Part II, Item 8.

In October, 2015 we announced our intent to separate YUM's China business from YUM into an independent, publicly-traded company by the end of 2016. See our MD&A in this Form 10-K for further information.

Narrative Description of Business

General

YUM has over 42,000 restaurants in more than 130 countries and territories. Primarily through the three concepts of KFC, Pizza Hut and Taco Bell (the “Concepts”), the Company develops, operates, franchises and licenses a worldwide system of restaurants which prepare, package and sell a menu of competitively priced food items. Units are operated by a Concept or by independent franchisees or licensees under the terms of franchise or license agreements. Franchisees can range in size from individuals owning just one restaurant to large publicly-traded companies.

The China Division, based in Shanghai, China, comprises 7,176 units, primarily Company-owned KFCs and Pizza Huts. In 2015, the China Division recorded revenues of approximately \$6.9 billion and Operating Profit of \$757 million. The Company owns a controlling interest in Little Sheep Group Limited (“Little Sheep”), a casual dining concept headquartered in Inner Mongolia, China. We also own non-controlling interests in Chinese entities who operate in a manner similar to KFC franchisees and a meat processing entity that supplies lamb to the Little Sheep business. The KFC Division comprises 14,577 units, operating in 120 countries and territories outside China and India and recorded revenues of approximately \$2.9 billion and Operating Profit of \$677 million in 2015. The Pizza Hut Division comprises 13,728 units, operating in 90 countries and territories outside China and India and recorded revenues of approximately \$1.1 billion and Operating Profit of \$289 million in 2015. The Taco Bell Division comprises 6,400 units, operating in 20 countries and territories outside of India and recorded revenues of approximately \$2.0 billion and Operating Profit of \$539 million in 2015. The India Division, based in Delhi, India comprises 811 units, operating in 4 countries and recorded revenues of \$115 million and an Operating Loss of \$19 million in 2015.

Restaurant Concepts

Most restaurants in each Concept offer consumers the ability to dine in and/or carry out food. In addition, Taco Bell and KFC offer a drive-thru option in many stores. Pizza Hut offers a drive-thru option on a much more limited basis. Pizza Hut typically offers delivery service, as does KFC on a more limited basis primarily in China.

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 convenient food at competitive prices.

The franchise programs of the Company are designed to promote consistency and quality, and the Company is selective in granting franchises. Under standard franchise agreements, franchisees supply capital – initially by paying a franchise fee to YUM, by purchasing or leasing the land, building, equipment, signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business. Franchisees contribute to the Company's revenues on an ongoing basis through the payment of royalties based on a percentage of sales.

The Company believes that it is important to maintain strong and open relationships with its franchisees and their representatives. To this end, the Company invests a significant amount of time working with the franchisee community and their representative organizations on key aspects of the business, including products, equipment, operational improvements and standards and management techniques.

Following is a brief description of each Concept:

KFC

- KFC was founded in Corbin, Kentucky by Colonel Harland D. Sanders, an early developer of the quick service food business and a pioneer of the restaurant franchise concept. The Colonel perfected his secret blend of 11 herbs and spices for Kentucky Fried Chicken in 1939 and signed up his first franchisee in 1952.
- KFC operates in 125 countries and territories throughout the world. As of year end 2015, KFC had 5,003 units in China, 372 units in India and 14,577 units within the KFC Division. 76 percent of the China units, 30 percent of the India units and 10 percent of the units outside China and India are Company-owned.
- KFC restaurants across the world offer fried and non-fried chicken products such as sandwiches, chicken strips, chicken-on-the-bone and other chicken products marketed under a variety of names. KFC restaurants also offer a variety of entrees and side items suited to local preferences and tastes. Restaurant decor throughout the world is characterized by the image of the Colonel.

Pizza Hut

- The first Pizza Hut restaurant was opened in 1958 in Wichita, Kansas, and within a year, the first franchise unit was opened. Today, Pizza Hut is the largest restaurant chain in the world specializing in the sale of ready-to-eat pizza products.
- Pizza Hut operates in 95 countries and territories throughout the world. As of year end 2015, Pizza Hut had 1,903 units in China, 432 units in India and 13,728 units within the Pizza Hut Division. Nearly all of the China units, none of the India units and 6 percent of the units outside China and India are Company-owned.
- Pizza Hut operates in the delivery, carryout and casual dining segments around the world. Outside of the U.S., Pizza Hut often uses unique branding to differentiate these segments. Additionally, a growing percentage of Pizza Hut's customer orders are being generated digitally.
- Pizza Hut features a variety of pizzas which are marketed under varying names. Each of these pizzas is offered with a variety of different toppings suited to local preferences and tastes. Many Pizza Huts also offer pasta and chicken wings, including approximately 5,900 stores offering wings under the brand WingStreet in the U.S. Outside the U.S., Pizza Hut casual dining restaurants offer a variety of core menu products other than pizza, which are typically suited to local preferences and tastes. Pizza Hut units feature a distinctive red roof logo on their signage.

Taco Bell

- The first Taco Bell restaurant was opened in 1962 by Glen Bell in Downey, California, and in 1964, the first Taco Bell franchise was sold.
- Taco Bell operates in 21 countries and territories throughout the world. As of year end 2015, there were 6,400 Taco Bell units within the Taco Bell Division, primarily in the U.S., and 7 units in India. 14 percent of the units within the Taco Bell Division and 86 percent of the India units are Company-owned.
- Taco Bell specializes in Mexican-style food products, including various types of tacos, burritos, quesadillas, salads, nachos and other related items. Taco Bell offers breakfast items in its U.S. stores. Taco Bell units feature a distinctive bell logo on their signage.

Restaurant Operations

Through its Concepts, YUM develops, operates, franchises and licenses a worldwide system of both traditional and non-traditional Quick Service Restaurants ("QSR"). Traditional units feature dine-in, carryout and, in some instances, drive-thru or delivery services. Non-traditional units, which are typically licensed outlets, include express units and kiosks which have a more limited menu, usually generate lower sales volumes and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

Restaurant management structure varies by Concept and unit size. Generally, each Concept-owned restaurant is led by a restaurant general manager ("RGM"), together with one or more assistant managers, depending on the operating complexity and sales volume of the restaurant. Each Concept issues detailed manuals, which may then be customized to meet local regulations and customs. These manuals set forth standards and requirements for all aspects of restaurant operations, including food safety and quality, food handling and product preparation procedures, equipment maintenance, facility standards and accounting control procedures. The restaurant management teams are responsible for the day-to-day operation of each unit and for ensuring compliance with operating standards. CHAMPS – which stands for Cleanliness, Hospitality, Accuracy, Maintenance, Product Quality and Speed of Service – is our proprietary systemwide program for training, measuring and rewarding employee performance against key customer measures. CHAMPS is intended to align the operating processes of our entire system around one core set of standards. RGMs' efforts, including CHAMPS performance measures, are monitored by Area Coaches. Area Coaches typically work with approximately six to twelve restaurants. Various senior operators visit restaurants from time to time to promote adherence to system standards and mentor restaurant team members.

Supply and Distribution

The Company's Concepts, including Concept units operated by its franchisees, are substantial purchasers of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken, cheese, beef and pork products, paper and packaging materials. The Company has not experienced any significant continuous shortages of supplies, and alternative sources for most of these products are generally available. Prices paid for these supplies fluctuate. When prices increase, the Concepts may attempt to pass on such increases to their customers, although there is no assurance that this can be done practically.

China Division In China, we partner with approximately 450 independent food and paper suppliers, mostly China-based, providing a wide range of products. The Company, along with multiple independently owned and operated distributors, utilizes approximately 20 logistic centers to distribute restaurant products to our Company and franchise stores. We also own a seasoning facility and a non-controlling interest in a meat processing facility in Inner Mongolia, both of which supply products to our Little Sheep business, as well as third-party customers.

Other Divisions In the U.S., the Company, along with the representatives of the Company's KFC, Pizza Hut and Taco Bell franchisee groups, are members of Restaurant Supply Chain Solutions, LLC ("RSCS"), which is responsible for purchasing certain restaurant products and equipment. The core mission of RSCS is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the Company-owned and franchisee restaurants which the Company believes leverages the system's scale to drive cost savings and effectiveness in the purchasing function. The Company also believes that RSCS fosters closer alignment of interests and a stronger relationship with its franchisee community.

Most food products, paper and packaging supplies, and equipment used in restaurant operations are distributed to individual restaurant units by third-party distribution companies. In the U.S., McLane Company, Inc. ("McLane") is the exclusive distributor for the majority of items used in Company-owned restaurants and for a substantial number of franchisee and licensee stores. The Company entered into an agreement with McLane effective January 1, 2011 relating to distribution to Company-owned restaurants. This agreement extends through December 31, 2016 and generally restricts Company-owned restaurants from using alternative distributors for most products.

Outside the U.S., we and our franchisees use decentralized sourcing and distribution systems involving many different global, regional and local suppliers and distributors. We have approximately 5,700 food and paper suppliers, including U.S.-based suppliers that export to many countries.

Trademarks and Patents

The Company and its Concepts own numerous registered trademarks and service marks. The Company believes that many of these marks, including its Kentucky Fried Chicken®, KFC®, Pizza Hut® and Taco Bell® marks, have significant value and are materially important to its business. The Company's policy is to pursue registration of its important marks whenever feasible and to oppose vigorously any infringement of its marks.

The use of these marks by franchisees and licensees has been authorized in our franchise and license agreements. Under current law and with proper use, the Company's rights in its marks can generally last indefinitely. The Company also has certain patents on restaurant equipment which, while valuable, are not material to its business.

Working Capital

Information about the Company's working capital is included in MD&A in Part II, Item 7 and the Consolidated Statements of Cash Flows in Part II, Item 8.

Seasonal Operations

The Company does not consider its operations to be seasonal to any material degree.

Competition

The retail food industry, in which our Concepts compete, is made up of supermarkets, supercenters, warehouse stores, convenience stores, coffee shops, snack bars, delicatessens and restaurants (including the QSR segment), and is intensely competitive with respect to food quality, price, service, convenience, location and concept. The industry is often affected by changes in consumer tastes; national, regional or local economic conditions; currency fluctuations; demographic trends; traffic patterns; the type, number and location of competing food retailers and products; and disposable purchasing power. Each of the Concepts competes with international, national and regional restaurant chains as well as locally-owned restaurants, not only for customers, but also for management and hourly personnel, suitable real estate sites and qualified franchisees. Given the various types and vast number of competitors, our Concepts do not constitute a significant portion of the retail food industry in terms of number of system units or system sales, either on a worldwide or individual country basis.

Research and Development ("R&D")

The Company operates R&D facilities in Shanghai, China (China Division); Plano, Texas (KFC and Pizza Hut Divisions); Irvine, California (Taco Bell Division); Louisville, Kentucky (KFC U.S.) and several other locations outside the U.S. In addition to Company R&D, we regularly also engage independent suppliers to conduct research and development activities for the benefit of the YUM system. The Company expensed \$29 million, \$30 million and \$31 million in 2015, 2014 and 2013, respectively, for R&D activities.

Environmental Matters

The Company is not aware of any federal, state or local environmental laws or regulations that will materially affect its earnings or competitive position, or result in material capital expenditures. However, the Company cannot predict the effect on its operations of possible future environmental legislation or regulations. During 2015, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

Government Regulation

U.S. Operations. The Company and its U.S. operations are subject to various federal, state and local laws affecting its business, including laws and regulations concerning information security, labor and employment, health, marketing, food labeling, sanitation and safety. Each of the Concepts' restaurants in the U.S. must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety, fire and zoning agencies in the state and/or municipality in which the restaurant is located. In addition, each Concept must comply with various state and federal laws that regulate the franchisor/franchisee relationship. To date, the Company has not been materially adversely affected by such licensing and regulation or by any difficulty, delay or failure to obtain required licenses or approvals.

International Operations. The Company's restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting U.S. restaurants. The restaurants outside the U.S. are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment, as well as anti-bribery and corruption laws.

See Item 1A "Risk Factors" for a discussion of risks relating to federal, state, local and international regulation of our business.

Employees

As of year end 2015, the Company and its subsidiaries employed approximately 505,000 persons. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. The majority of employees are paid on an hourly basis. Some employees are subject to labor council relationships that vary due to the diverse cultures in which the Company operates. The Company and its Concepts consider their employee relations to be good.

Financial Information about Geographic Areas

Financial information about our significant geographic areas is incorporated herein by reference from the related Consolidated Financial Statements in Part II, Item 8.

Available Information

The Company makes available through the Investor Relations section of its internet website at <http://yum.com> its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act, as soon as reasonably practicable after electronically filing such material with the Securities and Exchange Commission ("SEC") at <http://www.sec.gov>. These reports may also be obtained by visiting the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549 or by calling the SEC at 1 (800) SEC-0330.

Our Corporate Governance Principles and our Code of Conduct are also located within the Investor Relations section of the Company's website. The reference to the Company's website address does not constitute incorporation by reference of the information contained on the website and should not be considered part of this document. These documents, as well as our SEC filings, are available in print free of charge to any shareholder who requests a copy from our Investor Relations Department.

Item 1A. Risk Factors.

Risks Related to Our Business and Industry

You should carefully review the risks described below as they identify important factors that could cause our actual results to differ materially from our forward-looking statements and historical trends.

Food safety and food-borne illness concerns may have an adverse effect on our business.

Food-borne illnesses, such as E. coli, hepatitis A, trichinosis and salmonella, occur or may occur within our system from time to time. In addition, food safety issues such as food tampering, contamination and adulteration occur or may occur within our system from time to time. Any report or publicity linking us or one of our Concept restaurants, including restaurants operated by our Concepts' franchisees, to instances of food-borne illness or food safety issues could adversely affect our Concepts' brands and reputations as well as our revenues and profits, and possibly lead to product liability claims, litigation and damages. If a customer of our Concepts becomes ill from food-borne illnesses or as a result of food safety issues, restaurants in our system may be temporarily closed, which would decrease our revenues. In addition, instances or allegations of food-borne illness or food safety

issues, real or perceived, involving our restaurants, restaurants of competitors, or suppliers or distributors (regardless of whether we use or have used those suppliers or distributors), or otherwise involving the types of food served at our restaurants, could result in negative publicity that could adversely affect our sales. The occurrence of food-borne illnesses or food safety issues could also adversely affect the price and availability of affected ingredients, which could result in disruptions in our supply chain and/or lower margins for us and our Concepts' franchisees.

Our significant China operations subject us to risks that could negatively affect our business.

A significant and growing portion of our restaurants are located, and our revenues and profits originate, in China. As a consequence, our overall financial results are heavily dependent on our results in China, and our business is significantly exposed to risks there. These risks include changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), consumer preferences, taxation (including income and non-income based tax rates and laws) and the regulatory environment, as well as increased media scrutiny of our business and industry and increased competition. In addition, our results of operations in China and the value of our Chinese assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. An increase in the value of the U.S. Dollar relative to the Chinese Renminbi could have an adverse effect on our reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

In addition, any significant or prolonged deterioration in U.S.-China relations could adversely affect our China business. Certain risks and uncertainties of doing business in China are solely within the control of the Chinese government, and Chinese law regulates the scope of our foreign investments and business conducted within China. There are also uncertainties regarding the interpretation and application of laws and regulations and the enforceability of intellectual property and contract rights in China. If we were unable to enforce our intellectual property or contract rights in China, our business would be adversely impacted.

Although we have announced our intention to separate our China business through a spin-off to existing shareholders, following the spin-off the new China entity will be our largest franchisee or licensee, and we will therefore continue to be exposed to many of the foregoing risks even after the completion of the proposed spin-off.

Health concerns arising from outbreaks of viruses or other diseases may have an adverse effect on our business.

Outbreaks of avian flu occur from time to time around the world, and these outbreaks could reach pandemic levels. Public concern over avian flu generally may cause fear about the consumption of chicken, eggs and other products derived from poultry, which could cause customers to consume less poultry and related products. This would likely result in lower revenues and profits. Avian flu outbreaks could also adversely affect the price and availability of poultry, which could negatively impact our profit margins and revenues. Widespread outbreaks could also affect our ability to attract and retain employees.

Furthermore, other viruses such as H1N1 or "swine flu" may be transmitted through human contact, and the risk of contracting viruses could cause employees or guests to avoid gathering in public places, which could adversely affect restaurant guest traffic or the ability to adequately staff restaurants. We could also be adversely affected if jurisdictions in which we have restaurants impose mandatory closures, seek voluntary closures or impose restrictions on operations of restaurants. Even if such measures are not implemented and a virus or other disease does not spread significantly, the perceived risk of infection or health risk may affect our business.

Our international operations subject us to risks that could negatively affect our business.

A significant portion of our Concepts' restaurants are operated in countries and territories outside of the U.S., and we intend to continue expansion of our international operations. As a result, our business is increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by country, include political instability, corruption, social and ethnic unrest, changes in economic conditions (including consumer spending, unemployment levels and wage and commodity inflation), the regulatory environment, income and non-income based tax rates and laws, foreign exchange control regimes and consumer preferences as well as changes in the laws and policies that govern foreign investment in countries where our restaurants are operated.

In addition, our results of operations and the value of our foreign assets are affected by fluctuations in currency exchange rates, which may adversely affect reported earnings. More specifically, an increase in the value of the U.S. Dollar relative to other currencies, such as the Australian Dollar, the British Pound, the Canadian Dollar and the Euro, as well as currencies in certain emerging markets, such as the Russian Ruble, could have an adverse effect on our reported earnings. There can be no assurance as to the future effect of any such changes on our results of operations, financial condition or cash flows.

Failure to protect the integrity and security of personal information of our customers and employees could result in substantial costs, expose us to litigation and damage our reputation.

We receive and maintain certain personal financial and other information about our customers and employees. The use and handling of this information is regulated by evolving and increasingly demanding laws and regulations, as well as by certain third-party contracts. If our security and information systems are compromised as a result of data corruption or loss, cyber-attack or a network security incident or our employees, franchisees or vendors fail to comply with these laws and regulations and this information is obtained by unauthorized persons or used inappropriately, it could result in liabilities and penalties and could damage our reputation, cause us to incur substantial costs and result in a loss of customer confidence, which could adversely affect our results of operations and financial condition. Additionally, we could be subject to litigation and government enforcement actions as a result of any such failure.

Shortages or interruptions in the availability and delivery of food and other supplies may increase costs or reduce revenues.

The products sold by our Concepts and their franchisees are sourced from a wide variety of domestic and international suppliers. We are also dependent upon third parties to make frequent deliveries of food products and supplies that meet our specifications at competitive prices. Shortages or interruptions in the supply of food items and other supplies to our restaurants could adversely affect the availability, quality and cost of items we use and the operations of our restaurants. Such shortages or disruptions could be caused by inclement weather, natural disasters such as floods, drought and hurricanes, increased demand, problems in production or distribution, restrictions on imports or exports, the inability of our vendors to obtain credit, political instability in the countries in which suppliers and distributors are located, the financial instability of suppliers and distributors, suppliers' or distributors' failure to meet our standards, product quality issues, inflation, other factors relating to the suppliers and distributors and the countries in which they are located, food safety warnings or advisories or the prospect of such pronouncements or other conditions beyond our control. A shortage or interruption in the availability of certain food products or supplies could increase costs and limit the availability of products critical to restaurant operations, which in turn could lead to restaurant closures and/or a decrease in sales. In addition, failure by a principal distributor for our Concepts and/or our Concepts' franchisees to meet its service requirements could lead to a disruption of service or supply until a new distributor is engaged, and any disruption could have an adverse effect on our business.

We may not attain our target development goals, aggressive development could cannibalize existing sales and new restaurants may not be profitable.

Our growth strategy depends in large part on our ability to increase our net restaurant count in markets outside the U.S., especially in China and other emerging markets. The successful development of new units depends in large part on our ability and the ability of our Concepts' franchisees to open new restaurants and to operate these restaurants profitably. We cannot guarantee that we, or our Concepts' franchisees, will be able to achieve our expansion goals or that new restaurants will be operated profitably. Further, there is no assurance that any new restaurant will produce operating results similar to those of our existing restaurants. Other risks which could impact our ability to increase our net restaurant count include prevailing economic conditions and our, or our Concepts' franchisees', ability to obtain suitable restaurant locations, negotiate acceptable lease or purchase terms for the locations, obtain required permits and approvals in a timely manner, hire and train qualified personnel and meet construction schedules.

Expansion into target markets could also be affected by our Concepts' franchisees' ability to obtain financing to construct and open new restaurants. If it becomes more difficult or more expensive for our Concepts' franchisees to obtain financing to develop new restaurants, the expected growth of our system could slow and our future revenues and operating cash flows could be adversely impacted.

In addition, the new restaurants could impact the sales of our existing restaurants nearby. There can be no assurance that sales cannibalization will not occur or become more significant in the future as we increase our presence in existing markets.

Changes in commodity, labor and other operating costs could adversely affect our results of operations.

An increase in certain commodity prices, such as food, supply and energy costs, could adversely affect our operating results. Our operating expenses also include employee wages and benefits and insurance costs (including workers' compensation, general liability, property and health) which may increase over time. Such increases could result from government imposition of higher minimum wages or from general economic or competitive conditions, which could affect wage rates. In addition, significant increases in gasoline prices could result in the imposition of fuel surcharges by our distributors. Any increase in the prices of the commodities we use or operating expenses we incur could adversely affect our profit margins. Because our Concepts and their franchisees provide competitively priced food, our ability to pass along increased expenses to our customers is limited.

Our operating results are closely tied to the success of our Concepts' franchisees and licensees.

A significant portion of our restaurants are operated by franchisees and licensees from whom we derive a significant portion of our revenues in the form of royalty payments. As a result, the success of our business depends in part upon the operational and financial success of our Concepts' franchisees and licensees. We have limited control over how our Concepts' franchisees' and licensees' businesses are run, and the inability of franchisees or licensees to operate successfully could adversely affect our operating results through decreased royalty payments.

If franchisees or licensees incur too much debt, if their operating expenses or commodity prices increase or if economic or sales trends deteriorate such that they are unable to operate profitably or repay existing debt, it could result in financial distress, including insolvency or bankruptcy. If a significant franchisee or licensee or a significant number of our Concepts' franchisees or licensees become financially distressed, our operating results could be impacted through reduced or delayed royalty payments or increased rent obligations for leased properties on which we are contingently liable.

Our success depends substantially on our corporate reputation and on the value and perception of our brands.

Our success depends in large part upon our ability and our franchisees' and licensees' ability to maintain and enhance the value of our brands and our customers' connection to our brands. Brand value is based in part on consumer perceptions on a variety of subjective qualities. Business incidents, whether isolated or recurring and whether originating from us, our franchisees, licensees or suppliers, can significantly reduce brand value and consumer trust, particularly if the incidents receive considerable publicity or result in litigation. For example, our brands could be damaged by claims or perceptions about the quality or safety of our products or the quality of our suppliers, regardless of whether such claims or perceptions are true. Similarly, entities in our supply chain may engage in conduct, including alleged human rights abuses, that damages our or our brands' reputations. Any such incident could cause a decline in consumer confidence in, or the perception of, our Concepts and/or our products and decrease the value of our brands as well as consumer demand for our products, which would likely result in lower revenues and profits. Additionally, our corporate reputation could suffer from a real or perceived failure of corporate governance or misconduct by a company officer or representative.

Our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our Concepts, exposure of personally identifiable information, fraud and disclosure of out-of-date information. The inappropriate use of social media by our customers or employees could increase our costs, lead to litigation or result in negative publicity that could damage our reputation and adversely affect our results.

We could be party to litigation that could adversely affect us by increasing our expenses or subjecting us to significant monetary damages and other remedies.

We are regularly involved in legal proceedings, which include consumer, employment, tort, intellectual property, breach of contract, securities, derivative and other litigation (see the discussion of Legal Proceedings in Note 18 to the consolidated financial statements included in Item 8 of this Form 10-K). Plaintiffs in these types of lawsuits often seek recovery of very large or indeterminate amounts, and the magnitude of the potential loss relating to such lawsuits may not be accurately estimated. Regardless of whether any claims against us are valid, or whether we are ultimately held liable, such litigation may be expensive to defend and may divert resources away from our operations and negatively impact reported earnings. With respect to insured claims, a judgment for monetary damages in excess of any insurance coverage could adversely affect our financial condition or results of operations. Any adverse publicity resulting from these allegations may also adversely affect our reputation, which in turn could adversely affect our results.

In addition, the restaurant industry has been subject to claims that relate to the nutritional content of food products, as well as claims that the menus and practices of restaurant chains have led to customer health issues, including weight gain and other adverse

effects. We may also be subject to these types of claims in the future and, even if we are not, publicity about these matters (particularly directed at the quick service and fast-casual segments of the retail food industry) may harm our reputation and adversely affect our results.

Changes in, or noncompliance with, governmental regulations may adversely affect our business operations, growth prospects or financial condition.

Our Concepts and their franchisees are subject to numerous laws and regulations around the world. These laws change regularly and are increasingly complex. For example, we are subject to:

- The Americans with Disabilities Act in the U.S. and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.
- The U.S. Fair Labor Standards Act, which governs matters such as minimum wages, overtime and other working conditions, as well as family leave mandates and a variety of similar state laws that govern these and other employment law matters.
- Laws and regulations in government-mandated health care benefits such as the Patient Protection and Affordable Care Act.
- Laws and regulations relating to nutritional content, nutritional labeling, product safety and menu labeling.
- Laws relating to state and local licensing.
- Laws and regulations relating to health, sanitation, food, workplace safety, child labor, including laws prohibiting the use of certain “hazardous equipment” by employees younger than the age of 18 years of age, and fire safety and prevention.
- Laws and regulations relating to union organizing rights and activities.
- Laws relating to information security, privacy, cashless payments, and consumer protection.
- Environmental regulations.
- Federal and state immigration laws and regulations in the U.S.

Compliance with new or existing laws and regulations could impact our operations. The compliance costs associated with these laws and regulations could be substantial. Any failure or alleged failure to comply with these laws or regulations could adversely affect our reputation, international expansion efforts, growth prospects and financial condition or result in, among other things, litigation, revocation of required licenses, governmental investigations or proceedings, administrative enforcement actions, fines and civil and criminal liability. Publicity relating to any such noncompliance could also harm our reputation and adversely affect our revenues.

A broader standard for determining joint employer status may adversely affect our business operations and increase our liabilities.

The National Labor Relations Board has recently adopted a new and broader standard for determining when two or more otherwise unrelated employers may be found to be a joint employer of the same employees under the National Labor Relations Act. If this joint employer liability standard is upheld or adopted by other government agencies, it could cause us or our Concepts to be liable or held responsible for unfair labor practices and other violations, and required to conduct collective bargaining negotiations, regarding employees of totally separate, independent employers, most notably our franchisees. In such event, our operating expenses may increase as a result of required modifications to our business practices, increased litigation, governmental investigations or proceedings, administrative enforcement actions, fines and civil liability.

Failure to comply with anti-bribery or anti-corruption laws may adversely affect our business operations.

The Foreign Corrupt Practices Act, the UK Bribery Act and similar laws prohibiting bribery of government officials and other corrupt practices are the subject of increasing scrutiny and enforcement around the world. Although we have implemented policies and procedures designed to promote compliance with these laws, there can be no assurance that our employees, contractors, agents or other third parties will not take actions in violation of our policies or applicable law, particularly as we expand our operations in emerging markets. Any such violations or suspected violations could subject us to civil or criminal penalties, including substantial fines and significant investigation costs, and could also materially damage our reputation, brands, international expansion efforts and prospects, business and operating results. Publicity relating to any noncompliance or alleged noncompliance could also harm our reputation and adversely affect our revenues.

Tax matters, including changes in tax rates, disagreements with taxing authorities and imposition of new taxes could impact our results of operations and financial condition.

A significant percentage of our profit is earned outside the U.S. and taxed at lower rates than the U.S. statutory rates. Historically, the cash we generate outside the U.S. has principally been used to fund our international development. However, if the cash

generated by our U.S. business is not sufficient to meet our need for cash in the U.S., we may need to repatriate a greater portion of our international earnings to the U.S. in the future. We are required to record U.S. income tax expense in our financial statements at the point in time when our management determines that we no longer have the ability and intent to indefinitely postpone tax consequences related to those international earnings. This could cause our worldwide effective tax rate to increase materially.

We are subject to income taxes as well as non-income based taxes, such as payroll, sales, use, value-added, net worth, property, withholding and franchise taxes in both the U.S. and various foreign jurisdictions. We are also subject to regular reviews, examinations and audits by the Internal Revenue Service ("IRS") and other taxing authorities with respect to such income and non-income based taxes inside and outside of the U.S. These reviews could include challenges of our methodologies for transfer pricing. If the IRS or another taxing authority disagrees with our tax positions, we could face additional tax liability, including interest and penalties. Payment of such additional amounts upon final settlement or adjudication of any disputes could have a material impact on our results of operations and financial position.

In addition, we are directly and indirectly affected by new tax legislation and regulation and the interpretation of tax laws and regulations worldwide. Changes in such legislation, regulation or interpretation could increase our taxes and have an adverse effect on our operating results and financial condition. This includes potential changes in tax laws or the interpretation of tax laws arising out of the Base Erosion Profit Shifting project initiated by the Organization for Economic Co-operation and Development.

Failure to protect our service marks or other intellectual property could harm our business.

We regard our Yum®, KFC®, Pizza Hut® and Taco Bell® service marks, and other service marks and trademarks related to our restaurant businesses, as having significant value and being important to our marketing efforts. We rely on a combination of protections provided by contracts, copyrights, patents, trademarks, service marks and other common law rights, such as trade secret and unfair competition laws, to protect our restaurants and services from infringement. We have registered certain trademarks and service marks in the United States and foreign jurisdictions. However, from time to time we become aware of names and marks identical or confusingly similar to our service marks being used by other persons. Although our policy is to oppose any such infringement, further or unknown unauthorized uses or other misappropriation of our trademarks or service marks could diminish the value of our brands and adversely affect our business. In addition, effective intellectual property protection may not be available in every country in which our Concepts have or intend to open or franchise a restaurant. There can be no assurance that these protections will be adequate, and defending or enforcing our service marks and other intellectual property could result in the expenditure of significant resources.

Our business may be adversely impacted by general economic conditions.

Our results of operations are dependent upon discretionary spending by consumers, which may be affected by general economic conditions globally or in one or more of the markets we serve. Some of the factors that impact discretionary consumer spending include unemployment, disposable income, the price of gasoline, stock market performance and consumer confidence. These and other macroeconomic factors could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results.

The retail food industry in which we operate is highly competitive.

The retail food industry in which we operate is highly competitive with respect to price and quality of food products, new product development, advertising levels and promotional initiatives, customer service, reputation, restaurant location, and attractiveness and maintenance of properties. If consumer or dietary preferences change, or our restaurants are unable to compete successfully with other retail food outlets in new and existing markets, our business could be adversely affected. We also face growing competition as a result of convergence in grocery, convenience, deli and restaurant services, including the offering by the grocery industry of convenient meals, including pizzas and entrees with side dishes. Competition from delivery aggregators and other food delivery services has also increased in recent years, particularly in urbanized areas. Increased competition could have an adverse effect on our sales, profitability or development plans, which could harm our financial condition and operating results. In addition, in the retail food industry, labor is a primary operating cost component. Competition for qualified employees could also require us to pay higher wages to attract a sufficient number of employees, which could adversely impact our profit margins.

We intend to substantially increase our level of debt which would make us more sensitive to the effects of economic downturns and could adversely affect our business.

In late 2015, we announced that we intend to return approximately \$6.2 billion of capital to shareholders prior to the separation of our China business through share repurchases and/or a special dividend. To finance that return of capital we expect to incur

significant additional indebtedness, some of which may be secured debt. This would have the effect of substantially increasing our total leverage.

An increase in our leverage could have important potential consequences, including, but not limited to:

- increasing our vulnerability to, and reducing our flexibility to plan for and respond to, general adverse economic and industry conditions and changes in our business and the competitive environment;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, dividends, share repurchases or other corporate purposes;
- increasing our vulnerability to a downgrade of our credit rating, which could adversely affect our cost of funds, liquidity and access to capital markets;
- restricting us from making strategic acquisitions or causing us to make non-strategic divestitures;
- increasing our exposure to the risk of increased interest rates insofar as current and future borrowings are subject to variable rates of interest;
- making it more difficult for us to repay, refinance or satisfy our obligations with respect to our debt;
- limiting our ability to borrow additional funds in the future and increasing the cost of any such borrowing;
- imposing restrictive covenants on our operations, which, if not complied with, could result in an event of default, which in turn, if not cured or waived, could result in the acceleration of the applicable debt, and may result in the acceleration of any other debt to which a cross-acceleration or cross-default provision applies; and
- increasing our exposure to risks related to fluctuations in foreign currency as we earn profits in a variety of currencies around the world and our debt is or is expected to be denominated in U.S. dollars.

There is no assurance that we will generate cash flow from operations or that future debt or equity financings will be available to us to enable us to pay our indebtedness or to fund other needs. As a result, we may need to refinance all or a portion of our indebtedness on or before maturity. There is no assurance that we will be able to refinance any of our indebtedness on favorable terms, or at all. Any inability to generate sufficient cash flow or refinance our indebtedness on favorable terms could have a material adverse effect on our financial condition.

Risks Related to the Planned Spin-Off

The proposed spin-off of our China business is subject to various risks and uncertainties and may not be completed on the terms or timeline currently contemplated, if at all, and will involve significant time and attention, which could disrupt or adversely affect our business.

We have announced our intention to separate YUM's China business from YUM into an independent, publicly-traded company by the end of 2016. This transaction, which is expected to be a U.S. tax-free spin-off of our China business, is complex in nature, subject to various conditions, and may be affected by unanticipated developments or changes in market, regulatory and certain other conditions. We expect to file a Registration Statement on Form 10 with the Securities and Exchange Commission ("SEC") that will contain detailed information regarding the business proposed to be spun-off. Completion of the spin-off will be contingent upon a number of factors, including the effectiveness of the Registration Statement, final approval by our Board of Directors, receipt of a tax opinion and other conditions. For these and other reasons, the spin-off may not be completed as expected by the end of 2016, if at all.

Additionally, execution of the proposed spin-off will require significant time and attention from management, which may distract management from the operation of our business and the execution of our other initiatives. Our employees may also be distracted due to uncertainty about their future roles with each of the separate companies pending the completion of the spin-off. We may also experience increased difficulties in attracting, retaining and motivating key employees during the pendency of the spin-off and following its completion. Any such difficulties could have a material adverse effect on our financial condition, results of operations or cash flows.

The proposed spin-off may not achieve some or all of the expected benefits and may adversely affect our business.

Even if the proposed spin-off is completed, we may not achieve, or may not achieve in a timely fashion, some or all of the expected benefits of the spin-off and the spin-off may in fact adversely affect our business. For example, once the China business becomes independent, it may choose to pursue growth opportunities with brands or businesses unrelated to our Concepts, which could divert attention and resources away from the growth of our Concepts in China.

In addition, if the spin-off is completed, the Company's operational and financial profile and the composition of the Company's revenue will change materially. There can be no assurance that these changes will yield the benefits currently expected or intended

or that the combined value of the common stock of the two publicly-traded companies following the completion of the proposed spin-off will be equal to or greater than what the value of our common stock would have been had the proposed spin-off not occurred.

The spin-off transactions could result in substantial U.S. tax liability.

The spin-off will be conditioned on our receipt of an opinion of outside counsel, in form and substance satisfactory to us, substantially to the effect that, for U.S. federal income tax purposes, the spin-off and certain related transactions will qualify under Sections 355 and/or 368 of the U.S. Internal Revenue Code. The opinion will rely on various assumptions and representations as to factual matters made by the new China entity and us which, if inaccurate or incomplete in any material respect, would jeopardize the conclusions reached by such counsel in its opinion. The opinion will not be binding on the IRS or the courts, and there can be no assurance that the IRS or the courts will not challenge the conclusions stated in the opinion or that any such challenge would not prevail.

If, notwithstanding receipt of the opinion, the spin-off transaction were determined to be a taxable transaction, we would be treated as having sold shares of the new China entity in a taxable transaction, likely resulting in a significant taxable gain. In addition, each U.S. holder of our common stock who receives shares of the new China entity in the spin-off transaction would generally be treated as receiving a taxable distribution of property in an amount equal to the fair market value of the shares of the new China entity received. That distribution would be taxable to each such stockholder as a dividend to the extent of our current and accumulated earnings and profits. For each such stockholder, any amount that exceeded our earnings and profits would be treated first as a non-taxable return of capital to the extent of such stockholder's tax basis in our shares of common stock with any remaining amount being taxed as a capital gain.

At the time of the spin-off, we will enter into a Tax Matters Agreement with the new China entity. The Tax Matters Agreement will address which company, YUM or the new China entity, will be responsible for any taxes imposed as a result of the spin-off transaction.

The spin-off may be subject to China indirect transfer tax.

The China State Administration of Taxation recently issued Bulletin 7 on Income arising from Indirect Transfers of Assets by Non-Resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of People's Republic of China (PRC) taxable assets, including equity interests in a PRC resident enterprise, by a non-resident enterprise, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of PRC enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to PRC enterprise income tax of 10%.

We have evaluated the potential applicability of Bulletin 7 to our plan to separate our China business in a tax free restructuring and believe it is more likely than not that Bulletin 7 does not apply. We believe that the restructuring has reasonable commercial purpose.

However, given how recently Bulletin 7 was promulgated there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view our planned spin-off. As a result, our position could be challenged by the tax authorities resulting in a 10% tax assessed on the difference between the fair market value and the tax basis of the separated China business. As our tax basis in the China business is minimal, the amount of such a tax could be significant and have a material adverse effect on our results of operations and our financial condition.

If the proposed spin-off is consummated, there may be substantial changes in our stockholder base, which may cause the price of our common stock to fluctuate following the proposed spin-off.

Investors holding YUM's common stock today may hold YUM common stock because of a decision to invest in a company with significant China or emerging markets exposure. If the proposed spin-off is completed, shares of YUM common stock will represent an investment in a company with less exposure to China, a key emerging market. This change may not match some holders' investment strategies, which could cause investors to sell their shares of YUM common stock. Excessive selling pressure could cause the market price of YUM common stock to decrease following the completion of the proposed spin-off.

Item 1B. Unresolved Staff Comments.

The Company has received no written comments regarding its periodic or current reports from the staff of the Securities and Exchange Commission that were issued 180 days or more preceding the end of its 2015 fiscal year and that remain unresolved.

Item 2. Properties.

As of year end 2015, the Company's Concepts owned approximately 905 units and leased land, building or both for approximately 8,025 units worldwide. These units are further detailed as follows:

- The China Division leased land, building or both in approximately 5,770 units.
- The KFC Division owned approximately 260 units and leased land, building or both in approximately 1,125 units.
- The Pizza Hut Division owned approximately 110 units and leased land, building or both in approximately 650 units.
- The Taco Bell Division owned approximately 535 units and leased land, building or both in approximately 360 units.
- The India Division leased land, building or both in approximately 120 units.

Company-owned restaurants in China are generally leased for initial terms of 10 to 15 years and generally do not have renewal options. Historically, the Company has either been able to renew its China Division leases or enter into competitive leases at replacement sites without a significant impact on our operations, cash flows or capital resources. Company-owned restaurants in the U.S. with leases are generally leased for initial terms of 15 or 20 years and generally have renewal options; however, Pizza Hut delivery/carryout units in the U.S. generally are leased for significantly shorter initial terms with shorter renewal options. Company-owned restaurants outside of China and the U.S. with leases have initial lease terms and renewal options that vary by country. The Company currently has land, buildings or both in approximately 825 units, not included in the property counts above, that it leases or subleases to franchisees, principally in the U.S., UK and China.

The China Division leases their corporate headquarters and research facilities in Shanghai, China. The KFC Division and Pizza Hut Division corporate headquarters and a KFC and Pizza Hut research facility in Plano, Texas are owned by Pizza Hut. Taco Bell leases its corporate headquarters and research facility in Irvine, California. The YUM corporate headquarters and a KFC research facility in Louisville, Kentucky are owned by the Company. Additional information about the Company's properties is included in the Consolidated Financial Statements in Part II, Item 8.

The Company believes that its properties are generally in good operating condition and are suitable for the purposes for which they are being used.

Item 3. Legal Proceedings.

The Company is subject to various lawsuits covering a variety of allegations. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's annual results of operations, financial condition or cash flows. Matters faced by the Company include, but are not limited to, claims from franchisees, suppliers, employees, customers and others related to operational, contractual or employment issues as well as claims that the Company has infringed on third party intellectual property rights. In addition, the Company brings claims from time-to-time relating to infringement of, or challenges to, our intellectual property, including registered marks. Finally, as a publicly-traded company, disputes arise from time to time with our shareholders, including allegations that the Company breached federal securities laws or that officers and/or directors breached fiduciary duties. Descriptions of current specific claims and contingencies appear in Note 18, Contingencies, to the Consolidated Financial Statements included in Part II, Item 8, which Note is incorporated by reference into this item.

Item 4. Mine Safety Disclosures.

Not applicable

The executive officers of the Company as of February 16, 2016, and their ages and current positions as of that date are as follows:

David C. Novak, 63, is Executive Chairman of the Board of YUM. He has served in this position since January 2015. Prior to this position, he served as Chairman of the Board and Chief Executive Officer of YUM from January 2001 to December 2014.

Greg Creed, 58, is Chief Executive Officer of YUM. He has served in this position since January 2015. He served as Chief Executive Officer of Taco Bell Division from January 2014 to December 2014 and as Chief Executive Officer of Taco Bell U.S. from 2011 to December 2013. Prior to this position, Mr. Creed served as President and Chief Concept Officer of Taco Bell U.S., a position he held beginning in December 2006.

Jonathan D. Blum, 57, is Senior Vice President, Chief Public Affairs Officer and Global Nutrition Officer of YUM. He has served as Senior Vice President and Chief Public Affairs Officer since July 1997. In March of 2012, his title and job responsibilities were expanded to include Global Nutrition Officer.

Roger Eaton, 55, is Chief Executive Officer of KFC Division, a position he has held since August 2015. Prior to that, he served as President of KFC Division from January 2014 to August 2015 and as Chief Operations Officer of YUM from November 2011 to August 2015. Prior to these positions, Mr. Eaton served as Chief Executive Officer of KFC U.S. and YUM Operational Excellence Officer from February 2011 to November 2011.

David Gibbs, 52, is Chief Executive Officer of Pizza Hut Division. He has served in this position since January 2015. From January 2014 to December 2014, Mr. Gibbs served as President of Pizza Hut U.S. Prior to this position, Mr. Gibbs served as President and Chief Financial Officer of Yum! Restaurants International, Inc. ("YRI") from May 2012 through December 2013. Mr. Gibbs served as Chief Financial Officer of YRI from January 2011 to April 2012. He was Chief Financial Officer of Pizza Hut U.S. from September 2005 to December 2010.

Patrick Grismer, 54, is Chief Financial Officer of YUM. He has served in this position since May 2012. Prior to this position, Mr. Grismer served as Chief Planning and Control Officer of YUM, a position he held beginning January 2011. Mr. Grismer served as Chief Financial Officer of YRI from June 2008 to January 2011.

Marc Kesselman, 44, is Chief Legal Officer, General Counsel and Corporate Secretary of YUM. He has served in this position since February 2016. Mr. Kesselman joined YUM from Dean Foods where he held the position of Executive Vice President, General Counsel, Corporate Secretary & Government Affairs from January 2015 to January 2016. Prior to this position, he worked at PepsiCo from January 2009 to December 2014, most recently serving as Senior Vice President and General Counsel of PepsiCo Americas Foods & Frito Lay North America. From May 2006 to December 2008 he served as General Counsel of the United States Department of Agriculture.

Brian Niccol, 41, is Chief Executive Officer of Taco Bell Division, a position he has held since January 2015. From January 2014 to December 2014, Mr. Niccol served as President of Taco Bell Division. From May 2013 to December 2013 Mr. Niccol served as President of Taco Bell U.S. Mr. Niccol served as Chief Marketing and Innovation Officer of Taco Bell U.S. from October 2011 to April 2013. Prior to this position, he served as General Manager of Pizza Hut U.S. from February 2011 to September 2011. From September 2007 to January 2011 he was Chief Marketing Officer of Pizza Hut U.S.

Muktesh Pant, 61, is Chief Executive Officer of YUM's China Division, a position he has held since August 2015. From January 2014 to August 2015, he served as Chief Executive Officer of KFC Division. Prior to this position he served as Chief Executive Officer of YRI from December 2011 to December 2013. Mr. Pant served as President of YRI from May 2010 to December 2011 and as President of Global Brand Building for YUM from February 2009 to December 2011. He served as Chief Marketing Officer of YRI from July 2005 to May 2010.

David Russell, 46, is Vice President, Finance and Corporate Controller of YUM. He has served in this position since December 2012. He has been Vice President and Corporate Controller since February 2011. Effective December 2012, his duties and title were expanded to include Vice President, Finance. From November 2010 to February 2011, Mr. Russell served as Vice President, Controller-Designate. From January 2008 to November 2010, he served as Vice President and Assistant Controller.

Tracy Skeans, 43, is Chief People Officer of YUM, a position she has held since January 2016. From January 2015 to December 2015, she was President of Pizza Hut International. Prior to this position, Ms. Skeans served as Chief People Officer of Pizza Hut Division from December 2013 to December 2014 and Chief People Officer of Pizza Hut U.S. from October 2011 to November 2013. From June 2006 to September 2011, she also served as Director of Human Resources for Pizza Hut U.S.

Executive officers are elected by and serve at the discretion of the Board of Directors.

PART II

Item 5. Market for the Registrant's Common Stock, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's Common Stock trades under the symbol YUM and is listed on the New York Stock Exchange ("NYSE"). The following sets forth the high and low NYSE composite closing sale prices by quarter for the Company's Common Stock and dividends per common share.

2015			
Quarter	High	Low	Dividends Declared
First	\$ 81.80	\$ 70.01	\$ —
Second	94.88	78.29	0.82
Third	92.75	76.10	—
Fourth	83.42	67.12	0.92

2014			
Quarter	High	Low	Dividends Declared
First	\$ 77.40	\$ 66.16	\$ 0.37
Second	79.99	73.20	0.37
Third	83.29	69.40	—
Fourth	78.36	67.23	0.82

In 2015, the Company declared two cash dividends of \$0.41 per share and two cash dividends of \$0.46 per share of Common Stock, one of which had a distribution date of February 5, 2016. In 2014, the Company declared two cash dividends of \$0.37 per share and two cash dividends of \$0.41 per share of Common Stock, one of which had a distribution date of February 6, 2015. The Company currently targets, and will continue to target subsequent to the planned spin-off of our China business, an annual dividend payout ratio of 45% to 50% of net income.

As of February 9, 2016, there were 55,462 registered holders of record of the Company's Common Stock.

Issuer Purchases of Equity Securities

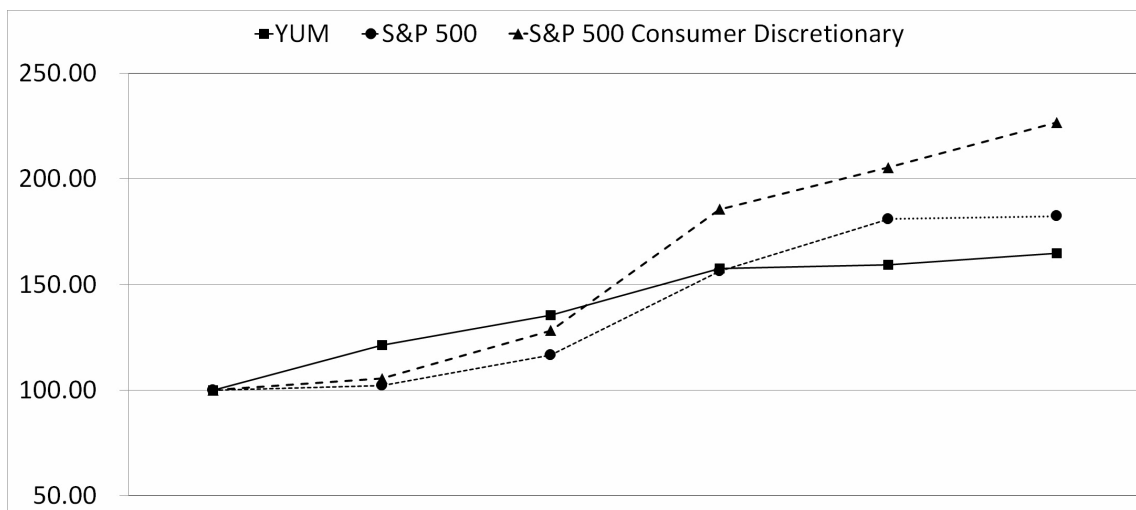
The following table provides information as of December 26, 2015 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Approximate dollar value of shares that may yet be purchased under the plans or programs (millions)
Period 10 9/6/15 - 10/3/15	—	N/A	—	\$ 763
Period 11 10/4/15 - 10/31/15	1,914	\$ 73.16	1,914	\$ 623
Period 12 11/1/15 - 11/28/15	4,006	\$ 71.14	4,006	\$ 338
Period 13 11/29/15 - 12/26/15	5,506	\$ 73.56	5,506	\$ 933
Total	<u>11,426</u>	\$ 72.64	<u>11,426</u>	\$ 933

On November 20, 2014, our Board of Directors authorized share repurchases through May 2016 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. On December 8, 2015, our Board of Directors authorized additional share repurchases through December 2016 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. As of December 26, 2015, we have remaining capacity to repurchase up to \$933 million of Common Stock under the December 2015 authorization.

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 23, 2010 to December 24, 2015, the last trading day of our 2015 fiscal year. The graph assumes that the value of the investment in our Common Stock and each index was \$100 at December 23, 2010 and that all dividends were reinvested.



	12/23/2010		12/30/2011		12/28/2012		12/27/2013		12/26/2014		12/24/2015	
YUM	\$	100	\$	121	\$	135	\$	158	\$	159	\$	165
S&P 500	\$	100	\$	102	\$	117	\$	156	\$	181	\$	182
S&P Consumer Discretionary	\$	100	\$	106	\$	128	\$	186	\$	205	\$	227

Item 6. Selected Financial Data.
Selected Financial Data
YUM! Brands, Inc. and Subsidiaries
(in millions, except per share and unit amounts)

	Fiscal Year				
	2015	2014	2013	2012	2011 ^(e)
Income Statement Data					
Revenues					
Company sales	\$ 11,145	\$ 11,324	\$ 11,184	\$ 11,833	\$ 10,893
Franchise and license fees and income	1,960	1,955	1,900	1,800	1,733
Total	13,105	13,279	13,084	13,633	12,626
Closures and impairment income (expenses) ^(a)	(79)	(535)	(331)	(37)	(135)
Refranchising gain (loss) ^(b)	(10)	33	100	78	(72)
Operating Profit ^(c)	1,921	1,557	1,798	2,294	1,815
Interest expense, net ^(c)	134	130	247	149	156
Income before income taxes	1,787	1,427	1,551	2,145	1,659
Net Income – including noncontrolling interest	1,298	1,021	1,064	1,608	1,335
Net Income – YUM! Brands, Inc.	1,293	1,051	1,091	1,597	1,319
Basic earnings per common share	2.97	2.37	2.41	3.46	2.81
Diluted earnings per common share	2.92	2.32	2.36	3.38	2.74
Diluted earnings per common share before Special Items ^(c)	3.18	3.09	2.97	3.25	2.87
Cash Flow Data					
Provided by operating activities	\$ 2,139	\$ 2,049	\$ 2,139	\$ 2,294	\$ 2,170
Capital spending, excluding acquisitions and investments	973	1,033	1,049	1,099	940
Proceeds from refranchising of restaurants	246	114	260	364	246
Repurchase shares of Common Stock	1,200	820	770	965	752
Dividends paid on Common Stock	730	669	615	544	481
Balance Sheet Data					
Total assets ^(h)	\$ 8,075	\$ 8,334	\$ 8,695	\$ 9,013	\$ 8,834
Long-term debt	3,054	3,077	2,918	2,932	2,997
Total debt	3,977	3,344	2,989	2,942	3,317
Other Data					
Number of stores at year end					
Company	8,927	8,664	8,097	7,544	7,403
Unconsolidated Affiliates	796	757	716	660	587
Franchisees & licensees	32,969	32,125	31,420	30,733	29,056
System	42,692	41,546	40,233	38,937	37,046
China Division system sales growth ^(d)					
Reported	— %	1 %	(1)%	23%	35 %
Local currency ^(e)	2 %	1 %	(4)%	20%	29 %
KFC Division system sales growth ^(d)					
Reported	(4)%	2 %	— %	2%	9 %
Local currency ^(e)	7 %	6 %	3 %	6%	4 %
Pizza Hut Division system sales growth ^(d)					
Reported	(2)%	— %	— %	2%	5 %
Local currency ^(e)	2 %	1 %	1 %	5%	2 %
Taco Bell Division system sales growth ^(d)					
Reported	8 %	4 %	4 %	7%	1 %
Local currency ^(e)	8 %	4 %	4 %	9%	(1)%
India Division system sales growth ^{(d)(f)}					
Reported	(9)%	(1)%	11 %	13%	36 %
Local currency ^(e)	(5)%	3 %	20 %	29%	35 %
Shares outstanding at year end	420	434	443	451	460
Cash dividends declared per Common Share	\$ 1.74	\$ 1.56	\$ 1.41	\$ 1.24	\$ 1.07
Market price per share at year end	\$ 74.00	\$ 73.14	\$ 73.87	\$ 64.72	\$ 59.01

- (a) Closures and impairment income (expense) includes \$463 million and \$295 million of Little Sheep impairment losses in 2014 and 2013 respectively. See Note 4. Additionally, 2011 included \$80 million of net losses related to the divestitures of the Long John Silver's and A&W All-American Food Restaurants brands.
- (b) See Note 4 for discussion of Refranchising gain (loss) for fiscal years 2015, 2014 and 2013. Fiscal year 2012 included \$122 million in net gains from refranchising restaurants in the U.S., primarily Taco Bells, and \$70 million in losses related to the refranchising of our remaining Company-owned Pizza Hut UK dine-in restaurants. Fiscal year 2011 included a charge of \$76 million as a result of our initial decision to refranchise or close all of our remaining Company-owned Pizza Hut UK dine-in restaurants.
- (c) In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this document, the Company provides non-GAAP measurements which present operating results on a basis before Special Items. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present results, excluding items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

2015, 2014 and 2013 Special Items are described in further detail within our Management's Discussion and Analysis of Financial Condition and Results of Operations. Special Items in 2012 positively impacted Operating Profit by \$58 million, primarily due to \$122 million in U.S. refranchising net gains and a \$74 million gain on the acquisition of an additional interest in and resulting consolidation of Little Sheep, partially offset by \$84 million in pension settlement charges and \$70 million of losses associated with the refranchising of the Pizza Hut UK dine-in business. Special Items in 2011 negatively impacted Operating Profit by \$187 million, primarily due to \$86 million in losses and other costs relating to the divestitures of the Long John Silvers and A&W All-American Food Restaurants brands and \$76 million in losses as a result of our initial decision to refranchise or close all of our remaining Company-owned Pizza Hut UK dine-in restaurants. Special items resulted in cumulative net tax benefits of \$1 million and \$123 million in 2012 and 2011, respectively.

- (d) System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, unconsolidated affiliate and license restaurants that operate our Concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants typically generate ongoing franchise and license fees for the Company 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 growth.
- (e) 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.
- (f) Effective the beginning of 2014, results from our Mauritius stores are included in KFC and Pizza Hut Divisions as applicable. While there was no impact to our consolidated results, this change negatively impacted India's 2014 reported and local currency system sales growth by 10% and 11%, respectively.

- (g) Fiscal years 2015, 2014, 2013 and 2012 include 52 weeks and fiscal year 2011 includes 53 weeks. Our fiscal calendar results in a 53rd week every five or six years. This impacts all of our U.S. businesses and certain of our international businesses that report on a period, as opposed to a monthly, basis within our global brand divisions. Our China and India Divisions report on a monthly basis and thus did not have a 53rd week in 2011.

The estimated impacts of the 53rd week on Company sales, Franchise and license fees and income and Operating Profit in 2011 were increases of \$72 million, \$19 million and \$25 million, respectively. The \$25 million Operating Profit benefit was offset throughout 2011 by investments, including franchise development incentives, as well as higher-than-normal spending, such as restaurant closures within our global brand divisions.

- (h) In 2015, we retrospectively adopted Accounting Standard Update (ASU) No. 2015-17, Balance Sheet Classification of Deferred Taxes. See Income Taxes section of Note 2. We have restated Total assets for 2014 to reflect this change, but have not restated 2013, 2012 or 2011.

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

Item 7. 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 ("Financial Statements") in Item 8 and the Forward-Looking Statements and the Risk Factors set forth in Item 1A.

YUM! Brands, Inc. ("YUM" or the "Company") operates, franchises or licenses a worldwide system of over 42,000 restaurants in more than 130 countries and territories operating primarily under the KFC, Pizza Hut or Taco Bell (collectively the "Concepts") brands. These three Concepts are the global leaders in the chicken, pizza and Mexican-style food categories, respectively. Of the over 42,000 restaurants, 21% are operated by the Company and its subsidiaries and 79% are operated by franchisees, licensees or unconsolidated affiliates.

As of December 26, 2015, YUM consists of five operating segments:

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

Effective January, 2016 the India Division was segmented by brand, integrated into the global KFC, Pizza Hut and Taco Bell Divisions, and is no longer a separate operating segment. While our consolidated results will not be impacted, we will restate our historical segment information during 2016 for consistent presentation.

In October, 2015 we announced our intent to separate YUM's China business from YUM into an independent, publicly-traded company by the end of 2016. This transaction, which is expected to be a tax-free spin-off of our China business, will create two powerful, independent, focused growth companies with distinct strategies, financial profiles and investment characteristics. The new China entity will become a licensee of YUM in mainland China, with exclusive rights to the KFC, Pizza Hut and Taco Bell concepts. Upon completion of the planned spin-off, YUM will become more of a "pure play" franchisor with more stable earnings, higher profit margins, lower capital requirements and stronger cash flow conversion. Consistent with this strategy YUM is targeting 96% franchisee ownership of its restaurants by the end of 2017.

YUM has announced its intention to return substantial capital to shareholders prior to this planned spin-off, the majority of which will be funded by incremental borrowings. With this recapitalization, the Company is transitioning to a non-investment grade credit rating with a balance sheet more consistent with highly-levered peer restaurant franchise companies. Moreover, this will allow for an ongoing return-of-capital framework that will seek to optimize the Company's long-term growth rate on a per-share basis.

Completion of the spin-off will be subject to certain conditions, including receiving final approval from the YUM Board of Directors, receipt of various regulatory approvals, receipt of an opinion of counsel with respect to certain tax matters, the effectiveness of filings related to public listing and applicable securities laws, and other terms and conditions as may be determined by the Board of Directors. There can be no assurance regarding the ultimate timing of the proposed transaction or that the transaction will be completed.

Our historical ongoing earnings growth model has targeted a 10% earnings per share ("EPS") growth rate, which was based on Operating Profit growth targets of 15% in China, 10% for our KFC Division, 8% for our Pizza Hut Division, and 6% for our Taco Bell Division. See the Division discussions within the Results of Operations section of this MD&A for further details on our Divisions' 2015 targets.

YUM's 2016 Operating Profit is expected to grow 10% in constant currency, including the impact of 2016 having a 53rd week. While we expect to spin off our China business prior to the end of 2016, this target assumes our China business will remain part of YUM through the end of 2016. YUM's 2016 target is based on Operating Profit growth instead of EPS growth given the uncertainties surrounding the specific timing and pricing of our 2016 shareholder capital returns.

Subsequent to the spin-off of our China business, we are targeting about 15% ongoing EPS growth for the new China entity and about 15% ongoing total shareholder return for the remaining ongoing YUM business. The new China entity's 15% EPS growth includes contributions from both Operating Profit and financial strategies such as share repurchases. YUM's 15% total shareholder return includes ongoing Operating Profit growth targets of 10% for our KFC Division, 8% for our Pizza Hut Division and 6% for

our Taco Bell Division, which are consistent with our historical ongoing earnings growth model. The 15% total shareholder return also includes 1% to 2% growth from the China license fee, 3% to 5% growth from financial strategies and approximately 2% yield from dividends.

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

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("FX" or "Forex"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, unconsolidated affiliate and license restaurants that operate our Concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants typically generate ongoing franchise and license fees for the Company 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 growth.
- Same-store sales growth is the estimated percentage change in sales of all restaurants that have been open and in the YUM system one year or more.
- Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Restaurant profit divided by Company sales. Within the Company Sales and Restaurant Profit analysis, Store Portfolio Actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in costs such as inflation/deflation.
- In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this MD&A, the Company provides non-GAAP measurements which present operating results on a basis before Special Items. The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before Special Items provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their size and/or nature.

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

Results of Operations

Summary

All comparisons within this summary are versus the same period a year ago and exclude the impact of Special Items. All system sales growth and Operating Profit comparisons exclude the impact of foreign currency.

2015 diluted EPS increased 3% to \$3.18 per share versus our target of 10% growth, as sales and profits at our China Division did not recover as strongly as expected and adverse foreign currency translation significantly impacted reported earnings.

We expected China Division sales and profits to grow significantly in the second half of 2015 as we recovered from the adverse publicity in July 2014 surrounding improper food handling practices of a former supplier. China Division sales initially turned significantly positive as we lapped the July 2014 supplier incident, but overall sales in the second half of 2015 trailed our expectations, particularly at Pizza Hut Casual Dining. KFC China grew same stores sales 3% in Q3 and 6% in Q4, while Pizza Hut Casual Dining same-store sales declined 1% in Q3 and 8% in Q4. For the year China Division same-store sales declined 4%.

Foreign currency translation from our international operations negatively impacted EPS growth by 6 percentage points.

2015 financial highlights are below:

	China Division	KFC Division	Pizza Hut Division	Taco Bell Division	India Division
System Sales Growth (Decline)	2 %	7%	2%	8%	(5)%
Operating Profit Growth (Decline)	8 %	8%	1%	12%	(118)%
Same Store Sales Growth (Decline)	(4)%	3%	1%	5%	(13)%
New Unit Openings	743	715	577	276	54

Worldwide

The Consolidated Results of Operations for the years to date ended December 26, 2015, December 27, 2014 and December 28, 2013 are presented below:

	Amount			% B/(W)	
	2015	2014	2013	2015	2014
Company sales	\$ 11,145	\$ 11,324	\$ 11,184	(2)	1
Franchise and license fees and income	1,960	1,955	1,900	—	3
Total revenues	<u>\$ 13,105</u>	<u>\$ 13,279</u>	<u>\$ 13,084</u>	(1)	1
Restaurant profit	<u>\$ 1,786</u>	<u>\$ 1,642</u>	<u>\$ 1,683</u>	9	(2)
Restaurant Margin %	<u>16.0%</u>	<u>14.5%</u>	<u>15.0%</u>	1.5 ppts.	(0.5) ppts.
Operating Profit	\$ 1,921	\$ 1,557	\$ 1,798	23	(13)
Interest expense, net	134	130	247	(4)	47
Income tax provision	489	406	487	(20)	17
Net Income – including noncontrolling interests	1,298	1,021	1,064	27	(4)
Net Income (loss) – noncontrolling interests	5	(30)	(27)	NM	(12)
Net Income – YUM! Brands, Inc.	<u>\$ 1,293</u>	<u>\$ 1,051</u>	<u>\$ 1,091</u>	23	(4)
Diluted EPS ^(a)	<u>\$ 2.92</u>	<u>\$ 2.32</u>	<u>\$ 2.36</u>	26	(2)
Diluted EPS before Special Items ^(a)	<u>\$ 3.18</u>	<u>\$ 3.09</u>	<u>\$ 2.97</u>	3	4
Reported Effective tax rate	<u>27.3%</u>	<u>28.5%</u>	<u>31.4%</u>		
Effective tax rate before Special Items	<u>25.6%</u>	<u>25.5%</u>	<u>28.0%</u>		

(a) See Note 3 for the number of shares used in these calculations.

	2015	2014
System Sales Growth, reported	(1)%	2%
System Sales Growth, excluding FX	5 %	3%

Unit Count	2015	2014	2013	% Increase (Decrease)	
				2015	2014
Franchise & License	32,969	32,125	31,420	3	2
Company-owned	8,927	8,664	8,097	3	7
Unconsolidated Affiliates	796	757	716	5	6
	<u>42,692</u>	<u>41,546</u>	<u>40,233</u>	3	3

Special Items

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

Detail of Special Items	Year		
	2015	2014	2013
Gains (losses) associated with the refranchising of equity markets outside the U.S. (See Note 4)	\$ (96)	\$ 7	\$ —
Costs associated with KFC U.S. Acceleration Agreement (See Note 4)	(72)	—	—
Loss associated with planned sale of aircraft (See Note 7)	(15)	—	—
Costs associated with the planned spin-off of the China business and YUM recapitalization ^(a)	(9)	—	—
U.S. Refranchising gain (loss) ^(b)	75	6	91
Little Sheep impairment (See Note 4)	—	(463)	(295)
Other Special Items Income (Expense) ^(c)	1	3	(18)
Special Items Income (Expense) - Operating Profit	(116)	(447)	(222)
Losses related to the extinguishment of debt - Interest Expense, net (See Note 4)	—	—	(118)
Special Items Income (Expense) before income taxes	(116)	(447)	(340)
Tax Benefit (Expense) on Special Items ^(d)	(1)	72	41
Special Items Income (Expense), net of tax - including noncontrolling interests	(117)	(375)	(299)
Special Items Income (Expense), net of tax - noncontrolling interests (See Note 4)	—	26	19
Special Items Income (Expense), net of tax - YUM! Brands, Inc.	\$ (117)	\$ (349)	\$ (280)
Average diluted shares outstanding	443	453	461
Special Items diluted EPS	\$ (0.26)	\$ (0.77)	\$ (0.61)
Reconciliation of Operating Profit Before Special Items to Reported Operating Profit			
Operating Profit before Special Items	\$ 2,037	\$ 2,004	\$ 2,020
Special Items Income (Expense) - Operating Profit	(116)	(447)	(222)
Reported Operating Profit	\$ 1,921	\$ 1,557	\$ 1,798
Reconciliation of EPS Before Special Items to Reported EPS			
Diluted EPS before Special Items	\$ 3.18	\$ 3.09	\$ 2.97
Special Items EPS	(0.26)	(0.77)	(0.61)
Reported EPS	\$ 2.92	\$ 2.32	\$ 2.36
Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate			
Effective Tax Rate before Special Items	25.6%	25.5%	28.0%
Impact on Tax Rate as a result of Special Items ^(d)	1.7%	3.0%	3.4%
Reported Effective Tax Rate	27.3%	28.5%	31.4%

(a) We have incurred \$9 million of expenses for initiatives related to the planned spin-off of our China business into an independent publicly-traded company and our recapitalization plan.

(b) The refranchising gains in 2015 and 2013 were primarily due to gains on sales of Taco Bell restaurants.

- (c) Other Special Items Income (Expense) in 2013 primarily includes pension settlement charges of \$10 million related to a program where the company allowed certain former employees the opportunity to voluntarily elect an early payout of their pension benefits, the majority of which were funded from existing pension plan assets, and \$5 million of expense relating to U.S. G&A productivity initiatives and realignment of resources (primarily severance and early retirement costs) undertaken in conjunction with the refranchising of restaurants in the U.S.
- (d) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items.

China Division

The China Division has 7,176 units, predominately KFC and Pizza Hut Casual Dining restaurants which are the leading quick service and casual dining restaurant brands, respectively, in mainland China. Given our strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company has rapidly added KFC and Pizza Hut Casual Dining restaurants and accelerated the development of Pizza Hut Home Service (home delivery). For 2015, China Division targeted mid-single-digit same-store sales growth, moderate margin improvement, at least 700 new unit openings and Operating Profit growth of at least 15%.

				% B/(W)		% B/(W)	
	2015	2014	2013	2015		2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 6,789	\$ 6,821	\$ 6,800	—	1	—	1
Franchise and license fees and income	120	113	105	7	9	7	7
Total revenues	<u>\$ 6,909</u>	<u>\$ 6,934</u>	<u>\$ 6,905</u>	—	2	—	1
Restaurant profit	\$ 1,077	\$ 1,009	\$ 1,050	7	9	(4)	(4)
Restaurant margin %	15.9%	14.8%	15.4%	1.1 ppts.	1.0 ppts.	(0.6) ppts.	(0.6) ppts.
G&A expenses	\$ 397	\$ 391	\$ 357	(2)	(3)	(9)	(9)
Operating Profit	\$ 757	\$ 713	\$ 777	6	8	(8)	(8)
						2015	2014
System Sales Growth, reported						— %	1 %
System Sales Growth, excluding FX						2 %	1 %
Same-Store Sales Growth (Decline) %						(4)%	(5)%

Unit Count				% Increase (Decrease)	
	2015	2014	2013	2015	2014
Company-owned	5,768	5,417	5,026	6	8
Unconsolidated Affiliates	796	757	716	5	6
Franchise & License	612	541	501	13	8
	<u>7,176</u>	<u>6,715</u>	<u>6,243</u>	7	8

	2014	New Builds	Closures	Refranchised	Acquired	Other	2015
Company-owned	5,417	636	(198)	(90)	3	—	5,768
Unconsolidated Affiliates	757	58	(15)	—	—	(4)	796
Franchise & License	541	49	(69)	90	(3)	4	612
Total	<u>6,715</u>	<u>743</u>	<u>(282)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>7,176</u>
	2013	New Builds	Closures	Refranchised	Acquired	Other	2014
Company-owned	5,026	664	(195)	(79)	1	—	5,417
Unconsolidated Affiliates	716	56	(14)	—	—	(1)	757
Franchise & License	501	17	(56)	79	(1)	1	541
Total	<u>6,243</u>	<u>737</u>	<u>(265)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>6,715</u>

Company Sales and Restaurant Profit

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

Income / (Expense)	2015 vs. 2014				
	2014	Store Portfolio Actions	Other	FX	2015
Company sales	\$ 6,821	\$ 363	\$ (262)	\$ (133)	\$ 6,789
Cost of sales	(2,207)	(102)	108	42	(2,159)
Cost of labor	(1,407)	(70)	63	28	(1,386)
Occupancy and other	(2,198)	(108)	97	42	(2,167)
Restaurant profit	<u>\$ 1,009</u>	<u>\$ 83</u>	<u>\$ 6</u>	<u>\$ (21)</u>	<u>\$ 1,077</u>

Income / (Expense)	2014 vs. 2013				
	2013	Store Portfolio Actions	Other	FX	2014
Company sales	\$ 6,800	\$ 358	\$ (322)	\$ (15)	\$ 6,821
Cost of sales	(2,258)	(104)	151	4	(2,207)
Cost of labor	(1,360)	(75)	26	2	(1,407)
Occupancy and other	(2,132)	(124)	52	6	(2,198)
Restaurant profit	<u>\$ 1,050</u>	<u>\$ 55</u>	<u>\$ (93)</u>	<u>\$ (3)</u>	<u>\$ 1,009</u>

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth partially offset by the impact of refranchising. Significant other factors impacting Company sales and/or Restaurant profit were labor efficiencies and lower utilities, partially offset by wage inflation of 8%, company same-store sales declines of 4% and commodity inflation of 1%. See the Summary at the beginning of this section for discussion of China sales.

In 2014, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were wage rate inflation of 9% and same-store sales declines of 5% which led to inefficiencies in Cost of sales, partially offset by labor efficiencies and lower advertising expense.

Franchise and License Fees and Income

In 2015, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by the impact of refranchising and net new unit growth, partially offset by franchise and license same-store sales declines of 2%.

In 2014, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by the impact of refranchising, partially offset by franchise and license same-store sales declines of 4%.

G&A Expenses

In 2015 and 2014, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher compensation costs due to wage inflation and higher headcount.

Operating Profit

In 2015, the increase in Operating Profit, excluding the impact of foreign currency translation, was driven by net new unit growth and lower restaurant operating costs, partially offset by same-store sales declines, decreased Other income due to lower insurance recoveries related to the 2012 poultry supply incident and higher closure and impairment expenses. See the Summary at the beginning of this section for discussion of China sales.

In 2014, the decrease in Operating Profit, excluding the impact of foreign currency translation, was driven by same-store sales declines, higher restaurant operating costs and higher G&A expenses, partially offset by net new unit growth and increased Other income due to an insurance recovery related to the 2012 poultry supply incident.

KFC Division

The KFC Division has 14,577 units, approximately 70% of which are located outside the U.S. The KFC Division has experienced significant unit growth in emerging markets, which comprised approximately 40% of both the Division's units and profits, respectively, as of the end of 2015. Additionally, 90% of the KFC Division units were operated by franchisees and licensees as of the end of 2015. For 2015, KFC Division targeted at least 425 net new international units, low-single-digit same-store sales growth and Operating Profit growth of 10%.

				% B/(W)		% B/(W)	
	2015	2014	2013	2015		2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 2,106	\$ 2,320	\$ 2,192	(9)	5	6	9
Franchise and license fees and income	842	873	844	(4)	7	4	7
Total revenues	<u>\$ 2,948</u>	<u>\$ 3,193</u>	<u>\$ 3,036</u>	(8)	6	5	8
Restaurant profit	\$ 312	\$ 308	\$ 277	1	16	12	14
Restaurant margin %	14.8%	13.3%	12.6%	1.5 ppts.	1.4 ppts.	0.7 ppts.	0.7 ppts.
G&A expenses	\$ 386	\$ 383	\$ 391	(1)	(12)	2	—
Operating Profit	\$ 677	\$ 708	\$ 649	(4)	8	9	13
						2015	2014
System Sales Growth, reported						(4)%	2%
System Sales Growth, excluding FX						7 %	6%
Same-Store Sales Growth %						3 %	3%

<u>Unit Count</u>				% Increase (Decrease)	
	2015	2014	2013	2015	2014
Franchise & License	13,189	12,874	12,647	2	2
Company-owned	1,388	1,323	1,257	5	5
	<u>14,577</u>	<u>14,197</u>	<u>13,904</u>	3	2

	2014	New Builds	Closures	Refranchised	Acquired	Other	2015
Franchise & License	12,874	609	(302)	31	(12)	(11)	13,189
Company-owned	1,323	106	(22)	(31)	12	—	1,388
Total	<u>14,197</u>	<u>715</u>	<u>(324)</u>	<u>—</u>	<u>—</u>	<u>(11)</u>	<u>14,577</u>

	2013	New Builds	Closures	Refranchised	Acquired	Other	2014
Franchise & License	12,647	553	(356)	39	(4)	(5)	12,874
Company-owned	1,257	123	(22)	(39)	4	—	1,323
Total	<u>13,904</u>	<u>676</u>	<u>(378)</u>	<u>—</u>	<u>—</u>	<u>(5)</u>	<u>14,197</u>

Company Sales and Restaurant Profit

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

Income / (Expense)	2015 vs. 2014				
	2014	Store Portfolio Actions	Other	FX	2015
Company sales	\$ 2,320	\$ 54	\$ 65	\$ (333)	\$ 2,106
Cost of sales	(809)	(25)	2	115	(717)
Cost of labor	(552)	(8)	(16)	79	(497)
Occupancy and other	(651)	(16)	(6)	93	(580)
Restaurant profit	<u>\$ 308</u>	<u>\$ 5</u>	<u>\$ 45</u>	<u>\$ (46)</u>	<u>\$ 312</u>

Income / (Expense)	2014 vs. 2013				
	2013	Store Portfolio Actions	Other	FX	2014
Company sales	\$ 2,192	\$ 110	\$ 79	\$ (61)	\$ 2,320
Cost of sales	(766)	(43)	(26)	26	(809)
Cost of labor	(521)	(25)	(16)	10	(552)
Occupancy and other	(628)	(38)	(3)	18	(651)
Restaurant profit	<u>\$ 277</u>	<u>\$ 4</u>	<u>\$ 34</u>	<u>\$ (7)</u>	<u>\$ 308</u>

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions were driven by international net new unit growth partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 3%.

In 2014, the increase in Company sales associated with store portfolio actions was driven by international net new unit growth and the impact of the acquisition of restaurants in Turkey from an existing franchisee in April 2013, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were Company same-store sales growth of 4%, which was partially offset by higher restaurant operating costs in international markets.

Franchise and License Fees and Income

In 2015, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by growth in international net new units, franchise and license same-store sales growth of 3% and refranchising.

In 2014, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by growth in international net new units and franchise and license same-store sales growth of 2%.

G&A Expenses

In 2015, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by higher incentive compensation, increased headcount in international markets and higher pension costs, including lapping the favorable resolution of a pension issue in the UK during 2014.

In 2014, G&A expenses, excluding the impact of foreign currency translation, were even with prior year as the impact of higher headcount in strategic international markets, higher incentive compensation costs and the impact of the acquisition of restaurants in Turkey from an existing franchisee in April 2013 was offset by lower pension costs in 2014 including the favorable resolution of a pension issue in the UK.

Operating Profit

In 2015, the increase in Operating Profit, excluding the impact of foreign currency translation, was driven by same-store sales growth and international net new units, partially offset by higher G&A expenses.

In 2014, the increase in Operating Profit, excluding the impact of foreign currency translation, was driven by growth in same-store sales and international net new units, partially offset by higher restaurant operating costs in international markets.

Pizza Hut Division

The Pizza Hut Division has 13,728 units, approximately 60% of which are located in the U.S. The Pizza Hut Division operates as one brand that uses multiple distribution channels including delivery, dine-in and express (e.g. airports). Emerging markets comprised approximately 20% of both units and profits for the Division as of the end of 2015. Additionally, 94% of the Pizza Hut Division units were operated by franchisees and licensees as of the end of 2015. For 2015, Pizza Hut targeted at least 400 net new units, mid-single-digit same-store sales growth and 10% Operating Profit growth.

				% B/(W)		% B/(W)	
	2015	2014	2013	2015		2014	
				Reported	Ex FX	Reported	Ex FX
Company sales	\$ 609	\$ 607	\$ 609	—	3	—	(1)
Franchise and license fees and income	536	541	538	(1)	3	1	2
Total revenues	<u>\$ 1,145</u>	<u>\$ 1,148</u>	<u>\$ 1,147</u>	—	3	—	1
Restaurant profit	\$ 59	\$ 50	\$ 71	19	16	(30)	(32)
Restaurant margin %	9.7%	8.2%	11.7%	1.5 ppts.	1.0 ppts.	(3.5) ppts.	(3.7) ppts.
G&A expenses	\$ 266	\$ 246	\$ 224	(8)	(13)	(10)	(11)
Operating Profit	\$ 289	\$ 295	\$ 339	(2)	1	(13)	(13)
						2015	2014
System Sales Growth, reported						(2)%	— %
System Sales Growth, excluding FX						2 %	1 %
Same-Store Sales Growth (Decline) %						1 %	(1)%

<u>Unit Count</u>				% Increase (Decrease)	
	2015	2014	2013	2015	2014
Franchise & License	12,969	12,814	12,601	1	2
Company-owned	759	788	732	(4)	8
	<u>13,728</u>	<u>13,602</u>	<u>13,333</u>	1	2

	2014	New Builds	Closures	Refranchised	Acquired	Other	2015
Franchise & License	12,814	522	(418)	90	(44)	5	12,969
Company-owned	788	55	(38)	(90)	44	—	759
Total	<u>13,602</u>	<u>577</u>	<u>(456)</u>	<u>—</u>	<u>—</u>	<u>5</u>	<u>13,728</u>

	2013	New Builds	Closures	Refranchised	Acquired	Other	2014
Franchise & License	12,601	586	(359)	6	(19)	(1)	12,814
Company-owned	732	91	(48)	(6)	19	—	788
Total	13,333	677	(407)	—	—	(1)	13,602

Company Sales and Restaurant Profit

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

2015 vs. 2014					
Income / (Expense)	2014	Store Portfolio Actions	Other	FX	2015
Company sales	\$ 607	\$ 24	\$ (4)	\$ (18)	\$ 609
Cost of sales	(180)	(7)	12	6	(169)
Cost of labor	(188)	(6)	(2)	6	(190)
Occupancy and other	(189)	(9)	(1)	8	(191)
Restaurant profit	\$ 50	\$ 2	\$ 5	\$ 2	\$ 59

2014 vs. 2013					
Income / (Expense)	2013	Store Portfolio Actions	Other	FX	2014
Company sales	\$ 609	\$ 21	\$ (24)	\$ 1	\$ 607
Cost of sales	(173)	(7)	—	—	(180)
Cost of labor	(183)	(9)	4	—	(188)
Occupancy and other	(182)	(8)	—	1	(189)
Restaurant profit	\$ 71	\$ (3)	\$ (20)	\$ 2	\$ 50

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by the impact of acquisitions in Canada and the U.S. and net new unit growth, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were commodity deflation, primarily in the U.S., partially offset by company same-store sales declines of 1%.

In 2014, the increase in Company sales associated with store portfolio actions was driven by the impact of net new unit growth, the acquisition of restaurants in the U.S. and the acquisition of restaurants in Turkey from an existing franchisee in April 2013, partially offset by refranchising. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales declines of 4%, commodity inflation, primarily in the U.S., and higher self-insurance costs.

Franchise and License Fees and Income

In 2015, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by net new unit growth. Franchise and license same-store sales grew 1%.

In 2014, the increase in Franchise and license fees and income, excluding the impact of foreign currency translation, was driven by net new unit growth. Franchise and license same-store sales declined 1%.

G&A Expenses

In 2015, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by strategic international investments and higher U.S. pension costs.

In 2014, the increase in G&A expenses, excluding the impact of foreign currency translation, was driven by strategic international investments, higher litigation costs and lapping a pension curtailment gain in the first quarter of 2013 related to one of our UK pension plans, partially offset by lower pension costs in the U.S.

Operating Profit

In 2015, the increase in Operating Profit, excluding the impact of foreign currency translation, was driven by net new unit growth and same-store sales growth, partially offset by higher G&A expenses.

In 2014, the decrease in Operating Profit, excluding the impact of foreign currency translation, was driven by higher G&A expenses, same-store sales declines and higher restaurant operating costs, partially offset by net new unit growth.

Taco Bell Division

The Taco Bell Division has 6,400 units, the vast majority of which are in the U.S. The Company owns 15% of the Taco Bell units in the U.S., where the brand has historically achieved high restaurant margins and returns. For 2015, Taco Bell targeted about 150 net new units, low-single-digit same-store sales growth and Operating Profit growth of 6%.

				% B/(W)		% B/(W)	
				2015		2014	
	2015	2014	2013	Reported	Ex FX	Reported	Ex FX
Company sales	\$ 1,541	\$ 1,452	\$ 1,474	6	6	(2)	(2)
Franchise and license fees and income	447	411	395	9	9	4	4
Total revenues	<u>\$ 1,988</u>	<u>\$ 1,863</u>	<u>\$ 1,869</u>	7	7	—	—
Restaurant profit	\$ 343	\$ 274	\$ 287	25	25	(5)	(5)
Restaurant margin %	22.3%	18.9%	19.5%	3.4 pts.	3.4 pts.	(0.6) pts.	(0.6) pts.
G&A expenses	\$ 228	\$ 185	\$ 206	(23)	(23)	10	10
Operating Profit	\$ 539	\$ 480	\$ 456	12	12	5	5
						2015	2014
System Sales Growth, reported						8%	4%
System Sales Growth, excluding FX						8%	4%
Same-Store Sales Growth %						5%	3%

<u>Unit Count</u>				% Increase (Decrease)	
	2015	2014	2013	2015	2014
Franchise & License	5,506	5,273	5,157	4	2
Company-owned	894	926	891	(3)	4
	<u>6,400</u>	<u>6,199</u>	<u>6,048</u>	3	2

	2014	New Builds	Closures	Refranchised	Acquired	Other	2015
Franchise & License	5,273	239	(80)	65	—	9	5,506
Company-owned	926	37	(4)	(65)	—	—	894
Total	<u>6,199</u>	<u>276</u>	<u>(84)</u>	<u>—</u>	<u>—</u>	<u>9</u>	<u>6,400</u>

	2013	New Builds	Closures	Refranchised	Acquired	Other	2014
Franchise & License	5,157	209	(90)	3	(12)	6	5,273
Company-owned	891	27	(1)	(3)	12	—	926
Total	6,048	236	(91)	—	—	6	6,199

Company Sales and Restaurant Profit

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

2015 vs. 2014				
Income / (Expense)	2014	Store Portfolio		2015
		Actions	Other	
Company sales	\$ 1,452	\$ 38	\$ 51	\$ 1,541
Cost of sales	(431)	(10)	20	(421)
Cost of labor	(414)	(12)	(1)	(427)
Occupancy and other	(333)	(11)	(6)	(350)
Restaurant profit	\$ 274	\$ 5	\$ 64	\$ 343

2014 vs. 2013				
Income / (Expense)	2013	Store Portfolio		2014
		Actions	Other	
Company sales	\$ 1,474	\$ (47)	\$ 25	\$ 1,452
Cost of sales	(424)	14	(21)	(431)
Cost of labor	(419)	14	(9)	(414)
Occupancy and other	(344)	12	(1)	(333)
Restaurant profit	\$ 287	\$ (7)	\$ (6)	\$ 274

In 2015, the increase in Company sales and Restaurant profit associated with store portfolio actions was driven by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were company same-store sales growth of 4% and commodity deflation.

In 2014, the decrease in Company sales and Restaurant profit associated with store portfolio actions was driven by refranchising, partially offset by net new unit growth. Significant other factors impacting Company sales and/or Restaurant profit were commodity inflation and higher food and labor costs due to the launch of breakfast in the U.S., partially offset by company same-store sales growth of 2%.

Franchise and License Fees and Income

In 2015, the increase in Franchise and license fees and income was driven by franchise and license same-store sales growth of 5%, net new unit growth and lapping franchise incentives provided in the first quarter of 2014 related to the national launch of breakfast.

In 2014, the increase in Franchise and license fees and income was driven by same-store sales growth of 3%, refranchising and net new unit growth, partially offset by franchise incentives provided in the first quarter of 2014 related to the launch of breakfast.

G&A Expenses

In 2015, the increase in G&A expenses was driven by higher incentive compensation costs, investment spending on strategic growth and technology initiatives, higher U.S. pension costs, higher litigation costs and the creation of the Live Más Scholarship.

In 2014, the decrease in G&A expenses was driven by lower U.S. pension costs and lower incentive compensation costs.

Operating Profit

In 2015, the increase in Operating Profit was driven by same-store sales growth and net new unit growth, partially offset by higher G&A expenses.

In 2014, the increase in Operating Profit was driven by same-store sales growth, lower G&A expenses and net new unit growth, partially offset by higher restaurant operating costs.

India Division

The India Division has 811 units, predominately KFC and Pizza Hut restaurants. Effective January, 2016 the India Division was segmented by brand, integrated into the global KFC, Pizza Hut and Taco Bell Divisions, and is no longer a separate operating segment. While our consolidated results will not be impacted, we will restate our historical segment information during 2016 for consistent presentation.

	2015	2014	2013	% B/(W)		% B/(W)	
				2015		2014	
				Reported	Ex FX	Reported	Ex FX
Total revenues ^(a)	\$ 115	\$ 141	\$ 127	(18)	(14)	11	16
Operating Profit (loss)	\$ (19)	\$ (9)	\$ (15)	(108)	(118)	39	35
						2015	2014
System Sales Growth, reported ^(a)						(9)%	(1)%
System Sales Growth, excluding FX ^(a)						(5)%	3 %
Same-Store Sales Growth (Decline) %						(13)%	(5)%

<u>Unit Count</u>	2015	2014	2013	% Increase (Decrease)	
				2015	2014
Franchise & License	693	623	514	11	21
Company-owned	118	210	191	(44)	10
	<u>811</u>	<u>833</u>	<u>705</u>	(3)	18

	2014	New Builds	Closures	Refranchised	Acquired	2015
Franchise & License	623	54	(70)	86	—	693
Company-owned	210	—	(6)	(86)	—	118
Total	833	54	(76)	—	—	811

	2013	New Builds	Closures	Refranchised	Acquired	2014
Franchise & License	514	110	(21)	20	—	623
Company-owned	191	46	(7)	(20)	—	210
Total	705	156	(28)	—	—	833

- (a) Effective the beginning of 2014, results from our Mauritius stores are included in KFC and Pizza Hut Divisions as applicable. Prior year units have been adjusted for comparability while division System Sales Growth, Total Revenues and Operating Profit (loss) have not been restated due to the immaterial dollar impact of this change. While there was no impact to our consolidated results, this change negatively impacted India's 2014 System Sales Growth, reported and excluding FX, by 10% and 11%, respectively. This change negatively impacted India's 2014 Total revenues by 2% and Operating Profit (loss) by \$1 million.

Corporate & Unallocated

Income/(Expense)	2015	2014	2013	% B/(W)	
				2015	2014
Corporate G&A expenses	\$ (204)	\$ (189)	\$ (207)	(7)	9
Unallocated franchise and license expenses	(71)	—	—	NM	—
Unallocated closures and impairments	—	(463)	(295)	NM	(57)
Refranchising gain (loss) (See Note 4)	(10)	33	100	NM	(67)
Other unallocated	(37)	(11)	(6)	NM	(78)
Interest expense, net	(134)	(130)	(247)	(4)	47
Income tax provision (See Note 16)	(489)	(406)	(487)	(20)	17
Effective tax rate (See Note 16)	27.3%	28.5%	31.4%	1.2 ppts.	2.9 ppts.

Corporate G&A Expenses

In 2015, the increase in Corporate G&A expenses was driven by higher professional fees and higher pension costs.

In 2014, the decrease in Corporate G&A expenses was driven by lower pension costs, including lapping higher pension settlement charges, partially offset by higher professional fees.

Unallocated Franchise and License expenses

In 2015, Unallocated franchise and license expenses represent charges related to the KFC U.S. acceleration agreement. See Note 4.

Unallocated Closures and Impairments

In 2014 and 2013, Unallocated closures and impairments represent Little Sheep impairment charges. See Note 4.

Other Unallocated

In 2015, Other unallocated primarily includes foreign exchange losses and a write-down related to our decision to dispose of a corporate aircraft in China.

In 2014 and 2013, Other unallocated primarily includes foreign exchange losses.

Interest Expense, Net

The increase in interest expense, net for 2015 was driven by increased net short-term borrowings.

The decrease in interest expense, net for 2014 was driven by lapping \$118 million of premiums paid and other costs related to the extinguishment of debt in 2013. See Note 4.

Consolidated Cash Flows

Net cash provided by operating activities was \$2,139 million in 2015 versus \$2,049 million in 2014. The increase was primarily driven by lapping higher income tax payments in the prior year, partially offset by higher pension contributions.

In 2014, net cash provided by operating activities was \$2,049 million compared to \$2,139 million in 2013. The decrease was primarily driven by higher income taxes paid.

Net cash used in investing activities was \$682 million in 2015 compared to \$936 million in 2014. The decrease was primarily driven by higher refranchising proceeds and lower capital spending.

In 2014, net cash used in investing activities was \$936 million compared to \$886 million in 2013. The increase was primarily driven by lower refranchising proceeds, partially offset by lapping the acquisition of restaurants in Turkey from an existing franchisee in April 2013.

Net cash used in financing activities was \$1,292 million in 2015 compared to \$1,114 million in 2014. The increase was primarily driven by higher share repurchases and dividends, partially offset by higher net borrowings.

In 2014, net cash used in financing activities was \$1,114 million compared to \$1,451 million in 2013. The decrease was primarily driven by higher borrowings on our revolving credit facility.

Consolidated Financial Condition

The increase in our Short-term borrowings is primarily due to the outstanding balance of \$600 million on a new term loan facility and the reclassification of \$300 million Senior Unsecured Notes as short-term due to their April 2016 maturity date, partially offset by the maturity of \$250 million Senior Unsecured Notes in September 2015.

Long-term debt is also impacted by outstanding borrowings of \$701 million under our revolving credit facility as of December 26, 2015. See Note 10.

Other liabilities and deferred credits declined \$277 million primarily due to actuarial gains and cash contributions related to our pension plans.

Liquidity and Capital Resources

Operating in the retail food industry allows us to generate substantial cash flows from the operations of our company-owned stores and from our extensive franchise operations which require a limited YUM investment. Net cash provided by operating activities has exceeded \$2 billion each of the last five fiscal years. These operating cash flows have largely funded our historical capital spending and returns to shareholders in the form of cash dividends and share repurchases.

To the extent operating cash flows plus other sources of cash such as refranchising proceeds have not covered our desired levels of capital spending and returns to shareholders, we have had borrowing capacity to fund shortfalls. Net cash provided by operating activities, refranchising proceeds, capital spending, repurchases of shares of Common Stock and dividends paid on Common Stock each of the last three years are as follows:

	2015	2014	2013
Net Cash Provided by Operating Activities	\$ 2,139	\$ 2,049	\$ 2,139
Refranchising Proceeds	246	114	260
Capital spending	(973)	(1,033)	(1,049)
Repurchase shares of Common Stock	(1,200)	(820)	(770)
Dividends paid on Common Stock	(730)	(669)	(615)

We generate a significant amount of cash from operating activities outside the U.S. that we have used historically to fund our international development. To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including returns to shareholders and debt repayments, we have historically been able to do so in a tax-efficient manner.

If we experience an unforeseen decrease in our cash flows from our U.S. businesses or are unable to refinance future U.S. debt maturities we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

As previously noted we intend to spin-off our China business from YUM into an independent, publicly-traded company prior to the end of 2016. Upon completion of the planned spin-off, YUM will become more of a “pure play” franchisor with more stable earnings, higher profit margins, lower capital requirements and stronger cash flow conversion.

YUM has announced its intention to return approximately \$6.2 billion of capital to shareholders prior to this planned spin-off, the majority of which would be funded by incremental borrowings. We expect these incremental borrowings to occur as the Company transitions to a non-investment grade credit rating with a balance sheet more consistent with highly-levered peer restaurant franchise companies.

As part of our intention to return up to \$6.2 billion to shareholders, we began increasing our rate of share repurchases in October, 2015. In December, 2015 we entered into a \$1.5 billion short-term credit facility to help fund these share repurchases, and there were \$600 million of outstanding borrowings related to this facility as of December 26, 2015. We expect to borrow an additional \$5.2 billion in 2016.

When we announced our recapitalization plan, our credit ratings were lowered to non-investment grade by both Standard & Poor's (BB) and Moody's Investor Services (Ba3). This downgrade did not significantly impact our 2015 borrowing costs and we do not expect it to impact our ability to execute our recapitalization plan or the balance of our planned shareholder returns. While we do not anticipate any further downgrade to our credit rating, such a downgrade would increase the Company's current borrowing costs and could impact the Company's ability to access the credit markets cost effectively if necessary. Based on the amount and composition of our debt at December 26, 2015, our interest expense would not materially increase on a full-year basis should we receive a further one-level downgrade in our ratings.

Borrowing Capacity

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

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 26, 2015, our unused Credit Facility totaled \$594 million net of outstanding letters of credit of \$5 million and outstanding borrowings of \$701 million. The interest rate for borrowings under the Credit Facility ranges from 1.00% to 1.75% over the “London Interbank Offered Rate” (“LIBOR”). The exact spread over LIBOR under the Credit Facility depends upon our performance against specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

On December 8, 2015, we entered into a credit agreement providing for an unsecured term loan facility (the “Short-Term Loan Credit Facility”) in an amount up to \$1.5 billion which matures in June 2016 with an option for YUM to extend maturity for an additional three months and includes three participating banks. This credit agreement is being used to fund a portion of our planned capital returns to shareholders.

Under the terms of the Short-Term Loan Credit Facility, we may borrow up to the full amount of the facility in up to three draws. At December 26, 2015, our unused Short-term Loan Credit Facility totaled \$900 million net of outstanding borrowings of \$600 million. The interest rate for most borrowings under the Short-Term Loan Credit Facility ranges from 1.00% to 1.75% over LIBOR. The exact spread over LIBOR under the Short-Term Loan Credit Facility depends upon our performance against specified financial criteria. Interest on any outstanding borrowings under the Short-Term Loan Credit Facility is payable at least quarterly.

Both the Credit Facility and the Short-Term Loan Credit Facility are unconditionally guaranteed by our principal domestic subsidiaries and contain financial covenants relating to the maintenance of leverage and fixed charge coverage ratios. The agreements for both credit facilities also contain affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company's strong balance sheet and cash flows we were able to comply with all debt covenant requirements at December 26, 2015 with a considerable amount of cushion. Additionally, both facilities contain cross-default provisions whereby our failure to make any payment on our indebtedness in a principal amount in excess of \$125 million, or the acceleration of the maturity of any such indebtedness, will constitute a default under such agreement.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2016 through 2043 and stated interest rates ranging from 3.75% to 6.88%. The 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 \$2.5 billion at December 26, 2015. Our Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled, within 30 days after notice.

Contractual Obligations

Our significant contractual obligations and payments as of December 26, 2015 included:

	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long-term debt obligations ^(a)	\$ 5,072	\$ 1,048	\$ 1,233	\$ 759	\$ 2,032
Capital leases ^(b)	287	20	40	39	188
Operating leases ^(b)	4,957	672	1,189	973	2,123
Purchase obligations ^(c)	765	568	136	54	7
Benefit plans ^(d)	259	61	100	32	66
Total contractual obligations	<u>\$ 11,340</u>	<u>\$ 2,369</u>	<u>\$ 2,698</u>	<u>\$ 1,857</u>	<u>\$ 4,416</u>

(a) Amounts include maturities of debt outstanding as of December 26, 2015 and expected interest payments on those outstanding amounts on a nominal basis. See Note 10.

(b) These obligations, which are shown on a nominal basis, relate primarily to approximately 8,000 company-owned restaurants. See Note 11.

(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 supply agreements, marketing, information technology, purchases of property, plant and equipment ("PP&E") as well as consulting, maintenance and other agreements.

(d) Includes actuarially-determined timing of payments from our most significant unfunded pension plan as well as scheduled payments from our deferred compensation plan and other unfunded benefit plans where payment dates are determinable. This table excludes \$34 million of future benefit payments for deferred compensation and other unfunded benefit plans to be paid upon separation of employee's service or retirement from the company, as we cannot reasonably estimate the dates of these future cash payments.

We sponsor noncontributory defined benefit pension plans covering certain salaried and hourly employees, the most significant of which are in the U.S. and UK. The most significant of the U.S. plans, the YUM Retirement Plan (the "Plan"), is funded while benefits from our other significant U.S. plan are paid by the Company as incurred (see footnote (d) above). Our funding policy for the Plan is to contribute annually amounts that will at least equal the minimum amounts required to comply with the Pension Protection Act of 2006. However, additional voluntary contributions are made from time to time to improve the Plan's funded status. At December 26, 2015 the Plan was in a net underfunded position of \$29 million. The UK pension plans were in a net overfunded position of \$58 million at our 2015 measurement date.

We do not anticipate making any significant contributions to the Plan in 2016. Investment performance and corporate bond rates have a significant effect on our net funding position as they drive our asset balances and discount rate assumptions. Future changes in investment performance and corporate bond rates could impact our funded status and the timing and amounts of required contributions in 2016 and beyond.

Our post-retirement health care plan in the U.S. is not required to be funded in advance, but is pay as you go. We made post-retirement benefit payments of \$6 million in 2015 and no future funding amounts are included in the contractual obligations table. See Note 13.

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, product 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 property and casualty losses and employee healthcare and long-term disability claims represents estimated reserves for incurred claims that have yet to be filed or settled.

We have not included in the contractual obligations table approximately \$28 million of liabilities for unrecognized tax benefits relating to 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 exclude amounts that are temporary in nature and for which we anticipate that over time there will be no net cash outflow.

We have excluded from the contractual obligations table certain commitments associated with the KFC U.S. Acceleration Agreement (See Note 4) as we cannot reliably estimate the specific timing of the remaining investments to be made in each of the next two years. In connection with this agreement we anticipate investing a total of approximately \$125 million through 2017 primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels, of which \$72 million was invested in 2015.

Off-Balance Sheet Arrangements

See the Lease Guarantees, Franchise Loan Pool and Equipment Guarantees, and Unconsolidated Affiliates Guarantees sections of Note 18 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements Not Yet Adopted

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

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 review long-lived assets of restaurants (primarily PP&E and 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 recoverability based on the restaurant's forecasted undiscounted cash flows, which incorporate our best estimate of sales growth and margin improvement based upon our plans for the unit and actual results at comparable restaurants. For restaurant assets that are deemed to not be recoverable, we write down the impaired restaurant to its estimated fair value. Key assumptions in the determination of fair value are the future after-tax cash flows of the restaurant, which are reduced by future royalties a franchisee would pay, and a discount rate. The after-tax cash flows incorporate reasonable sales growth and margin improvement assumptions that would be used by a franchisee in the determination of a purchase price for the restaurant. Estimates of future cash flows are highly subjective judgments and can be significantly impacted by changes in the business or economic conditions.

We perform an impairment evaluation at a restaurant group level if it is more likely than not that we will refranchise restaurants as a group. Expected net sales proceeds are generally based on actual bids from the buyer, if available, or anticipated bids given

the discounted projected after-tax cash flows for the group of restaurants. Historically, these anticipated bids have been reasonably accurate estimations of the proceeds ultimately received. The after-tax cash flows used in determining the anticipated bids incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement as well as expectations as to the useful lives of the restaurant assets. These after-tax cash flows also include a deduction for the anticipated, future royalties we would receive under a franchise agreement with terms substantially at market entered into simultaneously with the refranchising transaction.

The discount rate used in the fair value calculations is our estimate of the required rate of return that a franchisee would expect to receive when purchasing a similar restaurant or groups of restaurants and the related long-lived assets. The discount rate incorporates rates of returns for historical refranchising market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

We evaluate 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. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. 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 after-tax cash flows associated with the intangible asset. Our most significant indefinite-lived intangible asset is our Little Sheep trademark with a book value of \$56 million at December 26, 2015. The fair value estimate of the Little Sheep trademark in our fourth quarter impairment testing exceeded its carrying value. Fair value was determined using a relief-from-royalty valuation approach that included estimated future revenues as a significant input, and a discount rate of 13% as our estimate of the required rate-of-return that a third-party buyer would expect to receive when purchasing the Little Sheep trademark. The primary drivers of fair value include franchise revenue growth and revenues from a wholly-owned business that sells seasoning to retail customers. Franchise revenue growth reflects annual same-store sales growth of 4% and approximately 35 new franchise units per year, partially offset by the impact of approximately 25 franchise closures per year. The seasoning business is forecasted to generate sales growth rates consistent with historical results.

Impairment of Goodwill

We evaluate goodwill for impairment on an annual basis as of the beginning of our fourth quarter or more often if an event occurs or circumstances change that indicates impairment might exist. Goodwill is evaluated for impairment by determining whether the fair value of our reporting units exceed their carrying values. Our reporting units are our business units (which are aligned based on geography) in our KFC, Pizza Hut and Taco Bell Divisions and individual brands in our China and India Divisions. Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated using discounted expected future after-tax cash flows from Company-owned restaurant operations and franchise royalties.

Future cash flow estimates and the discount rate are the key assumptions when estimating the fair value of a reporting unit. Future cash flows are based on growth expectations relative to recent historical performance and incorporate sales growth and margin improvement assumptions that we believe a third-party buyer would assume when determining a purchase price for the reporting unit. The sales growth and margin improvement assumptions that factor into the discounted cash flows are highly correlated as cash flow growth can be achieved through various interrelated strategies such as product pricing and restaurant productivity initiatives. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

The fair values of all our reporting units with goodwill balances were substantially in excess of their respective carrying values as of the 2015 goodwill testing date.

When we refranchise restaurants, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising versus the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which include a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the refranchising transaction. Appropriate adjustments are made to the fair value determinations if such franchise agreement is determined to not be at prevailing market rates. When determining whether such franchise agreement is at prevailing market rates our primary consideration is consistency with the terms of our current franchise agreements both within the country that the restaurants are being refranchised in and around the world. The Company believes consistency in royalty rates as a percentage of sales is appropriate as the Company and franchisee share in the impact of near-term fluctuations in sales results with the acknowledgment that over the long-term the royalty rate represents an appropriate rate for both parties.

The discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee is reduced by future royalties the franchisee will pay the Company. The Company thus considers the fair value of future royalties to be received under the franchise agreement as fair value retained in its determination of the goodwill to be written off when refranchising. Others may consider the fair value of these future royalties as fair value disposed of and thus would conclude that a larger percentage of a reporting unit's fair value is disposed of in a refranchising transaction.

During 2015, the Company's reporting units with the most significant refranchising activity and recorded goodwill were KFC India, Taco Bell U.S. and KFC China. Within KFC India, 86 restaurants were refranchised (representing 42% of beginning-of-year company units) and less than \$1 million in goodwill was written off (representing 25% of beginning-of-year goodwill). Within Taco Bell U.S., 65 restaurants were refranchised (representing 7% of beginning-of-year company units) and \$2 million in goodwill was written off (representing 2% of beginning-of-year goodwill). Within KFC China, 52 restaurants were refranchised (representing 1% of beginning-of-year company units) and less than \$1 million in goodwill was written off (representing less than 1% of beginning-of-year goodwill).

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

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, our reserve includes a risk margin to cover unforeseen events that may occur over the several years required to settle claims, increasing our confidence level that the recorded reserve is adequate.

See Note 18 for a further discussion of our insurance programs.

Pension Plans

Certain of our employees are covered under defined benefit pension plans. Our two most significant plans are in the U.S. and combined had a projected benefit obligation ("PBO") of \$1,134 million and a fair value of plan assets of \$1,004 million at December 26, 2015.

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 PBOs are highly sensitive to changes in discount rates. For our U.S. plans, we measured our PBOs using a discount rate of 4.90% at December 26, 2015. 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 or S&P with cash flows that mirror our expected benefit payment cash flows under the plans. We exclude from the model those corporate debt instruments flagged by Moody's or S&P for a potential downgrade (if the potential downgrade would result in a rating below Aa by both Moody's and S&P) and bonds with yields that were two standard deviations or more above the mean. In considering possible bond portfolios, the model allows the bond cash flows for a particular year to exceed the expected benefit payment cash flows for that year. Such excesses are assumed to be reinvested at appropriate one-year forward rates and used to meet the benefit payment 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 ensure 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 these U.S. plans' PBOs by approximately \$70 million at our measurement date. Conversely, a 50 basis-point decrease in this discount rate would have increased our U.S. plans' PBOs by approximately \$80 million at our measurement date.

The pension expense we will record in 2016 is also impacted by the discount rate, as well as the long-term rates of return on plan assets and mortality assumptions we selected at our measurement date. We expect pension expense for our U.S. plans to decrease approximately \$35 million in 2016. The decrease is primarily driven by a decrease in amortization of net loss due to lower net unrecognized losses in Accumulated other comprehensive income. Lower net unrecognized losses in Accumulated other comprehensive income are primarily a result of a higher discount rate at our 2015 measurement date. A 50 basis-point change in our discount rate assumption at our measurement date would impact our 2016 U.S. pension expense by approximately \$6 million.

Our estimated long-term rate of return on U.S. plan assets is based upon the weighted-average of historical returns for each asset category. Our expected long-term rate of return on U.S. plan assets, for purposes of determining 2016 pension expense, at December 26, 2015 was 6.75%. We believe this rate is appropriate given the composition of our plan assets and historical market

returns thereon. A 100 basis point change in our expected long-term rate of return on plan assets assumption would impact our 2016 U.S. pension expense by approximately \$10 million. Additionally, every 100 basis point variation in actual return on plan assets versus our expected return of 6.75% will impact our unrecognized pre-tax actuarial net loss by approximately \$10 million.

A decrease in discount rates over time has largely contributed to an unrecognized pre-tax actuarial net loss of \$138 million included in Accumulated other comprehensive income (loss) for these U.S. plans at December 26, 2015. We will recognize approximately \$6 million of such loss in net periodic benefit cost in 2016 versus \$45 million recognized in 2015. See Note 13.

Income Taxes

At December 26, 2015, we had valuation allowances of approximately \$250 million to reduce our \$1.2 billion of deferred tax assets to amounts that are more likely than not to be realized. The net deferred tax assets primarily relate to temporary differences in profitable U.S. federal, state and foreign jurisdictions, net operating losses in certain foreign jurisdictions, the majority of which do not expire, and U.S. foreign tax credit carryovers that expire 10 years from inception and for which we anticipate having foreign earnings to utilize. In evaluating our ability to recover our deferred tax assets, we consider future taxable income in the various jurisdictions as well as carryforward periods and restrictions on usage. The estimation of future taxable income in these jurisdictions and our resulting ability to utilize deferred tax assets can significantly change based on future events, including our determinations as to 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. We recognize the benefit of positions taken or expected to be taken in our tax returns in our Income Tax Provision when it is more likely than not that the position would be sustained upon examination by these 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 26, 2015 we had \$98 million of unrecognized tax benefits, \$89 million of which are temporary in nature and, if recognized, would not impact the effective tax rate. We evaluate unrecognized tax benefits, including interest thereon, on a quarterly basis to ensure that they have been appropriately adjusted for events, including audit settlements, which may impact our ultimate payment for such exposures.

We have investments in foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone these basis differences from reversing with a tax consequence. We estimate that our total temporary difference upon which we have not provided deferred tax is approximately \$2.3 billion at December 26, 2015. A determination of the deferred tax liability on this amount is not practicable.

If our intentions regarding our ability and intent to postpone these basis differences from reversing with a tax consequence change, deferred tax may need to be provided that could materially impact the provision for income taxes.

See Note 16 for a further discussion of our income taxes.

Item 7A. 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 financial and commodity derivative instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have processes 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 have attempted to minimize this risk and lower our overall borrowing costs on a portion of our debt through the utilization of derivative financial instruments, primarily interest rate swaps. These swaps were entered into with financial institutions and have reset dates and critical terms that match those of the underlying debt. Accordingly, any change in fair value associated with interest rate swaps is offset by the opposite impact on the related debt.

At December 26, 2015 and December 27, 2014 a hypothetical 100 basis-point increase in short-term interest rates would result, over the following twelve-month period, in a reduction of approximately \$14 million and \$5 million, respectively, in income before income taxes. The estimated reductions are based upon the current 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 26, 2015 and December 27, 2014 would decrease approximately \$1 million and \$4 million, respectively, as a result of the same hypothetical 100 basis-point increase and the fair value of our Senior

Unsecured Notes at December 26, 2015 and December 27, 2014 would decrease approximately \$119 million and \$182 million, respectively. Fair value was determined based on the present value of expected future cash flows considering the risks involved and using discount rates appropriate for the duration.

Foreign Currency Exchange Rate Risk

Changes in foreign currency exchange rates impact the translation of our reported foreign currency denominated earnings, cash flows and net investments in foreign operations and the fair value of our foreign currency denominated financial instruments. Historically, we have chosen not to hedge foreign currency risks related to our foreign currency denominated earnings and cash flows through the use of financial instruments. We attempt to minimize the exposure related to our net investments in foreign operations by financing those investments with local currency denominated 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 receivables and payables. At times, we utilize forward contracts and cross-currency swaps to reduce our exposure related to these intercompany 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.

The Company's foreign currency net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately \$4.7 billion as of December 26, 2015. 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, Europe and the Americas. For the fiscal year ended December 26, 2015 Operating Profit would have decreased approximately \$155 million if all foreign currencies had uniformly weakened 10% relative to the U.S. dollar. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

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.

Item 8. Financial Statements and Supplementary Data.

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Financial Statement Schedules

No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the above-listed financial statements or notes thereto.

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 26, 2015 and December 27, 2014, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the fiscal years in the three-year period ended December 26, 2015. We also have audited YUM's internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. YUM's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Item 9A, "Management's Report on Internal Control over Financial Reporting." Our responsibility is to express an opinion on these consolidated financial statements and an opinion on YUM's internal control over financial reporting 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the consolidated financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YUM as of December 26, 2015 and December 27, 2014, and the results of its operations and its cash flows for each of the fiscal years in the three-year period ended December 26, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, YUM maintained, in all material respects, effective internal control over financial reporting as of December 26, 2015, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

s/s KPMG LLP
Louisville, Kentucky
February 16, 2016

Consolidated Statements of Income

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013

(in millions, except per share data)

	2015	2014	2013
Revenues			
Company sales	\$ 11,145	\$ 11,324	\$ 11,184
Franchise and license fees and income	1,960	1,955	1,900
Total revenues	13,105	13,279	13,084
Costs and Expenses, Net			
Company restaurants			
Food and paper	3,507	3,678	3,669
Payroll and employee benefits	2,517	2,579	2,499
Occupancy and other operating expenses	3,335	3,425	3,333
Company restaurant expenses	9,359	9,682	9,501
General and administrative expenses	1,504	1,419	1,412
Franchise and license expenses	242	160	158
Closures and impairment (income) expenses	79	535	331
Refanchising (gain) loss	10	(33)	(100)
Other (income) expense	(10)	(41)	(16)
Total costs and expenses, net	11,184	11,722	11,286
Operating Profit	1,921	1,557	1,798
Interest expense, net	134	130	247
Income Before Income Taxes	1,787	1,427	1,551
Income tax provision	489	406	487
Net Income – including noncontrolling interests	1,298	1,021	1,064
Net Income (loss) – noncontrolling interests	5	(30)	(27)
Net Income – YUM! Brands, Inc.	\$ 1,293	\$ 1,051	\$ 1,091
Basic Earnings Per Common Share	\$ 2.97	\$ 2.37	\$ 2.41
Diluted Earnings Per Common Share	\$ 2.92	\$ 2.32	\$ 2.36
Dividends Declared Per Common Share	\$ 1.74	\$ 1.56	\$ 1.41

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013

(in millions)

	2015	2014	2013
Net income - including noncontrolling interests	\$ 1,298	\$ 1,021	\$ 1,064
Other comprehensive income (loss), net of tax:			
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature			
Adjustments and gains (losses) arising during the year	(259)	(149)	10
Reclassifications of adjustments and (gains) losses into Net Income	115	2	—
	(144)	(147)	10
Tax (expense) benefit	—	4	(2)
	(144)	(143)	8
Changes in pension and post-retirement benefits			
Unrealized gains (losses) arising during the year	101	(209)	221
Reclassification of (gains) losses into Net Income	53	27	83
	154	(182)	304
Tax (expense) benefit	(57)	69	(115)
	97	(113)	189
Changes in derivative instruments			
Unrealized gains (losses) arising during the year	32	23	6
Reclassification of (gains) losses into Net Income	(41)	(23)	(2)
	(9)	—	4
Tax (expense) benefit	1	—	(1)
	(8)	—	3
Other comprehensive income (loss), net of tax	(55)	(256)	200
Comprehensive Income - including noncontrolling interests	1,243	765	1,264
Comprehensive Income (loss) - noncontrolling interests	(1)	(32)	(23)
Comprehensive Income - Yum! Brands, Inc.	\$ 1,244	\$ 797	\$ 1,287

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013

(in millions)

	2015	2014	2013
Cash Flows – Operating Activities			
Net Income – including noncontrolling interests	\$ 1,298	\$ 1,021	\$ 1,064
Depreciation and amortization	747	739	721
Closures and impairment (income) expenses	79	535	331
Refranchising (gain) loss	10	(33)	(100)
Contributions to defined benefit pension plans	(98)	(18)	(23)
Losses and other costs related to the extinguishment of debt	—	—	120
Deferred income taxes	(89)	(172)	(24)
Equity income from investments in unconsolidated affiliates	(41)	(30)	(26)
Distributions of income received from unconsolidated affiliates	21	28	43
Excess tax benefit from share-based compensation	(50)	(42)	(44)
Share-based compensation expense	57	55	49
Changes in accounts and notes receivable	(54)	(21)	(12)
Changes in inventories	58	(22)	18
Changes in prepaid expenses and other current assets	(22)	12	(21)
Changes in accounts payable and other current liabilities	128	60	(102)
Changes in income taxes payable	20	(143)	14
Other, net	75	80	131
Net Cash Provided by Operating Activities	2,139	2,049	2,139
Cash Flows – Investing Activities			
Capital spending	(973)	(1,033)	(1,049)
Proceeds from refranchising of restaurants	246	114	260
Acquisitions	(9)	(28)	(99)
Other, net	54	11	2
Net Cash Used in Investing Activities	(682)	(936)	(886)
Cash Flows – Financing Activities			
Proceeds from long-term debt	—	—	599
Repayments of long-term debt	(263)	(66)	(666)
Revolving credit facilities, three months or less, net	285	416	—
Short-term borrowings, by original maturity			
More than three months – proceeds	609	2	56
More than three months – payments	—	(2)	(56)
Three months or less, net	—	—	—
Repurchase shares of Common Stock	(1,200)	(820)	(770)
Excess tax benefit from share-based compensation	50	42	44
Employee stock option proceeds	12	29	37
Dividends paid on Common Stock	(730)	(669)	(615)
Other, net	(55)	(46)	(80)
Net Cash Used in Financing Activities	(1,292)	(1,114)	(1,451)
Effect of Exchange Rates on Cash and Cash Equivalents	(6)	6	(5)
Net Increase (Decrease) in Cash and Cash Equivalents	159	5	(203)
Cash and Cash Equivalents – Beginning of Year	578	573	776
Cash and Cash Equivalents – End of Year	\$ 737	\$ 578	\$ 573

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

YUM! Brands, Inc. and Subsidiaries

December 26, 2015 and December 27, 2014

(in millions)

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 737	\$ 578
Accounts and notes receivable, net	377	325
Inventories	229	301
Prepaid expenses and other current assets	242	254
Advertising cooperative assets, restricted	103	95
Total Current Assets	1,688	1,553
Property, plant and equipment, net	4,189	4,498
Goodwill	656	700
Intangible assets, net	271	318
Investments in unconsolidated affiliates	61	52
Other assets	534	560
Deferred income taxes	676	653
Total Assets	\$ 8,075	\$ 8,334
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 1,985	\$ 1,970
Income taxes payable	77	77
Short-term borrowings	923	267
Advertising cooperative liabilities	103	95
Total Current Liabilities	3,088	2,409
Long-term debt	3,054	3,077
Other liabilities and deferred credits	958	1,235
Total Liabilities	7,100	6,721
Redeemable noncontrolling interest	6	9
Shareholders' Equity		
Common Stock, no par value, 750 shares authorized; 420 shares and 434 shares issued in 2015 and 2014, respectively	—	—
Retained earnings	1,150	1,737
Accumulated other comprehensive income (loss)	(239)	(190)
Total Shareholders' Equity – YUM! Brands, Inc.	911	1,547
Noncontrolling interests	58	57
Total Shareholders' Equity	969	1,604
Total Liabilities, Redeemable Noncontrolling Interest and Shareholders' Equity	\$ 8,075	\$ 8,334

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 26, 2015, December 27, 2014 and December 28, 2013

(in millions)

	Yum! Brands, Inc.						
	Issued Common Stock		Retained Earnings	Accumulated Other Comprehensive Income(Loss)	Noncontrolling Interests	Total Shareholders' Equity	Redeemable Noncontrolling Interest
	Shares	Amount					
Balance at December 29, 2012	451	\$ —	\$ 2,286	\$ (132)	\$ 99	\$ 2,253	\$ 59
Net Income (loss)			1,091		(5)	1,086	(22)
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$2 million)				4	2	6	2
Pension and post-retirement benefit plans (net of tax impact of \$115 million)				189		189	
Net unrealized gain on derivative instruments (net of tax impact of \$1 million)				3		3	
Comprehensive Income (loss)						1,284	(20)
Dividends declared			(635)		(18)	(653)	
Acquisition of Little Sheep store-level noncontrolling interests					(15)	(15)	
Repurchase of shares of Common Stock	(11)	(110)	(640)			(750)	
Employee stock option and SARs exercises (includes tax impact of \$42 million)	3	49				49	
Compensation-related events (includes tax impact of \$8 million)		61				61	
Balance at December 28, 2013	443	\$ —	\$ 2,102	\$ 64	\$ 63	\$ 2,229	\$ 39
Net Income (loss)			1,051		(1)	1,050	(29)
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$4 million)				(143)	(1)	(144)	(1)
Reclassification of translation adjustments into income				2		2	
Pension and post-retirement benefit plans (net of tax impact of \$69 million)				(113)		(113)	
Comprehensive Income (loss)						795	(30)
Dividends declared			(691)		(4)	(695)	
Repurchase of shares of Common Stock	(11)	(95)	(725)			(820)	
Employee stock option and SARs exercises (includes tax impact of \$37 million)	2	33				33	
Compensation-related events (includes tax impact of \$5 million)		62				62	
Balance at December 27, 2014	434	\$ —	\$ 1,737	\$ (190)	\$ 57	\$ 1,604	\$ 9
Net Income (loss)			1,293		6	1,299	(1)
Translation adjustments and gains (losses) from intra-entity transactions of a long-term investment nature (net of tax impact of \$3 million)				(250)	(4)	(254)	(2)
Reclassification of translation adjustments into income (net of tax impact of \$3 million)				112		112	
Pension and post-retirement benefit plans (net of tax impact of \$57 million)				97		97	
Net unrealized loss on derivative instruments (net of tax impact of \$1 million)				(8)		(8)	
Comprehensive Income (loss)						1,246	(3)
Dividends declared		—	(756)			(756)	
Acquisition of Little Sheep store-level noncontrolling interests		1			(1)	—	
Repurchase of shares of Common Stock	(16)	(76)	(1,124)			(1,200)	
Employee stock option and SARs exercises (includes tax impact of \$43 million)	2	11				11	
Compensation-related events (includes tax impact of \$7 million)		64				64	

Balance at December 26, 2015	<u>420</u>	<u>\$ —</u>	<u>\$ 1,150</u>	<u>\$ (239)</u>	<u>\$ 58</u>	<u>\$ 969</u>	<u>\$ 6</u>
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See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

(Tabular amounts in millions, except share data)

Note 1 – Description of Business

YUM! Brands, Inc. and Subsidiaries (collectively referred to herein as “YUM” or the “Company”) comprise primarily the worldwide operations of KFC, Pizza Hut and Taco Bell (collectively the “Concepts”). YUM has over 42,000 units of which 57% are located outside the U.S. in more than 130 countries and territories. YUM was created as an independent, publicly-owned company on October 6, 1997 via a tax-free distribution by our former parent, PepsiCo, Inc., of our Common Stock 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, convenient, 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, train stations, subways, 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.

As of December 26, 2015, YUM consisted of five operating segments:

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

Effective January, 2016 the Company's India Division was segmented by brand, integrated into the global KFC, Pizza Hut and Taco Bell Divisions, and is no longer a separate operating segment. While our consolidated results will not be impacted, we will restate our historical segment information during 2016 for consistent presentation.

In October, 2015 we announced our intent to separate YUM's China business from YUM into an independent, publicly-traded company by the end of 2016. This transaction, which is expected to be a tax-free spin-off of our China business, will create two powerful, independent, focused growth companies with distinct strategies, financial profiles and investment characteristics.

Completion of the spin-off will be subject to certain conditions, including, among others, receiving final approval from the YUM Board of Directors, receipt of various regulatory approvals, receipt of an opinion of counsel with respect to certain tax matters, the effectiveness of filings related to public listing and applicable securities laws, and other terms and conditions as may be determined by the Board of Directors.

Note 2 – Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles in the United States of America (“GAAP”) requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation and Basis of Preparation. Intercompany accounts and transactions have been eliminated in consolidation. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. We also consider for consolidation an entity, in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (“VIE”), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it.

Our most significant variable interests are in entities that operate restaurants under our Concepts' franchise and license arrangements. We do not generally have an equity interest in our franchisee or licensee businesses with the exception of certain entities in China as discussed below. Additionally, we do not typically provide significant financial support such as loans or guarantees to our franchisees and licensees. However, we do have variable interests in certain franchisees through real estate lease arrangements to which we are a party. At the end of 2015, YUM has future lease payments due from franchisees, on a nominal basis, of approximately \$345 million, and we are contingently liable on certain other lease agreements that have been assigned to franchisees. See Lease Guarantees, Franchise Loan Pool and Equipment Guarantees and Unconsolidated Affiliate Guarantees sections in Note 18. As our franchise and license arrangements provide our franchisee and licensee entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might otherwise be considered a VIE.

See Note 18 for additional information on an entity that operates a franchise lending program that is a VIE in which we have a variable interest but for which we are not the primary beneficiary and thus do not consolidate.

Certain investments in entities that operate KFCs in China are accounted for by the equity method. These entities are not VIEs and our lack of majority voting rights precludes us from controlling these affiliates. Thus, we do not consolidate these affiliates, instead accounting for them under the equity method. Our Little Sheep brand, a casual dining concept that is part of our China Division, holds an investment in a meat processing entity that is also accounted for by the equity method. Our share of the net income or loss of those unconsolidated affiliates is included in Other (income) expense.

We report Net income attributable to non-controlling interests, which includes the minority shareholders of the entities that operate the KFCs in Beijing and Shanghai, China and the minority shareholders of Little Sheep, separately on the face of our Consolidated Statements of Income. The portion of equity not attributable to the Company for KFC Beijing and KFC Shanghai is reported within equity, separately from the Company's equity on the Consolidated Balance Sheets. The shareholder that owns the remaining 7% ownership interest in Little Sheep holds an option that, if exercised, requires us to redeem their non-controlling interest. This Redeemable non-controlling interest is classified outside permanent equity and recorded in the Consolidated Balance Sheet as the greater of the initial carrying amount adjusted for the non-controlling interest's share of net income (loss), or its redemption value.

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-owned and franchise restaurants and are generally based on a percentage of restaurant sales. We maintain certain variable interests in these cooperatives. As the cooperatives are required to spend all funds collected on advertising and promotional programs, total equity at risk is not sufficient to permit the cooperatives to finance their activities without additional subordinated financial support. Therefore, these cooperatives are VIEs. As a result of our voting rights, we consolidate certain of these cooperatives for which we are the primary beneficiary. Advertising cooperative assets, consisting primarily of cash received from the Company and franchisees and accounts receivable from franchisees, can only be used to settle obligations of the respective cooperative. Advertising cooperative liabilities represent the corresponding obligation arising from the receipt of the contributions to purchase advertising and promotional programs for which creditors do not have recourse to the general credit of the Company as the primary beneficiary. Therefore, 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. 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, 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. 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. Our subsidiaries operate on similar fiscal calendars except that China, India and certain other international subsidiaries operate on a monthly calendar, and thus never have a 53rd week, with two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter. International businesses within our KFC, Pizza Hut and Taco Bell divisions close approximately one month earlier to facilitate consolidated reporting. Our next fiscal year scheduled to include a 53rd week is 2016.

Foreign Currency. The functional currency of our foreign entities is the currency of the primary economic environment in which the entity operates. Functional currency determinations are made based upon a number of economic factors, including but not limited to cash flows and financing transactions. The operations, assets and liabilities of our entities outside the United States are initially measured using the functional currency of that entity. Income and expense accounts for our operations of these foreign entities are then translated into U.S. dollars at the average exchange rates prevailing during the period. Assets and liabilities of these foreign entities are then translated into U.S. dollars at exchange rates in effect at the balance sheet date. As of December 26,

2015, net cumulative translation adjustment losses of \$109 million are recorded in Accumulated other comprehensive income (loss) in the Consolidated Balance Sheet.

The majority of our foreign currency net asset exposure is in countries where we have company-owned restaurants. As we manage and share resources at the individual brand level within a country, cumulative translation adjustments are recorded and tracked at the foreign-entity level that represents the operations of our individual brands within that country. Translation adjustments recorded in Accumulated other comprehensive income (loss) are subsequently recognized as income or expense generally only upon sale of the related investment in a foreign entity, or upon a sale of assets and liabilities within a foreign entity that represents a complete or substantially complete liquidation of that entity. For purposes of determining whether a sale or complete or substantially complete liquidation of an investment in a foreign entity has occurred, we consider those same foreign entities for which we record and track cumulative translation adjustments. See Note 4 for information on the liquidation of our Mexico foreign entities and related Income Statement recognition of translation adjustments.

Gains and losses arising from the impact of foreign currency exchange rate fluctuations on transactions in foreign currency are included in Other (income) expense in our Consolidated Statement of Income.

Reclassifications. We have reclassified certain items in the Consolidated Financial Statements for prior periods to be comparable with the classification for the fiscal year ended December 26, 2015. These reclassifications had no effect on previously reported Net Income - YUM! Brands, Inc.

Franchise and License Operations. We execute franchise or license agreements for each unit operated by third parties 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.

The internal costs we incur to provide support services to our franchisees and licensees 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, rent or depreciation expense associated with restaurants we lease or sublease to franchisees, franchise and license marketing funding, amortization expense for franchise-related intangible assets and certain other direct incremental franchise and license support costs.

Revenue Recognition. Revenues from Company-owned restaurants are recognized when payment is tendered at the time of sale. The Company presents sales net of sales-related taxes. Income from our franchisees and licensees includes initial fees, continuing fees, renewal fees and rental income from restaurants we lease or sublease to them. 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, which are based upon a percentage of franchisee and licensee sales as those sales occur and rental income is recognized as it is earned. We recognize renewal fees when a renewal agreement with a franchisee or licensee becomes effective. We present initial fees collected upon the sale of a company-owned restaurant to a franchisee in Refranchising (gain) loss.

While the majority of our franchise agreements are entered into with terms and conditions consistent with those at a prevailing market rate, there are instances when we enter into franchise agreements with terms that are not at market rates (for example, below-market continuing fees) for a specified period of time. We recognize the estimated value of terms in franchise agreements entered into concurrently with a refranchising transaction that are not consistent with market terms as part of the upfront refranchising gain (loss) and amortize that amount into Franchise and license fees and income over the period such terms are in effect. The value of terms that are not considered to be at market within franchise agreements is estimated based upon the difference between cash expected to be received under the franchise agreement and cash that would have been expected to be received under a franchise agreement with terms substantially consistent with market.

Direct Marketing Costs. To the extent we participate in advertising cooperatives, we expense our contributions as incurred which are based on a percentage of sales. We charge direct marketing costs incurred outside of a cooperative 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. Our advertising expenses were \$581 million, \$589 million and \$607 million in 2015, 2014 and 2013, 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 \$28 million, \$30 million and \$31 million in 2015, 2014 and 2013, respectively.

Share-Based Employee Compensation. We recognize all share-based payments to employees, including grants of employee stock options and stock appreciation rights ("SARs"), in the Consolidated Financial Statements as compensation cost over the service period based on their fair value on the date of grant. This compensation cost is recognized over the service period on a straight-line basis for awards that actually vest. We present this compensation cost consistent with the other compensation costs for the employee recipient in either Payroll and employee benefits or G&A expenses. See Note 14 for further discussion of our share-based compensation plans.

Legal Costs. Settlement costs are accrued when they are deemed probable and reasonably estimable. Anticipated legal fees related to self-insured workers' compensation, employment practices liability, general liability, automobile liability, product liability and property losses (collectively, "property and casualty losses") are accrued when deemed probable and reasonably estimable. Legal fees not related to self-insured property and casualty losses are recognized as incurred. See Note 18 for further discussion of our legal proceedings.

Impairment or Disposal of Property, Plant and Equipment. Property, plant and equipment ("PP&E") is tested for impairment whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable. The assets are not recoverable if their carrying value is less than the undiscounted cash flows we expect to generate from such assets. If the assets are not deemed to be recoverable, impairment is measured based on the excess of their carrying value over their fair value.

For purposes of impairment testing for our restaurants, we have concluded that an individual restaurant is the lowest level of independent cash flows unless our intent is to rebrand restaurants as a group. We review our long-lived assets of such individual restaurants (primarily PP&E and 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 use two consecutive years of operating losses as our primary indicator of potential impairment for our semi-annual impairment testing of these restaurant assets. We evaluate the recoverability of these restaurant assets by comparing the estimated undiscounted future cash flows, which are based on our entity-specific assumptions, to the carrying value of such assets. For restaurant assets that are not deemed to be recoverable, we write-down an impaired restaurant to its estimated fair value, which becomes its new cost basis. Fair value is an estimate of the price a franchisee would pay for the restaurant and its related assets and is determined by discounting the estimated future after-tax cash flows of the restaurant, which include a deduction for royalties we would receive under a franchise agreement with terms substantially at market. The after-tax cash flows incorporate reasonable assumptions we believe a franchisee would make such as sales growth and margin improvement. The discount rate used in the fair value calculation is our estimate of the required rate of return that a franchisee would expect to receive when purchasing a similar restaurant and the related long-lived assets. The discount rate incorporates rates of returns for historical rebranding market transactions and is commensurate with the risks and uncertainty inherent in the forecasted cash flows.

In executing our rebranding initiatives, we most often offer groups of restaurants for sale. When we believe it is more likely than not a restaurant or groups of restaurants will be rebranded for a price less than their carrying value, but do not believe the restaurant(s) have met the criteria to be classified as held for sale, we review the restaurants for impairment. We evaluate the recoverability of these restaurant assets by comparing estimated sales proceeds plus holding period cash flows, if any, to the carrying value of the restaurant or group of restaurants. For restaurant assets that are not deemed to be recoverable, we recognize impairment for any excess of carrying value over the fair value of the restaurants, which is based on the expected net sales proceeds. To the extent ongoing agreements to be entered into with the franchisee simultaneous with the rebranding are expected to contain terms, such as royalty rates, not at prevailing market rates, we consider the off-market terms in our impairment evaluation. We recognize any such impairment charges in Rebranding (gain) loss. Rebranding (gain) loss includes the gains or losses from the sales of our restaurants to new and existing franchisees, including any impairment charges discussed above, and the related initial franchise fees. We recognize gains on restaurant rebrandings when the sale transaction closes and control of the restaurant operations have transferred to the franchisee.

When we decide to close a restaurant, it is reviewed for impairment and depreciable lives are adjusted based on the expected disposal date. Other costs incurred when closing a restaurant such as costs of disposing of the assets as well as other facility-related expenses from previously closed stores 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 costs recorded upon store closure as well as any subsequent adjustments to liabilities for remaining lease obligations as a result of lease termination or changes in estimates of sublease income are recorded in Closures and impairment (income) expenses. To the extent we sell assets, primarily land, associated with a closed store, any gain or loss upon that sale is also recorded in Closures and impairment (income) expenses.

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.

Guarantees. We recognize, at inception of a guarantee, a liability for the fair value of certain obligations undertaken. The majority of our guarantees are issued as a result of assigning our interest in obligations under operating leases as a condition to the refranchising of certain Company restaurants. We recognize a liability for the fair value of such lease guarantees upon refranchising and upon subsequent renewals of such leases when we remain contingently liable. The related expense and any subsequent changes are included in Refranchising (gain) loss. Any expense and subsequent changes in the guarantees for other franchise support guarantees not associated with a refranchising transaction are included in Franchise and license expense.

Income Taxes. 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 as well as operating loss, capital 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 or carryforwards 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. Additionally, in determining the need for recording a valuation allowance against the carrying amount of deferred tax assets, we consider the amount of taxable income and periods over which it must be earned, actual levels of past taxable income and known trends and events or transactions that are expected to affect future levels of taxable income. Where we determine that it is more likely than not that all or a portion of an asset will not be realized, we record a valuation allowance.

In November, 2015 the FASB issued ASU No. 2015-17, Balance Sheet Classification of Deferred Taxes (ASU 2015-17) to simplify the presentation of deferred taxes on the balance sheet. ASU 2015-17 requires organizations that present a classified balance sheet to classify all deferred taxes as noncurrent assets or noncurrent liabilities. We have elected to early adopt this guidance as of December 26, 2015 and restate our 2014 comparable balances. This resulted in \$93 million of current deferred tax assets and \$2 million of current deferred tax liabilities being reclassified at December 27, 2014, resulting in an increase to Deferred income taxes - long term of \$82 million and a corresponding decrease to Other liabilities and deferred credits of \$9 million.

We recognize the benefit of positions taken or expected to be taken in our tax returns in our Income tax provision 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. We evaluate these amounts on a quarterly basis to ensure that they have been appropriately adjusted for audit settlements and other events we believe may impact the outcome. Changes in judgment that result in subsequent recognition, derecognition or a change in measurement of a tax position taken in a prior annual period (including any related interest and penalties) are recognized as a discrete item in the interim period in which the change occurs. We recognize accrued interest and penalties related to unrecognized tax benefits as components of our Income tax provision.

We do not record a U.S. deferred tax liability for the excess of the book basis over the tax basis of our investments in foreign subsidiaries to the extent that the basis difference results from earnings that meet the indefinite reversal criteria. This criteria is met if the foreign subsidiary has invested, or will invest, the undistributed earnings indefinitely. The decision as to the amount of undistributed earnings that we intend to maintain in non-U.S. subsidiaries considers items including, but not limited to, forecasts and budgets of financial needs of cash for working capital, liquidity plans and expected cash requirements in the United States.

See Note 16 for a further discussion of our income taxes.

Fair Value Measurements. Fair value is the price we would receive to sell an asset or pay to transfer a liability (exit price) in an orderly transaction between market participants. For those assets and liabilities we record or disclose at fair value, we determine fair value based upon the quoted market price, if available. If a quoted market price is not available for identical assets, we determine fair value based upon the quoted market price of similar assets or the present value of expected future cash flows considering the risks involved, including counterparty performance risk if appropriate, and using discount rates appropriate for the duration. The fair values are assigned a level within the fair value hierarchy, depending on the source of the inputs into the calculation.

Level 1	Inputs based upon quoted prices in active markets for identical assets.
Level 2	Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly.
Level 3	Inputs that are unobservable for the asset.

Cash and Cash Equivalents. Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months), including short-term, highly liquid debt securities. Cash and overdraft balances that meet the criteria for right of setoff are presented net on our Consolidated Balance Sheet.

Receivables. The Company's receivables are primarily generated from ongoing business relationships with our franchisees and licensees as a result of franchise, license and lease agreements. Trade receivables consisting of royalties from franchisees and licensees are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts and notes receivable on our Consolidated Balance Sheet. Our provision for uncollectible franchisee and licensee receivable balances is based upon pre-defined aging criteria or upon the occurrence of other events that indicate that we may not collect the balance due. Additionally, we monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe it probable that our franchisees or licensees will be 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. We recorded \$6 million, \$3 million and \$2 million in net provisions within Franchise and license expenses in 2015, 2014 and 2013, respectively, related to uncollectible franchise and license trade receivables. Trade receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts.

	2015	2014
Accounts and notes receivable	\$ 393	\$ 337
Allowance for doubtful accounts	(16)	(12)
Accounts and notes receivable, net	\$ 377	\$ 325

Our financing receivables primarily consist of notes receivables and direct financing leases with franchisees which we enter into from time to time. As these receivables primarily relate to our ongoing business agreements with franchisees and licensees, we consider such receivables to have similar risk characteristics and evaluate them as one collective portfolio segment and class for determining the allowance for doubtful accounts. We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe it is probable that our franchisees or licensees will be unable to make their required payments. Balances of notes receivable and direct financing leases due within one year are included in Accounts and notes receivable while amounts due beyond one year are included in Other assets. Amounts included in Other assets totaled \$23 million (net of an allowance of \$4 million) and \$21 million (net of an allowance of \$1 million) at December 26, 2015 and December 27, 2014, respectively. Financing receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts. Interest income recorded on financing receivables has historically been insignificant.

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

Property, Plant and Equipment. We state PP&E 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 leasehold improvements, 3 to 20 years for machinery and equipment and 3 to 7 years for capitalized software costs. We suspend depreciation and amortization on assets related to restaurants that are held for sale.

Leases and Leasehold Improvements. The Company leases land, buildings or both for certain of its restaurants worldwide. The length of our lease terms, which vary by country and often include renewal options, are an important factor in determining the appropriate accounting for leases including the initial classification of the lease as capital or operating and the timing of recognition of rent expense over the duration of the lease. We include renewal option periods in determining the term of our leases when failure to renew the lease would impose a penalty on the Company in such an amount that a renewal appears to be reasonably assured at the inception of the lease. 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. Leasehold

improvements are amortized over the shorter of their estimated useful lives or the lease term. We generally do not receive leasehold improvement incentives upon opening a store that is subject to a lease.

We expense rent associated with leased land or buildings while a restaurant is being constructed whether rent is paid or we are subject to a rent holiday. Additionally, certain of the Company's operating leases contain predetermined fixed escalations of the minimum rent during the lease term. For leases with fixed escalating payments and/or rent holidays, we record rent expense 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 when attainment of the contingency is considered probable (e.g. when Company sales occur).

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 it is probable 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. From time to time, the Company acquires restaurants from one of our Concept's franchisees or acquires another business. Goodwill from these 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. Goodwill is not amortized and has been assigned to reporting units for purposes of impairment testing. Our reporting units are business units (which are aligned based on geography) in our KFC, Pizza Hut and Taco Bell Divisions and individual brands in our India and China Divisions.

We evaluate goodwill for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairment might exist. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. We may elect to perform a qualitative assessment for our reporting units to determine whether it is more likely than not that the fair value of the reporting unit is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of a reporting unit exceeds its carrying value, then the reporting unit's fair value is compared to its carrying value. Fair value is the price a willing buyer would pay for a reporting unit, and is generally estimated using discounted expected future after-tax cash flows from Company-owned restaurant operations and franchise royalties. The discount rate is our estimate of the required rate of return that a third-party buyer would expect to receive when purchasing a business from us that constitutes a reporting unit. We believe the discount rate is commensurate with the risks and uncertainty inherent in the forecasted cash flows. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value.

If we record goodwill upon acquisition of a restaurant(s) from a franchisee and such restaurant(s) is then sold within two years of acquisition, the goodwill associated with the acquired restaurant(s) is written off in its entirety. If the restaurant is refranchised two years or more subsequent to its acquisition, we include goodwill in the carrying amount of the restaurants disposed of based on the relative fair values of the portion of the reporting unit disposed of in the refranchising and the portion of the reporting unit that will be retained. The fair value of the portion of the reporting unit disposed of in a refranchising is determined by reference to the discounted value of the future cash flows expected to be generated by the restaurant and retained by the franchisee, which includes a deduction for the anticipated, future royalties the franchisee will pay us associated with the franchise agreement entered into simultaneously with the refranchising transition. The fair value of the reporting unit retained is based on the price a willing buyer would pay for the reporting unit and includes the value of franchise agreements. Appropriate adjustments are made if a franchise agreement includes terms that are determined to not be at prevailing market rates. As such, the fair value of the reporting unit retained can include expected cash flows from future royalties from those restaurants currently being refranchised, future royalties from existing franchise businesses and company restaurant operations. As a result, the percentage of a reporting unit's goodwill that will be written off in a refranchising transaction will be less than the percentage of the reporting unit's Company-owned restaurants that are refranchised in that transaction and goodwill can be allocated to a reporting unit with only franchise restaurants.

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. Intangible assets that are deemed to have a definite life are amortized on a straight-line basis to their residual value.

We evaluate our indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicate impairments might exist. We perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. We may elect to perform a qualitative assessment to determine whether it is more likely

than not that the fair value of an indefinite-lived intangible asset is greater than its carrying value. If a qualitative assessment is not performed, or if as a result of a qualitative assessment it is not more likely than not that the fair value of an indefinite-lived intangible asset exceeds its carrying value, then the asset's fair value is compared to its carrying value. 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 after-tax cash flows associated with the intangible asset.

Our definite-lived intangible assets that are not allocated to an individual restaurant 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 not recoverable on an undiscounted basis is written down to its estimated fair value, which is our estimate of the price a willing buyer would pay for the intangible asset based on discounted expected future after-tax cash flows. For purposes of our impairment analysis, we update the cash flows that were initially used to value the definite-lived intangible asset to reflect our current estimates and assumptions over the asset's future remaining life.

Derivative Financial Instruments. We use derivative instruments primarily to hedge interest rate and foreign currency risks. 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 record all derivative instruments on our Consolidated Balance Sheet at fair value. 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.

As a result of the use of derivative instruments, the Company is exposed to risk that the counterparties will fail to meet their contractual obligations. To mitigate the counterparty credit risk, we only enter into contracts with carefully selected major financial institutions based upon their credit ratings and other factors, and continually assess the creditworthiness of counterparties. At December 26, 2015 and December 27, 2014, all of the counterparties to our interest rate swaps, foreign currency swaps and foreign currency forwards had investment grade ratings according to the three major ratings agencies. To date, all counterparties have performed in accordance with their contractual obligations.

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 on our Consolidated Balance Sheet except when to do so would result in a negative balance in such 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 of our stock over the past several years, our Common Stock balance is frequently zero at the end of any period. Accordingly, \$1,124 million, \$725 million and \$640 million in share repurchases were recorded as a reduction in Retained Earnings in 2015, 2014 and 2013, respectively. See Note 15 for additional information on our share repurchases.

Pension and Post-retirement Medical Benefits. We measure and recognize the overfunded or underfunded status of our pension and post-retirement plans as an asset or liability in our Consolidated Balance Sheet as of our fiscal year end. The funded status represents the difference between the projected benefit obligations and the fair value of plan assets, which is calculated on a plan-by-plan basis. The projected benefit obligation and related funded status are determined using assumptions as of the end of each year. The projected benefit obligation is the present value of benefits earned to date by plan participants, including the effect of future salary increases, as applicable. The difference between the projected benefit obligations and the fair value of plan assets that has not previously been recognized in our Consolidated Statement of Income is recorded as a component of Accumulated other comprehensive income (loss).

The net periodic benefit costs associated with the Company's defined benefit pension and post-retirement medical plans are determined using assumptions regarding the projected benefit obligation and, for funded plans, the market-related value of plan assets as of the beginning of each year. We have elected to use a market-related value of plan assets to calculate the expected return on assets in net periodic benefit costs. We recognize differences in the fair value versus the market-related value of plan assets evenly over five years. For each individual plan we amortize into pension expense the net amounts in Accumulated other

comprehensive income (loss), as adjusted for the difference between the fair value and market-related value of plan assets, to the extent that such amounts exceed 10% of the greater of a plan's projected benefit obligation or market-related value of assets, over the remaining service period of active participants in the plan or, for plans with no active participants, over the expected average life expectancy of the inactive participants in the plan. We record a curtailment when an event occurs that significantly reduces the expected years of future service or eliminates the accrual of defined benefits for the future services of a significant number of employees. We record a curtailment gain when the employees who are entitled to the benefits terminate their employment; we record a curtailment loss when it becomes probable a loss will occur.

We recognize settlement gains or losses only when we have determined that the cost of all settlements in a year will exceed the sum of the service and interest costs within an individual plan.

Note 3 – Earnings Per Common Share (“EPS”)

	2015	2014	2013
Net Income – YUM! Brands, Inc.	\$ 1,293	\$ 1,051	\$ 1,091
Weighted-average common shares outstanding (for basic calculation)	436	444	452
Effect of dilutive share-based employee compensation	7	9	9
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	443	453	461
Basic EPS	\$ 2.97	\$ 2.37	\$ 2.41
Diluted EPS	\$ 2.92	\$ 2.32	\$ 2.36
Unexercised employee stock options and stock appreciation rights (in millions) excluded from the diluted EPS computation ^(a)	4.5	5.5	4.9

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

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

Little Sheep Impairment

On February 1, 2012 we acquired an additional 66% interest in Little Sheep Group Limited (“Little Sheep”) for \$540 million, net of cash acquired of \$44 million, increasing our ownership to 93%. The primary assets recorded as a result of the acquisition and resulting consolidation of Little Sheep were the Little Sheep trademark and goodwill of approximately \$400 million and \$375 million, respectively.

Sustained declines in sales and profits in 2013 resulted in a determination that the Little Sheep trademark, goodwill and certain restaurant level PP&E were impaired during the quarter ended September 7, 2013. As a result, we recorded impairment charges to the trademark, goodwill and PP&E of \$69 million, \$222 million and \$4 million, respectively, during the quarter ended September 7, 2013.

The Little Sheep business continued to underperform during 2014 with actual average-unit sales volumes and profit levels significantly below those assumed in our 2013 estimation of the Little Sheep trademark and reporting unit fair values. As a result, a significant number of Company-operated restaurants were closed or refranchised during 2014 with future plans calling for further focus on franchise-ownership for the Concept. We tested the Little Sheep trademark and goodwill for impairment in the fourth quarter of 2014 pursuant to our accounting policy. As a result of comparing the trademark’s 2014 fair value estimate of \$58 million to its carrying value of \$342 million, we recorded a \$284 million impairment charge. Additionally, after determining the 2014 fair value estimate of the Little Sheep reporting unit was less than its carrying value we wrote off Little Sheep’s remaining goodwill balance of \$160 million. The Company also evaluated other Little Sheep long-lived assets for impairment and recorded \$14 million of restaurant-level PP&E impairment and a \$5 million impairment of our equity method investment in a meat processing business that supplies lamb to Little Sheep.

The losses related to Little Sheep that have occurred concurrent with our trademark and goodwill impairments in 2014 and 2013, none of which have been allocated to any segment for performance reporting purposes, are summarized below:

	2014	2013	Income Statement Classification
Impairment of Goodwill	\$ 160	\$ 222	Closures and Impairment (income) expense
Impairment of Trademark	284	69	Closures and Impairment (income) expense
Impairment of PP&E	14	4	Closures and Impairment (income) expense
Impairment of Investment in Little Sheep Meat	5	—	Closures and Impairment (income) expense
Tax Benefit	(76)	(18)	Income tax provision
Loss Attributable to Non-Controlling Interest	(26)	(19)	Net Income (loss) noncontrolling interests
Net loss	<u>\$ 361</u>	<u>\$ 258</u>	Net Income - YUM! Brands, Inc.

Losses Related to the Extinguishment of Debt

During the fourth quarter of 2013, we completed a cash tender offer to repurchase \$550 million of our Senior Unsecured Notes due either March 2018 or November 2037. This transaction resulted in \$120 million of losses as a result of premiums paid and other costs, \$118 million of which was classified as Interest expense, net in our Consolidated Statement of Income. The repurchase of the Senior Unsecured Notes was funded primarily by proceeds of \$599 million received from the issuance of new Senior Unsecured Notes.

Refranchising (Gain) Loss

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

	Refranchising (gain) loss		
	2015	2014	2013
China	\$ (13)	\$ (17)	\$ (5)
KFC Division ^(a)	30	(18)	(8)
Pizza Hut Division ^{(a)(b)}	55	4	(3)
Taco Bell Division	(65)	(4)	(84)
India	3	2	—
Worldwide	<u>\$ 10</u>	<u>\$ (33)</u>	<u>\$ (100)</u>

- (a) In 2010 we refranchised our then-remaining Company-operated restaurants in Mexico. To the extent we owned it, we did not sell the real estate related to certain of these restaurants, instead leasing it to the franchisee. During 2015, we sold the real estate for approximately \$58 million. While these proceeds exceeded the book value of the real estate, the sale represented a substantial liquidation of our Mexican foreign entities under GAAP. As such, the accumulated translation losses associated with our Mexican business were included in our loss on the sale. We recorded charges of \$80 million representing the excess of the sum of the book value of the real estate and other related assets and our accumulated translation losses over the sales price. Consistent with the classification of the original market refranchising transaction, these charges were classified as Refranchising (gain) loss. Refranchising losses of \$40 million were associated with both the KFC and Pizza Hut Divisions.

Our KFC and Pizza Hut Divisions earned approximately \$2 million and \$1 million, respectively, of rental income in 2015 and \$3 million and \$1 million, respectively, of rental income in 2014 related to this real estate that transferred to the buyer subsequent to the sale of the real estate. We continue to earn U.S. dollar-denominated franchise fees, most of which are sales-based royalties, under our existing franchise contracts with our Mexico franchisee.

- (b) During 2015 we recognized charges of \$16 million within Refranchising (gain) loss associated with the refranchising of our company-owned Pizza Hut restaurants in Korea. While additional gains or losses may occur as the refranchising plans move forward, such amounts are not expected to be material at this time.

KFC U.S. Acceleration Agreement

During 2015 we reached an agreement with our KFC U.S. franchisees that gave us brand marketing control as well as an accelerated path to expanded menu offerings, improved assets and enhanced customer experience. In connection with this agreement we anticipate investing a total of approximately \$125 million through 2017 primarily to fund new back-of-house equipment for franchisees and to provide incentives to accelerate franchisee store remodels. We recorded expenses for the portion of these investments made in 2015 of \$71 million and \$1 million within Franchise and license expense and Occupancy and other operating expenses, respectively, with the remaining investments to occur in 2016 and 2017. These charges are not being allocated to the KFC Division for performance reporting purposes due to their unique and long-term brand-building nature.

In addition to the investments above we have agreed to fund incremental system advertising dollars of \$60 million. We funded approximately \$10 million of such advertising in 2015 with the remaining funding to occur in 2016 and 2017. These amounts are being recorded in the KFC Division segment operating results.

Store Closure and Impairment Activity

Store closure (income) costs and Store impairment charges by reportable segment are presented below. These tables exclude \$463 million and \$295 million of Little Sheep impairment losses in 2014 and 2013, respectively which were not allocated to any segment for performance reporting purposes.

2015						
	China	KFC	Pizza Hut	Taco Bell	India	Worldwide
Store closure (income) costs ^(a)	\$ (6)	\$ 1	\$ (2)	\$ (1)	\$ —	\$ (8)
Store impairment charges	70	7	5	4	1	87
Closure and impairment (income) expenses	<u>\$ 64</u>	<u>\$ 8</u>	<u>\$ 3</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 79</u>

2014						
	China	KFC	Pizza Hut	Taco Bell	India	Worldwide
Store closure (income) costs ^(a)	\$ —	\$ 2	\$ 1	\$ —	\$ —	\$ 3
Store impairment charges	54	7	4	3	1	69
Closure and impairment (income) expenses	<u>\$ 54</u>	<u>\$ 9</u>	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 72</u>

2013						
	China	KFC	Pizza Hut	Taco Bell	India	Worldwide
Store closure (income) costs ^(a)	\$ (1)	\$ (1)	\$ (3)	\$ —	\$ —	\$ (5)
Store impairment charges	31	4	3	1	2	41
Closure and impairment (income) expenses	<u>\$ 30</u>	<u>\$ 3</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 2</u>	<u>\$ 36</u>

- (a) Store closure (income) costs include the net gain or loss on sales of real estate on which we formerly operated a Company-owned 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. Remaining lease obligations for closed stores were not material at December 26, 2015 or December 27, 2014.

Note 5 – Supplemental Cash Flow Data

	2015	2014	2013
Cash Paid For:			
Interest ^(a)	\$ 154	\$ 149	\$ 269
Income taxes ^(b)	535	684	489
Significant Non-Cash Investing and Financing Activities:			
Capital lease obligations incurred	\$ 28	\$ 24	\$ 15

(a) 2013 includes \$109 million of cash premiums and fees paid related to the extinguishment of debt, which is the primary component of the \$120 million loss on debt extinguishment. See Note 4.

(b) 2014 includes \$200 million of cash paid related to the resolution of a valuation issue with the Internal Revenue Service ("IRS") related to years 2004 through 2008. See Note 16.

Note 6 – Franchise and License Fees and Income

	2015	2014	2013
Initial fees, including renewal fees	\$ 88	\$ 83	\$ 90
Initial franchise fees included in Refranchising (gain) loss	(10)	(5)	(13)
	78	78	77
Continuing fees and rental income	1,882	1,877	1,823
Franchise and license fees and income	<u>\$ 1,960</u>	<u>\$ 1,955</u>	<u>\$ 1,900</u>

Note 7 – Other (Income) Expense

	2015	2014	2013
Equity (income) loss from investments in unconsolidated affiliates	\$ (41)	\$ (30)	\$ (26)
China poultry supply insurance recovery ^(a)	(5)	(25)	—
Loss associated with planned sale of aircraft ^(b)	15	—	—
Foreign exchange net (gain) loss and other	21	14	10
Other (income) expense	<u>\$ (10)</u>	<u>\$ (41)</u>	<u>\$ (16)</u>

(a) Recoveries related to lost profits associated with a 2012 poultry supply incident.

(b) During 2015, we made the decision to dispose of a corporate aircraft in China. The loss associated with this planned sale reflects the shortfall of the expected proceeds, less any selling costs, over the carrying value of the aircraft.

Note 8 – Supplemental Balance Sheet Information

Prepaid Expenses and Other Current Assets

	2015	2014
Income tax receivable	\$ 41	\$ 55
Assets held for sale ^(a)	28	14
Other prepaid expenses and current assets	173	185
Prepaid expenses and other current assets	<u>\$ 242</u>	<u>\$ 254</u>

(a) Reflects the carrying value of a corporate aircraft in China (See Note 7) as well as restaurants we have offered for sale to franchisees and excess properties that we do not intend to use for restaurant operations in the future.

Property, Plant and Equipment

	2015	2014
Land	\$ 480	\$ 506
Buildings and improvements	4,462	4,549
Capital leases, primarily buildings	203	210
Machinery and equipment	2,687	2,817
Property, plant and equipment, gross	7,832	8,082
Accumulated depreciation and amortization	(3,643)	(3,584)
Property, plant and equipment, net	<u>\$ 4,189</u>	<u>\$ 4,498</u>

Depreciation and amortization expense related to property, plant and equipment was \$712 million, \$702 million and \$686 million in 2015, 2014 and 2013, respectively.

Accounts Payable and Other Current Liabilities

	2015	2014
Accounts payable	\$ 616	\$ 694
Accrued capital expenditures	174	250
Accrued compensation and benefits	465	419
Dividends payable	197	178
Accrued taxes, other than income taxes	116	100
Other current liabilities	417	329
Accounts payable and other current liabilities	<u>\$ 1,985</u>	<u>\$ 1,970</u>

Note 9 – Goodwill and Intangible Assets

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

	China	KFC	Pizza Hut	Taco Bell	India	Worldwide
Balance as of December 28, 2013						
Goodwill, gross	\$ 478	\$ 338	204	\$ 106	2	\$ 1,128
Accumulated impairment losses ^(a)	(222)	—	(17)	—	—	(239)
Goodwill, net	256	338	187	106	2	889
Acquisitions	—	2	—	8	—	10
Impairment Losses ^(a)	(160)	—	—	—	—	(160)
Disposals and other, net ^(b)	(7)	(28)	(4)	—	—	(39)
Balance as of December 27, 2014						
Goodwill, gross	471	312	200	114	2	1,099
Accumulated impairment losses ^(a)	(382)	—	(17)	—	—	(399)
Goodwill, net	89	312	183	114	2	700
Acquisitions	—	1	—	1	—	2
Disposals and other, net ^(b)	(4)	(32)	(7)	(2)	(1)	(46)
Balance as of December 26, 2015						
Goodwill, gross	467	281	193	113	1	1,055
Accumulated impairment losses ^(a)	(382)	—	(17)	—	—	(399)
Goodwill, net	<u>\$ 85</u>	<u>\$ 281</u>	<u>\$ 176</u>	<u>\$ 113</u>	<u>\$ 1</u>	<u>\$ 656</u>

(a) China Accumulated impairment losses represent Little Sheep impairment, of which \$160 million was recorded in 2014. See Note 4.

(b) Disposals and other, net includes the impact of foreign currency translation on existing balances and goodwill write-offs associated with refranchising.

Intangible assets, net for the years ended 2015 and 2014 are as follows:

	2015		2014	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Definite-lived intangible assets				
Reacquired franchise rights	\$ 168	\$ (91)	\$ 186	\$ (81)
Franchise contract rights	123	(94)	126	(92)
Lease tenancy rights	57	(10)	67	(12)
Favorable operating leases	11	(7)	15	(9)
Other	54	(27)	52	(25)
	<u>\$ 413</u>	<u>\$ (229)</u>	<u>\$ 446</u>	<u>\$ (219)</u>
Indefinite-lived intangible assets				
KFC trademark	\$ 31		\$ 31	
Little Sheep trademark	56		60	
	<u>\$ 87</u>		<u>\$ 91</u>	

Amortization expense for all definite-lived intangible assets was \$26 million in 2015, \$27 million in 2014 and \$28 million in 2013. Amortization expense for definite-lived intangible assets will approximate \$21 million in 2016, \$21 million in 2017, \$19 million in 2018, \$18 million in 2019 and \$17 million in 2020.

Note 10 – Short-term Borrowings and Long-term Debt

	2015	2014
Short-term Borrowings		
Current maturities of long-term debt	\$ 313	\$ 264
Current portion of fair value hedge accounting adjustment	1	3
Unsecured Short-Term Loan Credit Facility, expires June 2016	600	—
Other	9	—
	<u>\$ 923</u>	<u>\$ 267</u>
Long-term Debt		
Senior Unsecured Notes	\$ 2,497	\$ 2,746
Unsecured Revolving Credit Facility, expires March 2017	701	416
Capital lease obligations (See Note 11)	169	175
	<u>3,367</u>	<u>3,337</u>
Less current maturities of long-term debt	(313)	(264)
Long-term debt excluding long-term portion of hedge accounting adjustment	3,054	3,073
Long-term portion of fair value hedge accounting adjustment	—	4
Long-term debt including hedge accounting adjustment	<u>\$ 3,054</u>	<u>\$ 3,077</u>

Our primary bank credit agreement comprises a \$1.3 billion syndicated senior unsecured revolving credit facility (the "Credit Facility") which matures in March 2017. The Credit Facility includes 24 participating banks with commitments ranging from \$23 million to \$115 million. 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 26, 2015, our unused Credit Facility totaled \$594 million net of outstanding letters of credit of \$5 million. There were borrowings of \$701 million and \$416 million outstanding under the Credit Facility at December 26, 2015 and December 27, 2014, respectively. The interest rate for most borrowings under the Credit Facility ranges from 1.00% to 1.75% over the London Interbank Offered Rate ("LIBOR"). The exact spread over LIBOR under the Short-Term Loan Credit Facility depends upon our performance against specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

On December 8, 2015, we executed a credit agreement providing for an unsecured term loan facility (the “Short-Term Loan Credit Facility”) in an amount up to \$1.5 billion which matures in June 2016 with an option for us to extend maturity for an additional three months and includes three participating banks. Under the terms of the Short-Term Loan Credit Facility, we may borrow up to the full amount of the facility in up to three draws. At December 26, 2015, our unused Short-Term Loan Credit Facility totaled \$900 million net of outstanding borrowings of \$600 million. The interest rate for most borrowings under the Short-Term Loan Credit Facility ranges from 1.00% to 1.75% over LIBOR. The exact spread over LIBOR under the Short-Term Loan Credit Facility depends upon our performance against specified financial criteria. Interest on any outstanding borrowings under the Short-Term Loan Credit Facility is payable at least quarterly.

Both the Credit Facility and the Short-Term Loan Credit Facility are unconditionally guaranteed by our principal domestic subsidiaries and contain financial covenants relating to the maintenance of leverage and fixed charge coverage ratios. The agreements for both facilities also contain affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company’s strong balance sheet and cash flows we were able to comply with all debt covenant requirements at December 26, 2015 with a considerable amount of cushion. Additionally, both facilities contain cross-default provisions whereby our failure to make any payment on our indebtedness in a principal amount in excess of \$125 million, or the acceleration of the maturity of any such indebtedness, will constitute a default under such agreement.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2016 through 2043 and stated interest rates ranging from 3.75% to 6.88%. 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. Our Senior Unsecured Notes contain cross-default provisions whereby the acceleration of the maturity of any of our indebtedness in a principal amount in excess of \$50 million will constitute a default under the Senior Unsecured Notes unless such indebtedness is discharged, or the acceleration of the maturity of that indebtedness is annulled, within 30 days after notice.

During the fourth quarter of 2015, we repaid \$250 million of Senior Unsecured Notes upon their maturity.

The following table summarizes all Senior Unsecured Notes issued that remain outstanding at December 26, 2015:

Issuance Date ^(a)	Maturity Date	Principal Amount (in millions)	Interest Rate	
			Stated	Effective ^(b)
April 2006	April 2016	\$ 300	6.25%	6.03%
October 2007	March 2018	\$ 325	6.25%	6.36%
October 2007	November 2037	\$ 325	6.88%	7.45%
August 2009	September 2019	\$ 250	5.30%	5.59%
August 2010	November 2020	\$ 350	3.88%	4.01%
August 2011	November 2021	\$ 350	3.75%	3.88%
October 2013	November 2023	\$ 325	3.88%	4.01%
October 2013	November 2043	\$ 275	5.35%	5.42%

(a) Interest payments commenced approximately 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.

The annual maturities of short-term borrowings and long-term debt as of December 26, 2015, excluding capital lease obligations of \$169 million and fair value hedge accounting adjustments of \$1 million, are as follows:

Year ended:	
2016	\$ 909
2017	701
2018	325
2019	250
2020	350
Thereafter	1,275
Total	<u>\$ 3,810</u>

Interest expense on short-term borrowings and long-term debt was \$155 million, \$152 million and \$270 million in 2015, 2014 and 2013, respectively. 2013 included \$118 million in losses recorded in Interest expense, net as a result of premiums paid and other costs related to the extinguishment of debt. See Losses Related to the Extinguishment of Debt section of Note 4 for further discussion.

Note 11 – Leases

At December 26, 2015 we operated more than 8,900 restaurants, leasing the underlying land and/or building in approximately 8,025 of those restaurants with the vast majority of our commitments expiring within 20 years from the inception of the lease. In addition, the Company leases or subleases approximately 825 units to franchisees, principally in the U.S., UK and China.

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.

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
2016	\$ 20	\$ 672	\$ 2	\$ 55
2017	20	620	2	50
2018	20	569	2	47
2019	20	516	2	40
2020	19	457	1	33
Thereafter	188	2,123	3	125
	<u>\$ 287</u>	<u>\$ 4,957</u>	<u>\$ 12</u>	<u>\$ 350</u>

At December 26, 2015 and December 27, 2014, the present value of minimum payments under capital leases was \$169 million and \$175 million, respectively. At December 26, 2015, unearned income associated with direct financing lease receivables was \$3 million.

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

	2015	2014	2013
Rental expense			
Minimum	\$ 737	\$ 766	\$ 759
Contingent	294	302	293
	<u>\$ 1,031</u>	<u>\$ 1,068</u>	<u>\$ 1,052</u>
Rental income	<u>\$ 97</u>	<u>\$ 103</u>	<u>\$ 94</u>

Note 12 – Fair Value Disclosures

As of December 26, 2015 the carrying values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated their fair values because of the short-term nature of these instruments. The fair value of notes receivable net of allowances and lease guarantees less subsequent amortization approximates their carrying value. The Company's debt obligations, excluding capital leases, were estimated to have a fair value of \$3.7 billion (Level 2), compared to their carrying value of \$3.8 billion. We estimated the fair value of debt using market quotes and calculations based on market rates.

Recurring Fair Value Measurements

The Company has interest rate swaps accounted for as fair value hedges, foreign currency forwards and swaps accounted for as cash flow hedges and other investments, all of which are required to be measured at fair value on a recurring basis. Interest rate swaps are used to reduce our exposure to interest rate risk and lower interest expense for a portion of our fixed-rate debt and our interest rate swaps meet the shortcut method requirements and thus no ineffectiveness has been recorded. Our foreign currency forwards and swaps are used to reduce 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 forwards and swaps match those of the underlying receivables or payables and we measure ineffectiveness by comparing the cumulative change in the fair value of the forward or swap contract with the cumulative change in the fair value of the hedged item. The following table presents fair values for those assets and liabilities measured at fair value on a recurring basis and the level within the fair value hierarchy in which the measurements fall. No transfers among the levels within the fair value hierarchy occurred during the years ended December 26, 2015 or December 27, 2014.

	Level	Fair Value	
		2015	2014
Foreign Currency Forwards and Swaps, net	2	\$ 19	\$ 24
Interest Rate Swaps, net	2	2	10
Other Investments	1	21	21
Total		<u>\$ 42</u>	<u>\$ 55</u>

The fair value of the Company's foreign currency forwards and swaps and interest rate swaps were determined based on the present value of expected future cash flows considering the risks involved, including nonperformance risk, and using discount rates appropriate for the duration based upon observable inputs. The other investments include investments in mutual funds, which are used to offset fluctuations in deferred compensation liabilities that employees have chosen to invest in phantom shares of a Stock Index Fund or Bond Index Fund. The other investments are classified as trading securities in Other assets in our Consolidated Balance Sheet and their fair value is determined based on the closing market prices of the respective mutual funds as of December 26, 2015 and December 27, 2014.

Non-Recurring Fair Value Measurements

The following table presents expense recognized from all non-recurring fair value measurements during the years ended December 26, 2015 and December 27, 2014. Other than the Little Sheep impairments (See Note 4), these amounts relate to restaurants or groups of restaurants that were impaired either as a result of our semi-annual impairment review or when it was more likely than not a restaurant or restaurant group would be refranchised and exclude fair value measurements made for restaurants that were subsequently closed or refranchised prior to those respective year-end dates.

	2015	2014
Little Sheep impairments ^(a)	\$ —	\$ 463
Refranchising related impairment ^(b)	—	9
Restaurant-level impairment ^(c)	61	46
Total	\$ 61	\$ 518

- (a) Except for the Little Sheep trademark, which had a carrying value of \$56 million at December 26, 2015, the remaining carrying value of assets measured at fair value due to the 2014 Little Sheep impairments (Level 3) is insignificant. See Note 4 for further discussion. Our 2014 fair value estimate of the Little Sheep trademark was determined using a relief-from-royalty valuation approach that included future revenues as a significant input and a discount rate of 13% as our estimate of the required rate-of-return that a third party buyer would expect to receive when purchasing the trademark. The primary drivers of the trademark's fair value are franchise revenue growth and revenues associated with a wholly-owned business that sells seasoning to retail customers. Franchise revenue growth reflected annual same store sales growth of 4% and approximately 35 new franchise units per year, partially offset by approximately 25 franchise closures per year. The retail seasoning business was forecasted to generate sales growth consistent with historical results. Our 2015 fair value estimate exceeded its carrying value using similar assumptions and methods as those used in 2014.
- (b) Refranchising related impairment results from writing down the assets of restaurants or restaurant groups offered for refranchising. The fair value measurements used in our impairment evaluation are based on either actual bids received from potential buyers (Level 2), or on estimates of the sales prices we anticipated receiving from a buyer for the restaurant or restaurant groups (Level 3).
- (c) Restaurant-level impairment charges are recorded in Closures and impairment (income) expenses and resulted primarily from our semi-annual impairment evaluation of long-lived assets of individual restaurants that were being operated at the time of impairment and had not been offered for refranchising. The fair value measurements used in these impairment evaluations were based on discounted cash flow estimates using unobservable inputs (Level 3). The remaining net book value of assets measured at fair value during the years ended December 26, 2015 and December 27, 2014 is insignificant.

Note 13 – Pension, Retiree Medical and Retiree Savings Plans

U.S. Pension Plans

We sponsor qualified and supplemental (non-qualified) noncontributory defined benefit plans covering certain full-time salaried and hourly U.S. employees. The qualified plan meets the requirements of certain sections of the Internal Revenue Code and provides benefits to a broad group of employees with restrictions on discriminating in favor of highly compensated employees with regard to coverage, benefits and contributions. The supplemental plans provide additional benefits to certain employees. We fund our supplemental plans as benefits are paid.

The most significant of our U.S. plans is the YUM Retirement Plan (the “Plan”), which is a qualified plan. Our funding policy with respect to the Plan is to contribute amounts necessary to satisfy minimum pension funding requirements, including requirements of the Pension Protection Act of 2006, plus additional amounts from time to time as are determined to be necessary to improve the Plan's funded status. We do not expect to make any significant contributions to the Plan in 2016. We currently expect to make \$13 million in benefit payments from our primary unfunded U.S. non-qualified plan in 2016. Our two significant U.S. plans were previously amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans.

We do not anticipate any plan assets being returned to the Company during 2016 for any U.S. 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 two significant U.S. pension plans. The actuarial valuations for all plans reflect measurement dates coinciding with our fiscal year end.

	2015	2014
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,301	\$ 1,025
Service cost	18	17
Interest cost	55	54
Plan amendments	28	1
Curtailments	(2)	(2)
Special termination benefits	1	3
Benefits paid	(50)	(65)
Settlements ^(a)	(16)	(17)
Actuarial (gain) loss	(196)	290
Administrative expense	(5)	(5)
Benefit obligation at end of year	<u>\$ 1,134</u>	<u>\$ 1,301</u>
Change in plan assets		
Fair value of plan assets at beginning of year	\$ 991	\$ 933
Actual return on plan assets	(10)	124
Employer contributions	94	21
Settlement payments ^(a)	(16)	(17)
Benefits paid	(50)	(65)
Administrative expenses	(5)	(5)
Fair value of plan assets at end of year	<u>\$ 1,004</u>	<u>\$ 991</u>
Funded status at end of year	<u>\$ (130)</u>	<u>\$ (310)</u>

(a) For discussion of the settlement payments and settlement losses, see Components of net periodic benefit cost below.

Amounts recognized in the Consolidated Balance Sheet:

	2015	2014
Accrued benefit liability - current	\$ (13)	\$ (11)
Accrued benefit liability - non-current	(117)	(299)
	<u>\$ (130)</u>	<u>\$ (310)</u>

The accumulated benefit obligation was \$1,088 million and \$1,254 million at December 26, 2015 and December 27, 2014, respectively.

Information for pension plans with an accumulated benefit obligation in excess of plan assets:

	2015	2014
Projected benefit obligation	\$ 101	\$ 1,301
Accumulated benefit obligation	88	1,254
Fair value of plan assets	—	991

Information for pension plans with a projected benefit obligation in excess of plan assets:

	2015	2014
Projected benefit obligation	\$ 1,134	\$ 1,301
Accumulated benefit obligation	1,088	1,254
Fair value of plan assets	1,004	991

Components of net periodic benefit cost:

	2015	2014	2013
Net periodic benefit cost			
Service cost	\$ 18	\$ 17	\$ 21
Interest cost	55	54	54
Amortization of prior service cost ^(a)	1	1	2
Expected return on plan assets	(62)	(56)	(59)
Amortization of net loss	45	17	48
Net periodic benefit cost	<u>\$ 57</u>	<u>\$ 33</u>	<u>\$ 66</u>

Additional (gain) loss recognized due to:

Settlements ^(b)	\$ 5	\$ 6	\$ 30
Special termination benefits	\$ 1	\$ 3	\$ 5

- (a) Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.
- (b) Settlement losses result when benefit payments exceed the sum of the service cost and interest cost within a plan during the year. During 2013 the Company allowed certain former employees with deferred vested balances an opportunity to voluntarily elect an early payout of their pension benefits. The majority of these payouts were funded from existing pension plan assets.

Pension gains (losses) in Accumulated other comprehensive income (loss):

	2015	2014
Beginning of year	\$ (319)	\$ (124)
Net actuarial (gain) loss	124	(220)
Curtailments	2	2
Amortization of net loss	45	17
Amortization of prior service cost	1	1
Prior service cost	(28)	(1)
Settlement charges	5	6
End of year	<u>\$ (170)</u>	<u>\$ (319)</u>

Accumulated pre-tax losses recognized within Accumulated Other Comprehensive Income:

	2015	2014
Actuarial net loss	\$ (138)	\$ (314)
Prior service cost	(32)	(5)
	<u>\$ (170)</u>	<u>\$ (319)</u>

The estimated net loss that will be amortized from Accumulated other comprehensive income (loss) into net periodic pension cost in 2016 is \$6 million. The estimated prior service cost that will be amortized from Accumulated other comprehensive income (loss) into net periodic pension cost in 2016 is \$5 million.

Weighted-average assumptions used to determine benefit obligations at the measurement dates:

	2015	2014
Discount rate	4.90%	4.30%
Rate of compensation increase	3.75%	3.75%

Weighted-average assumptions used to determine the net periodic benefit cost for fiscal years:

	2015	2014	2013
Discount rate	4.30%	5.40%	4.40%
Long-term rate of return on plan assets	6.75%	6.90%	7.25%
Rate of compensation increase	3.75%	3.75%	3.75%

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.

Plan Assets

The fair values of our pension plan assets at December 26, 2015 and December 27, 2014 by asset category and level within the fair value hierarchy are as follows:

	2015	2014
Level 1:		
Cash	\$ 3	\$ —
Level 2:		
Cash Equivalents ^(a)	9	5
Equity Securities – U.S. Large cap ^(b)	310	298
Equity Securities – U.S. Mid cap ^(b)	50	50
Equity Securities – U.S. Small cap ^(b)	51	50
Equity Securities – Non-U.S. ^(b)	100	91
Fixed Income Securities – U.S. Corporate ^(d)	289	305
Fixed Income Securities – U.S. Government and Government Agencies ^(c)	195	178
Fixed Income Securities – Other ^(d)	17	11
Total fair value of plan assets ^(e)	<u>\$ 1,024</u>	<u>\$ 988</u>

(a) Short-term investments in money market funds

(b) Securities held in common trusts

(c) Investments held directly by the Plan

(d) Includes securities held in common trusts and investments held directly by the Plan

(e) 2015 and 2014 exclude net unsettled trades (payable) receivable of \$(20) million and \$3 million, respectively.

Our primary objectives regarding the investment strategy for the Plan's assets are to reduce interest rate and market risk and to provide adequate liquidity to meet immediate and future payment requirements. To achieve these objectives, we are using a combination of active and passive investment strategies. Our equity securities, currently targeted to be 50% of our investment mix, consist primarily of low-cost index funds focused on achieving long-term capital appreciation. We diversify our equity risk by investing in several different U.S. and foreign market index funds. Investing in these index funds provides us with the adequate liquidity required to fund benefit payments and plan expenses. The fixed income asset allocation, currently targeted to be 50% of our mix, is actively managed and consists of long-duration fixed income securities that help to reduce exposure to interest rate variation and to better correlate asset maturities with obligations. The fair values of all pension plan assets are determined based on closing market prices or net asset values.

A mutual fund held as an investment by the Plan includes shares of YUM Common Stock valued at \$0.5 million at both December 26, 2015 and December 27, 2014 (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:

<u>Year ended:</u>	
2016	\$ 61
2017	50
2018	55
2019	56
2020	56
2021 - 2025	331

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 future employee service.

International Pension Plans

We also sponsor various defined benefit plans covering certain of our non-U.S. employees, the most significant of which are in the UK. During 2013, one of our UK plans was frozen such that existing participants can no longer earn future service credits. Our other UK plan was previously frozen to future service credits in 2011.

At the end of 2015 and 2014, the projected benefit obligations of these UK plans totaled \$233 million and \$231 million, respectively and plan assets totaled \$291 million and \$288 million, respectively. These plans were both in a net overfunded position at the end of 2015 and 2014 and related expense amounts recorded in each of 2015, 2014 and 2013 were not significant.

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 regulations. We do not plan to make significant contributions to either of our UK plans in 2016.

Retiree Medical Benefits

Our post-retirement plan provides health care benefits, principally to U.S. salaried retirees and their dependents, and includes retiree cost-sharing provisions. This plan was previously 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 post-retirement plan as benefits are paid.

At the end of 2015 and 2014, the accumulated post-retirement benefit obligation was \$59 million and \$69 million, respectively. Actuarial gains of \$8 million and \$2 million were recognized in Accumulated other comprehensive (income) loss at the end of 2015 and 2014, respectively. The net periodic benefit cost recorded was \$3 million in 2015 and \$5 million in both 2014 and 2013, the majority of which is interest cost on the accumulated post-retirement benefit obligation. The weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the post-retirement medical plan are identical to those as shown for the U.S. pension plans. Our assumed health care cost trend rates for the following year as of 2015 and 2014 are 6.8% and 7.1%, respectively, with expected ultimate trend rates of 4.5% reached in 2038.

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 was reached in 2014; with the cap, 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 \$5 million and in aggregate for the five years thereafter are \$22 million.

Retiree Savings 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 75% of eligible compensation on a pre-tax basis. Participants may allocate their contributions to one or any combination of multiple investment options or a self-managed account within the 401(k) Plan. We match 100% of the participant’s contribution to the 401(k) Plan up to 6% of eligible compensation. We recognized as compensation expense our total matching contribution of \$13 million in 2015 and \$12 million in both 2014 and 2013.

Note 14 – Share-based and Deferred Compensation Plans

Overview

At year end 2015, we had four stock award plans in effect: the YUM! Brands, Inc. Long-Term Incentive Plan and the 1997 Long-Term Incentive Plan (collectively the “LTIPs”), 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 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.

Potential awards to employees and non-employee directors under the LTIPs include stock options, incentive stock options, SARs, restricted stock, stock units, restricted stock units (“RSUs”), performance restricted stock units, performance share units (“PSUs”) and performance units. We have issued only stock options, SARs, RSUs and PSUs under the LTIPs. While awards under the LTIPs can have varying vesting provisions and exercise periods, outstanding awards under the LTIPs vest in periods ranging from immediate to five years. Stock options and SARs expire ten years after grant.

Potential awards to employees under the RGM Plan include stock options, SARs, restricted stock and RSUs. We have issued only stock options and SARs under this plan. 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.

Potential awards to employees under SharePower include stock options, SARs, restricted stock and RSUs. We have issued only stock options and SARs under this plan. These awards generally vest over a period of four years and expire ten years after grant.

At year end 2015, approximately 13 million shares were available for future share-based compensation grants under the above plans.

Our Executive Income Deferral (“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. Investments in cash and phantom shares of both index funds 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 the depreciation, if any, of investments in cash and both of the index funds. Deferrals into the phantom shares of our Common Stock will be distributed in shares of our Common Stock, under the LTIPs, at a date as elected by the employee and therefore are classified in Common Stock on our Consolidated Balance Sheets. We do not recognize compensation expense for the appreciation or the depreciation, if any, of investments in phantom shares of our Common Stock. Our EID plan also allows certain participants to defer incentive compensation to purchase phantom shares of our Common Stock and receive a 33% Company match on the amount deferred. Deferrals receiving a match are similar to a RSU award in that participants will generally forfeit both the match and incentive compensation amounts deferred if they voluntarily separate from employment during a vesting period that is two years from the date of deferral. We expense the intrinsic value of the match and the incentive compensation over the requisite service period which includes the vesting period.

Historically, the Company has repurchased shares on the open market in excess of the amount necessary to satisfy award exercises and expects to continue to do so in 2016.

Award Valuation

We estimated the fair value of each stock option and SAR award as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2015	2014	2013
Risk-free interest rate	1.3%	1.6%	0.8%
Expected term (years)	6.4	6.2	6.2
Expected volatility	26.9%	29.7%	29.9%
Expected dividend yield	2.2%	2.1%	2.1%

We believe it is appropriate to group our stock option and SAR 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 term for our awards that have a graded vesting schedule. Based on analysis of our historical exercise and post-vesting termination behavior, we have determined that our restaurant-level employees and our executives exercised the awards on average after 4.75 years and 6.5 years, respectively.

When determining expected volatility, we consider both historical volatility of our stock as well as implied volatility associated with our publicly traded options. The expected dividend yield is based on the annual dividend yield at the time of grant.

The fair values of RSU awards are based on the closing price of our Common Stock on the date of grant. The fair values of PSU awards granted prior to 2013 are based on the closing price of our Common Stock on the date of grant. Beginning in 2013, the Company grants PSU awards with market-based conditions which have been valued based on the outcome of a Monte Carlo simulation.

Award Activity

Stock Options and SARs

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted- Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	27,172	\$ 46.68		
Granted	3,811	74.32		
Exercised	(4,089)	35.25		
Forfeited or expired	(961)	65.86		
Outstanding at the end of the year	25,933 ^(a)	\$ 51.79	5.41	\$ 577
Exercisable at the end of the year	17,084	\$ 42.49	4.03	\$ 538

(a) Outstanding awards include 1,623 options and 24,310 SARs with weighted average exercise prices of \$49.34 and \$51.98, respectively.

The weighted-average grant-date fair value of stock options and SARs granted during 2015, 2014 and 2013 was \$15.95, \$17.28 and \$14.67, respectively. The total intrinsic value of stock options and SARs exercised during the years ended December 26, 2015, December 27, 2014 and December 28, 2013, was \$186 million, \$157 million and \$176 million, respectively.

As of December 26, 2015, \$89 million of unrecognized compensation cost related to unvested stock options and SARs, which will be reduced by any forfeitures that occur, is expected to be recognized over a remaining weighted-average period of approximately 1.8 years. The total fair value at grant date of awards that vested during 2015, 2014 and 2013 was \$48 million, \$41 million and \$51 million, respectively.

RSUs and PSUs

As of December 26, 2015, there was \$8 million of unrecognized compensation cost related to 0.5 million unvested RSUs and PSUs.

Impact on Net Income

The components of share-based compensation expense and the related income tax benefits are shown in the following table:

	2015	2014	2013
Options and SARs	\$ 50	\$ 48	\$ 44
Restricted Stock Units	4	6	6
Performance Share Units	3	1	(1)
Total Share-based Compensation Expense	\$ 57	\$ 55	\$ 49
Deferred Tax Benefit recognized	\$ 18	\$ 17	\$ 15
EID compensation expense not share-based	\$ 1	\$ 8	\$ 11

Cash received from stock option exercises for 2015, 2014 and 2013, was \$12 million, \$29 million and \$37 million, respectively. Tax benefits realized on our tax returns from tax deductions associated with share-based compensation for 2015, 2014 and 2013 totaled \$66 million, \$61 million and \$65 million, respectively.

Note 15 – Shareholders' Equity

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during 2015, 2014 and 2013. All amounts exclude applicable transaction fees.

Authorization Date	Shares Repurchased (thousands)			Dollar Value of Shares Repurchased		
	2015	2014	2013	2015	2014	2013
December 2015	932	—	—	\$ 67	\$ —	\$ —
November 2014	13,231	—	—	1,000	—	—
November 2013	1,779	8,488	—	133	617	—
November 2012	—	2,737	10,922	—	203	750
Total	15,942	11,225	10,922 (a)	\$ 1,200	\$ 820	\$ 750 (a)

(a) 2013 amount excludes the effect of \$20 million in share repurchases (0.3 million shares) with trade dates prior to the 2012 fiscal year end but with settlement dates subsequent to the 2012 fiscal year end.

On December 8, 2015, our Board of Directors authorized share repurchases through December 2016 of up to \$1 billion (excluding applicable transaction fees) of our outstanding Common Stock. As of December 26, 2015, we have \$933 million available for future repurchases under this authorization.

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

	Translation Adjustments and Gains (Losses) From Intra- Entity Transactions of a Long-Term Nature	Pension and Post- Retirement Benefits ^(a)	Derivative Instruments	Total
Balance at December 28, 2013, net of tax	\$ 170	\$ (97)	\$ (9)	64
Gains (losses) arising during the year classified into accumulated OCI, net of tax	(143)	(131)	15	(259)
(Gains) losses reclassified from accumulated OCI, net of tax	2	18	(15)	5
OCI, net of tax	(141)	(113)	—	(254)
Balance at December 27, 2014, net of tax	\$ 29	\$ (210)	\$ (9)	\$ (190)
Gains (losses) arising during the year classified into accumulated OCI, net of tax	(250)	63	28	(159)
(Gains) losses reclassified from accumulated OCI, net of tax	112	34	(36)	110
OCI, net of tax	(138)	97	(8)	(49)
Balance at December 26, 2015, net of tax	\$ (109)	(113)	\$ (17)	(239)

- (a) Amounts reclassified from accumulated OCI for pension and post-retirement benefit plan losses during 2015 include amortization of net losses of \$46 million, settlement charges of \$5 million, amortization of prior service cost of \$2 million and related income tax benefit of \$20 million. Amounts reclassified from accumulated OCI for pension and post-retirement benefit plan losses during 2014 include amortization of net losses of \$20 million, settlement charges of \$6 million, amortization of prior service cost of \$1 million and the related income tax benefit of \$9 million. See Note 13.

Note 16 – Income Taxes

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

	2015	2014	2013
U.S.	\$ 471	\$ 506	\$ 464
Foreign	1,316	921	1,087
	<u>\$ 1,787</u>	<u>\$ 1,427</u>	<u>\$ 1,551</u>

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

		2015	2014	2013
Current:	Federal	\$ 287	\$ 255	\$ 159
	Foreign	263	321	330
	State	28	2	22
		<u>\$ 578</u>	<u>\$ 578</u>	<u>511</u>
Deferred:	Federal	\$ (143)	\$ (67)	42
	Foreign	54	(106)	(53)
	State	—	1	(13)
		<u>\$ (89)</u>	<u>\$ (172)</u>	<u>\$ (24)</u>
		<u>\$ 489</u>	<u>\$ 406</u>	<u>\$ 487</u>

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

	2015		2014		2013	
U.S. federal statutory rate	\$ 625	35.0 %	\$ 500	35.0 %	\$ 543	35.0 %
State income tax, net of federal tax benefit	12	0.7	8	0.6	3	0.2
Statutory rate differential attributable to foreign operations	(210)	(11.8)	(168)	(11.7)	(177)	(11.4)
Adjustments to reserves and prior years	12	0.7	(5)	(0.3)	49	3.1
Change in valuation allowances	54	3.0	35	2.4	23	1.5
Other, net	(4)	(0.3)	36	2.5	46	3.0
Effective income tax rate	<u>\$ 489</u>	<u>27.3 %</u>	<u>\$ 406</u>	<u>28.5 %</u>	<u>\$ 487</u>	<u>31.4 %</u>

Statutory rate differential attributable to foreign operations. This item includes local taxes, withholding taxes, and shareholder-level taxes, net of foreign tax credits. The favorable impact is primarily attributable to a majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Adjustments to reserves and prior years. This item includes: (1) 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; and (2) the effects of reconciling 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. The impact of certain effects or changes may offset items reflected in the 'Statutory rate differential attributable to foreign operations' line.

In 2014, this item was favorably impacted by the resolution of uncertain tax positions in certain foreign jurisdictions.

In 2013 the Company recorded incremental reserves related to an IRS-proposed adjustment to increase the taxable value of rights to intangibles used outside the U.S. that YUM transferred to certain of its foreign subsidiaries. The Company and the IRS reached a final agreement on this valuation issue, which impacted tax returns for fiscal years 2004 - 2013, during 2014. As a result of this agreement, we closed out our 2004 - 2006 and 2007-2008 audit cycles and made cash payments in 2014 to the IRS of \$200 million, which were effectively fully reserved, to settle all issues for these audit cycles. The agreement also

resolved the valuation issue for all later impacted years. While additional cash payments related to the valuation issue will be required upon the closure of the examinations of future impacted fiscal years, the amounts will not be significant and have been fully reserved.

Change in valuation allowances. This item relates to changes for deferred tax assets generated or utilized during the current year and changes in our judgment regarding the likelihood of using deferred tax assets that existed at the beginning of the year. The impact of certain changes may offset items reflected in the 'Statutory rate differential attributable to foreign operations' line.

In 2015, \$54 million of net tax expense was driven by \$30 million for valuation allowances recorded against deferred tax assets generated in the current year and \$24 million in net tax expense resulting from a change in judgment regarding the future use of certain deferred tax assets that existed at the beginning of the year.

In 2014, \$35 million of net tax expense was driven by \$41 million for valuation allowances recorded against deferred tax assets generated during the current year, partially offset by \$6 million in net tax benefit resulting from a change in judgment regarding the future use of certain deferred tax assets that existed at the beginning of the year.

In 2013, \$23 million of net tax expense was driven by \$32 million for valuation allowances recorded against deferred tax assets generated during the current year, partially offset by a \$9 million net tax benefit resulting from a change in judgment regarding the future use of certain deferred tax assets that existed at the beginning of the year.

Other. This item primarily includes the impact of permanent differences related to current year earnings as well as U.S. tax credits and deductions.

In years 2014 and 2013, this item was negatively impacted by the \$160 million and \$222 million, respectively, of non-cash impairments of Little Sheep goodwill, which resulted in no related tax benefit. See Note 4.

The details of 2015 and 2014 deferred tax assets (liabilities) are set forth below:

	2015	2014
Operating losses	\$ 239	\$ 271
Tax credit carryforwards	282	162
Employee benefits	154	238
Share-based compensation	126	119
Self-insured casualty claims	36	42
Lease-related liabilities	112	119
Various liabilities	82	73
Property, plant and equipment	33	39
Deferred income and other	86	102
Gross deferred tax assets	1,150	1,165
Deferred tax asset valuation allowances	(250)	(228)
Net deferred tax assets	\$ 900	\$ 937
Intangible assets, including goodwill	\$ (130)	\$ (148)
Property, plant and equipment	(56)	(63)
Other	(70)	(104)
Gross deferred tax liabilities	\$ (256)	\$ (315)
Net deferred tax assets (liabilities)	\$ 644	\$ 622
Reported in Consolidated Balance Sheets as:		
Deferred income taxes	\$ 676	\$ 653
Other liabilities and deferred credits	(32)	(31)
	\$ 644	\$ 622

We have investments in foreign subsidiaries where the carrying values for financial reporting exceed the tax basis. We have not provided deferred tax on the portion of the excess that we believe is indefinitely reinvested, as we have the ability and intent to indefinitely postpone these basis differences from reversing with a tax consequence. We estimate that our total temporary difference upon which we have not provided deferred tax is approximately \$2.3 billion at December 26, 2015. A determination of the deferred tax liability on this amount is not practicable. A portion of the above temporary difference relates to carrying value for financial reporting in excess of tax basis for the investment in our China business.

In October, 2015 YUM announced its intent to separate its China business into an independent publicly-traded company by the end of 2016. This transaction is intended to qualify as a tax-free reorganization for U.S. income tax purposes. As such, any reversal of this temporary difference would not result in U.S. tax.

Additionally, the China State Administration of Taxation (SAT) recently issued Bulletin 7 on Income arising from Indirect Transfers of Assets by Non-resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of People's Republic of China (PRC) taxable assets, including equity interests in a PRC resident enterprise, by a non-resident enterprise, may be recharacterized and treated as a direct transfer of PRC taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of PRC enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to PRC enterprise income tax of 10%.

We have evaluated the potential applicability of Bulletin 7 to our plan to separate our China business in a tax-free restructuring and believe it is more likely than not that Bulletin 7 does not apply. We believe that the restructuring has reasonable commercial purpose.

If Bulletin 7 is deemed to apply, tax could be assessed on the difference between the fair market value and the tax basis of the separated China business. As our tax basis in the China business is minimal, the amount of such a tax could be significant and have a material adverse effect on our results of operations and our financial condition.

At December 26, 2015, the Company has foreign operating and capital loss carryforwards of \$0.6 billion and U.S. state operating loss, capital loss and tax credit carryforwards of \$1.0 billion and U.S. federal capital loss and tax credit carryforwards of \$0.3 billion. These losses are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income and will expire as follows:

	Year of Expiration				Total
	2016	2017-2020	2021-2035	Indefinitely	
Foreign	\$ 5	\$ 211	\$ 98	\$ 305	\$ 619
U.S. state	53	26	876	—	955
U.S. federal	64	—	277	—	341
	<u>\$ 122</u>	<u>\$ 237</u>	<u>\$ 1,251</u>	<u>\$ 305</u>	<u>\$ 1,915</u>

We recognize the benefit of positions taken or expected to be taken in tax returns in the financial statements when it is more likely than not that the position would be sustained upon examination by tax authorities. A recognized tax position is measured at the largest amount of benefit that is greater than fifty percent likely of being realized upon settlement.

The Company had \$98 million and \$115 million of unrecognized tax benefits at December 26, 2015 and December 27, 2014, respectively, \$89 million and \$98 million of which are temporary in nature and if recognized, would not impact the effective income tax rate. A reconciliation of the beginning and ending amount of unrecognized tax benefits follows:

	2015	2014
Beginning of Year	\$ 115	\$ 243
Additions on tax positions - current year	—	19
Additions for tax positions - prior years	5	31
Reductions for tax positions - prior years	(13)	(20)
Reductions for settlements	(7)	(144)
Reductions due to statute expiration	(2)	(13)
Foreign currency translation adjustment	—	(1)
End of Year	<u>\$ 98</u>	<u>\$ 115</u>

In 2014, the reduction in unrecognized tax benefits was primarily attributable to the resolution of the dispute with the IRS regarding the valuation of rights to intangibles transferred to certain foreign subsidiaries.

The Company believes it is reasonably possible its unrecognized tax benefits may decrease by approximately \$6 million in the next 12 months, including approximately \$4 million which, if recognized upon audit settlement or statute expiration, would affect the 2016 effective tax rate. Each of these positions is individually insignificant.

The Company's income tax returns are subject to examination in the U.S. federal jurisdiction and numerous foreign jurisdictions.

The Company has settled audits with the IRS through fiscal year 2008. Our operations in certain foreign jurisdictions remain subject to examination for tax years as far back as 2005, some of which years are currently under audit by local tax authorities. 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 26, 2015, each of which is individually insignificant.

The accrued interest and penalties related to income taxes at December 26, 2015 and December 27, 2014 are set forth below:

	2015	2014
Accrued interest and penalties	\$ 15	\$ 5

During 2015, 2014 and 2013, a net expense of \$5 million, \$11 million and \$18 million, respectively, for interest and penalties was recognized in our Consolidated Statements of Income as components of its income tax provision.

Note 17 – Reportable Operating Segments

See Note 1 for a description of our operating segments.

	Revenues		
	2015	2014	2013
China	\$ 6,909	\$ 6,934	\$ 6,905
KFC Division ^(a)	2,948	3,193	3,036
Pizza Hut Division ^(a)	1,145	1,148	1,147
Taco Bell Division ^(a)	1,988	1,863	1,869
India	115	141	127
	<u>\$ 13,105</u>	<u>\$ 13,279</u>	<u>\$ 13,084</u>

	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2015	2014	2013
China ^(b)	\$ 757	\$ 713	\$ 777
KFC Division	677	708	649
Pizza Hut Division	289	295	339
Taco Bell Division	539	480	456
India	(19)	(9)	(15)
Unallocated restaurant costs ^(c)	—	(1)	—
Unallocated Franchise and License expenses ^{(c)(i)}	(71)	—	—
Unallocated and corporate expenses ^(c)	(204)	(189)	(207)
Unallocated Closures and impairment expense ^{(c)(d)}	—	(463)	(295)
Unallocated Refranchising gain (loss) ^(c)	(10)	33	100
Unallocated Other income (expense) ^(c)	(37)	(10)	(6)
Operating Profit	1,921	1,557	1,798
Interest expense, net ^{(c)(e)}	(134)	(130)	(247)
Income Before Income Taxes	<u>\$ 1,787</u>	<u>\$ 1,427</u>	<u>\$ 1,551</u>

	Depreciation and Amortization		
	2015	2014	2013
China	\$ 425	\$ 411	\$ 394
KFC Division	176	187	190
Pizza Hut Division	40	39	36
Taco Bell Division	88	83	84
India	10	10	9
Corporate	8	9	8
	<u>\$ 747</u>	<u>\$ 739</u>	<u>\$ 721</u>

	Capital Spending		
	2015	2014	2013
China	\$ 512	\$ 525	\$ 568
KFC Division	273	273	294
Pizza Hut Division	54	62	52
Taco Bell Division	116	143	100
India	7	21	31
Corporate	11	9	4
	<u>\$ 973</u>	<u>\$ 1,033</u>	<u>\$ 1,049</u>

	Identifiable Assets	
	2015	2014
China ^(f)	\$ 3,150	\$ 3,202
KFC Division ⁽ⁱ⁾	2,181	2,328
Pizza Hut Division ⁽ⁱ⁾	707	710
Taco Bell Division ⁽ⁱ⁾	1,127	1,084
India	84	118
Corporate ^{(g)(i)}	826	892
	<u>\$ 8,075</u>	<u>\$ 8,334</u>

	Long-Lived Assets ^(h)	
	2015	2014
China	\$ 2,033	\$ 2,217
KFC Division	1,663	1,823
Pizza Hut Division	419	433
Taco Bell Division	911	920
India	35	72
Corporate	55	51
	<u>\$ 5,116</u>	<u>\$ 5,516</u>

- (a) U.S. revenues included in the combined KFC, Pizza Hut and Taco Bell Divisions totaled \$3.1 billion in 2015 and \$3.0 billion in both 2014 and 2013.
- (b) Includes equity income from investments in unconsolidated affiliates of \$41 million, \$30 million and \$26 million in 2015, 2014 and 2013, respectively.
- (c) Amounts have not been allocated to any segment for performance reporting purposes.
- (d) Represents 2014 and 2013 impairment losses related to Little Sheep. See Note 4.
- (e) 2013 includes \$118 million of premiums and other costs related to the extinguishment of debt. See Note 4.
- (f) China includes investments in 4 unconsolidated affiliates totaling \$61 million and \$52 million for 2015 and 2014, respectively.
- (g) Primarily includes cash, deferred tax assets and property, plant and equipment, net, related to our office facilities.
- (h) Includes property, plant and equipment, net, goodwill, and intangible assets, net.
- (i) U.S. identifiable assets included in the combined Corporate and KFC, Pizza Hut and Taco Bell Divisions totaled \$2.3 billion and \$2.0 billion in 2015 and 2014, respectively.
- (j) Represents 2015 costs associated with the KFC U.S. Acceleration Agreement. See Note 4.

Note 18 – Contingencies

Lease Guarantees

As a result of having (a) assigned our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributed certain Company restaurants to unconsolidated affiliates; and (c) guaranteed certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2065. As of December 26, 2015, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was approximately \$575 million. The present value of these potential payments discounted at our pre-tax cost of debt at December 26, 2015 was approximately \$475 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 26, 2015 and December 27, 2014 was not material.

Franchise Loan Pool and Equipment Guarantees

We have agreed to provide financial support, if required, to a variable interest entity that operates a franchisee lending program used primarily to assist franchisees in the development of new restaurants or the upgrade of existing restaurants and, to a lesser extent, in connection with the Company's refranchising programs in the U.S. We have determined that we are not required to consolidate this entity as we share the power to direct this entity's lending activity with other parties. We have provided guarantees of 20% of the outstanding loans of the franchisee loan program. As such, at December 26, 2015 our guarantee exposure under this program is approximately \$6 million based on total loans outstanding of \$29 million.

In addition to the guarantees described above, YUM has agreed to provide guarantees of up to approximately \$140 million on behalf of franchisees for several financing programs related to specific initiatives, primarily equipment purchases. At December 26, 2015 our guarantee exposure under these financing programs is approximately \$14 million based on total loans outstanding of \$38 million.

Unconsolidated Affiliates Guarantees

From time to time we have guaranteed certain lines of credit and loans of unconsolidated affiliates. At December 26, 2015 there are no guarantees outstanding for unconsolidated affiliates. Our unconsolidated affiliates had total revenues of approximately \$1.1 billion for the year ended December 26, 2015 and assets and debt of approximately \$350 million and \$50 million, respectively, at December 26, 2015.

Insurance Programs

We are self-insured for a substantial portion of our current and prior years' coverage including property and casualty losses. To mitigate the cost of our exposures for certain property and casualty losses, we self-insure the risks of loss up to defined maximum per occurrence retentions on a line-by-line basis. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence 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.

The following table summarizes the 2015 and 2014 activity related to our net self-insured property and casualty reserves as of December 26, 2015.

	Beginning Balance	Expense	Payments	Ending Balance
2015 Activity	\$ 116	39	(53)	\$ 102
2014 Activity	\$ 128	42	(54)	\$ 116

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.

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.

Legal Proceedings

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

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

On January 24, 2013, Bert Bauman, a purported shareholder of the Company, submitted a letter demanding that the Board of Directors initiate an investigation of alleged breaches of fiduciary duties by directors, officers and employees of the Company. The breaches of fiduciary duties were alleged to have arisen primarily as a result of the failure to implement proper controls in connection with the Company's purchases of poultry from suppliers to the Company's China operations. Subsequently, similar demand letters by other purported shareholders were submitted. Those letters were referred to a special committee of the Board of Directors (the "Special Committee") for consideration. The Special Committee, upon conclusion of an independent inquiry of the matters described in the letters, unanimously determined that it is not in the best interests of the Company to pursue the claims described in the letters and, accordingly, rejected each shareholder's demand.

On May 9, 2013, Mr. Bauman filed a putative derivative action in Jefferson Circuit Court, Commonwealth of Kentucky against certain current and former officers and directors of the Company asserting breach of fiduciary duty, waste of corporate assets and unjust enrichment in connection with an alleged failure to implement proper controls in the Company's purchases of poultry from suppliers to the Company's China operations and with an alleged scheme to mislead investors about the Company's growth prospects in China. On November 11, 2015, the parties filed a joint motion to dismiss the action with prejudice. On November 24, 2015, the Circuit Court granted the parties' motion and dismissed the action with prejudice. The matter has been closed.

On February 14, 2013, Jennifer Zona, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On May 21, 2013, Ms. Zona filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman. The case was subsequently reassigned to the same judge that the securities class action is before. On October 14, 2013, the Company filed a motion to dismiss on the basis of the Special Committee's findings. On October 14, 2015, the parties filed a joint stipulation to dismiss the action with prejudice. On October 22, 2015, the District Court granted the parties' stipulation and dismissed the action with prejudice. The matter has been closed.

On May 17, 2013, Sandra Wollman, another purported shareholder of the Company, submitted a demand letter similar to the demand letters described above. On December 9, 2013, Ms. Wollman filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against certain current and former officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman and Ms. Zona. This matter was consolidated with the Zona action, and on October 14, 2015 the parties filed a joint stipulation to dismiss the action with prejudice. On October 22, 2015, the District Court granted the parties' stipulation and dismissed the action with prejudice. The matter has been closed.

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

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

Per order of the court, plaintiffs filed a second amended complaint to clarify the class claims. Plaintiffs also filed a motion for partial summary judgment. Taco Bell filed motions to strike and to dismiss, as well as a motion to alter or amend the second amended complaint. On August 29, 2014, the court denied plaintiffs' motion for partial summary judgment. On that same date, the court granted Taco Bell's motion to dismiss all but one of the California Private Attorney General Act claims. On October 29, 2014, plaintiffs filed a motion to amend the operative complaint and a motion to amend the class certification order. On December 16, 2014, the court partially granted both motions, rejecting plaintiffs' proposed on-duty meal period class but certifying a limited rest break class and certifying an underpaid meal premium class, and allowing the plaintiffs to amend the complaint to reflect those certifications. On December 30, 2014, plaintiffs filed the third amended complaint. On February 26, 2015, the court denied a motion by Taco Bell to dismiss or strike the underpaid meal premium class. Class notice was issued to the two recently-certified classes, and discovery and expert discovery commenced. On October 5, 2015, Taco Bell filed a motion to decertify the classes. The same day, Plaintiffs filed a motion for summary judgment. In December, 2015, the court denied both motions. All motion and discovery practice is complete and trial is set to begin on February 22, 2016.

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

On May 16, 2013, a putative class action styled Bernardina Rodriguez v. Taco Bell Corp. was filed in California Superior Court. The plaintiff seeks to represent a class of current and former California hourly restaurant employees alleging various violations of California labor laws including failure to provide meal and rest periods, failure to pay hourly wages, failure to provide accurate written wage statements, failure to timely pay all final wages, and unfair or unlawful business practices in violation of California Business & Professions Code §17200. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell removed the case to federal court and, on June 25, 2013, plaintiff filed a first amended complaint to include a claim seeking penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act. Taco Bell's motion to dismiss or stay the action in light of the In Re Taco Bell Wage and Hour Actions case was denied on October 30, 2013. In April 2014 the parties stipulated to address the sufficiency of plaintiff's legal theory as to her discount meal break claim before conducting full discovery. A hearing on the parties' cross-summary judgment motions was held on October 22, 2014, and on October 23, 2014, the court granted Taco Bell's motion for summary judgment on the discount meal break claim and denied plaintiff's motion. Plaintiff is no longer actively pursuing this matter, and Taco Bell expects the matter to be dismissed.

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

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

Note 19 – Selected Quarterly Financial Data (Unaudited)

	2015				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$ 2,179	\$ 2,659	\$ 2,968	\$ 3,339	\$ 11,145
Franchise and license fees and income	443	446	459	612	1,960
Total revenues	2,622	3,105	3,427	3,951	13,105
Restaurant profit	382	411	539	454	1,786
Operating Profit ^(a)	506	371	603	441	1,921
Net Income – YUM! Brands, Inc.	362	235	421	275	1,293
Basic earnings per common share	0.83	0.54	0.97	0.64	2.97
Diluted earnings per common share	0.81	0.53	0.95	0.63	2.92
Dividends declared per common share	—	0.82	—	0.92	1.74

	2014				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$ 2,292	\$ 2,758	\$ 2,891	\$ 3,383	\$ 11,324
Franchise and license fees and income	432	446	463	614	1,955
Total revenues	2,724	3,204	3,354	3,997	13,279
Restaurant profit	441	428	429	344	1,642
Operating Profit ^(b)	571	479	550	(43)	1,557
Net Income – YUM! Brands, Inc.	399	334	404	(86)	1,051
Basic earnings per common share	0.89	0.75	0.91	(0.20)	2.37
Diluted earnings per common share	0.87	0.73	0.89	(0.20)	2.32
Dividends declared per common share	0.37	0.37	—	0.82	1.56

(a) Includes losses associated with refranchising of equity markets outside of the U.S. of \$73 million, \$20 million and \$3 million in the second, third and fourth quarters, respectively, costs associated with the KFC U.S. Acceleration Agreement of \$2 million, \$8 million, \$21 million and \$41 million in the first, second, third and fourth quarters, respectively, and net U.S. refranchising gains of \$7 million, \$1 million, \$16 million and \$51 million in the first, second, third and fourth quarters, respectively. See Note 4.

(b) Includes a non-cash charge of \$463 million in the fourth quarter related primarily to the impairment of Little Sheep intangible assets. See Note 4.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

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 (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 26, 2015.

KPMG LLP, an independent registered public accounting firm, has audited the Consolidated Financial Statements included in this Annual Report on Form 10-K and the effectiveness of our internal control over financial reporting and has issued their report, included herein.

Changes in Internal Control

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended December 26, 2015.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information regarding Section 16(a) compliance, the Audit Committee and the Audit Committee financial expert, the Company's code of ethics and background of the directors appearing under the captions "Stock Ownership Information," "Governance of the Company," "Executive Compensation" and "Item 1: Election of Directors and Director biographies" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 26, 2015.

Information regarding executive officers of the Company is included in Part I.

Item 11. Executive Compensation.

Information regarding executive and director compensation and the Compensation Committee appearing under the captions "Governance of the Company" and "Executive Compensation" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 26, 2015.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

Information regarding equity compensation plans and security ownership of certain beneficial owners and management appearing under the captions "Executive Compensation" and "Stock Ownership Information" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 26, 2015.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

Information regarding certain relationships and related transactions and information regarding director independence appearing under the caption "Governance of the Company" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 26, 2015.

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services and audit committee pre-approval policies and procedures appearing under the caption "Item 2: Ratification of Independent Auditors" is incorporated by reference from the Company's definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 26, 2015.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

- (a)
 - (1) Financial Statements: Consolidated Financial Statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.
 - (2) Financial Statement Schedules: No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the Consolidated Financial Statements thereto filed as a part of this Form 10-K.
 - (3) Exhibits: The exhibits listed in the accompanying Exhibit Index are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10-K annual report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: February 16, 2016

YUM! BRANDS, INC.

By: /s/ Greg Creed

Pursuant to the requirements of the Securities Exchange Act of 1934, this annual report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ David C. Novak</u> David C. Novak	Executive Chairman	February 16, 2016
<u>/s/ Greg Creed</u> Greg Creed	Chief Executive Officer (principal executive officer)	February 16, 2016
<u>/s/ Patrick J. Grismer</u> Patrick J. Grismer	Chief Financial Officer (principal financial officer)	February 16, 2016
<u>/s/ David E. Russell</u> David E. Russell	Vice President, Finance and Corporate Controller (principal accounting officer)	February 16, 2016
<u>/s/ Michael J. Cavanagh</u> Michael J. Cavanagh	Director	February 16, 2016
<u>/s/ Brian Cornell</u> Brian Cornell	Director	February 16, 2016
<u>/s/ David W. Dorman</u> David W. Dorman	Director	February 16, 2016
<u>/s/ Massimo Ferragamo</u> Massimo Ferragamo	Director	February 16, 2016
<u>/s/ Mirian Graddick-Weir</u> Mirian Graddick-Weir	Director	February 16, 2016
<u>/s/ Jonathan S. Linen</u> Jonathan S. Linen	Director	February 16, 2016
<u>/s/ Keith Meister</u> Keith Meister	Director	February 16, 2016
<u>/s/ Thomas C. Nelson</u> Thomas C. Nelson	Director	February 16, 2016
<u>/s/ Thomas M. Ryan</u> Thomas M. Ryan	Director	February 16, 2016
<u>/s/ Elane Stock</u> Elane Stock	Director	February 16, 2016
<u>/s/ Jing-Shyh S. Su</u> Jing-Shyh S. Su	Director	February 16, 2016
<u>/s/ Robert D. Walter</u> Robert D. Walter	Director	February 16, 2016

YUM! Brands, Inc.
Exhibit Index
(Item 15)

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
3.1	Restated Articles of Incorporation of YUM, effective May 26, 2011, which is incorporated herein by reference from Exhibit 3.1 to YUM's Report on Form 8-K filed on May 31, 2011.
3.2	Amended and restated Bylaws of YUM, effective September 18, 2015, which are incorporated herein by reference from Exhibit 3.1 to YUM's Report on Form 8-K filed on September 23, 2015.
4.1	Indenture, dated as of May 1, 1998, between YUM and The Bank of New York Mellon Trust Company, N.A., successor in interest to The First National Bank of Chicago, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on May 13, 1998. (i) 6.25% Senior Notes due April 15, 2016 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed on April 17, 2006. (ii) 6.25% Senior Notes due March 15, 2018 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed on October 22, 2007. (iii) 6.875% Senior Notes due November 15, 2037 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.3 to YUM's Report on Form 8-K filed on October 22, 2007. (iv) 5.30% Senior Notes due September 15, 2019 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed on August 25, 2009. (v) 3.875% Senior Notes due November 1, 2020 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed on August 31, 2010. (vi) 3.750% Senior Notes due November 1, 2021 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed August 29, 2011. (vii) 3.875% Senior Notes due November 1, 2023 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM's Report on Form 8-K filed October 31, 2013. (viii) 5.350% Senior Notes due November 1, 2043 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.3 to YUM's Report on Form 8-K filed October 31, 2013.
10.1 +	Master Distribution Agreement between Unified Foodservice Purchasing Co-op, LLC, for and on behalf of itself as well as the Participants, as defined therein (including certain subsidiaries of Yum! Brands, Inc.) and McLane Foodservice, Inc., effective as of January 1, 2011 and Participant Distribution Joinder Agreement between Unified Foodservice Purchasing Co-op, LLC, McLane Foodservice, Inc., and certain subsidiaries of Yum! Brands, Inc., which are incorporated herein by reference from Exhibit 10.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 4, 2010.

- 10.2 Credit Agreement, dated March 22, 2012 among YUM, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Citibank, N.A. and Wells Fargo Bank, National Association, as Syndication Agents, J.P. Morgan Securities LLC, Citigroup Global Markets Inc. and Wells Fargo Securities, LLC, as Lead Arrangers and Bookrunners and HSBC Bank USA, National Association, US Bank, National Association and Fifth Third Bank, as Documentation Agents, which is incorporated herein by reference from Exhibit 10.26 to YUM's Quarterly Report on Form 10-Q for quarter ended March 24, 2012.
- 10.2.1 Term Loan Credit Agreement, dated as of December 8, 2015, among the lenders party thereto, Goldman Sachs Bank USA as Administrative Agent, Citibank N.A. and JP Morgan Chase Bank, N.A. as Syndication Agents, and Goldman Sachs Bank USA, J.P. Morgan Securities LLC and Citigroup Global Markets Inc. as Lead Arrangers and Bookrunners, as filed herewith.
- 10.3† YUM Director Deferred Compensation Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.7 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.3.1† YUM Director Deferred Compensation Plan, Plan Document for the 409A Program, as effective January 1, 2005, and as Amended through November 14, 2008, which is incorporated by reference from Exhibit 10.7.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2009.
- 10.4† YUM 1997 Long Term Incentive Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.8 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.5† YUM Executive Incentive Compensation Plan, as effective May 20, 2004, and as Amended through the Second Amendment, as effective May 21, 2009, which is incorporated herein by reference from Exhibit A of YUM's Definitive Proxy Statement on Form DEF 14A for the Annual Meeting of Shareholders held on May 21, 2009.
- 10.6† YUM Executive Income Deferral Program, as effective October 7, 1997, and as amended through May 16, 2002, which is incorporated herein by reference from Exhibit 10.10 to YUM's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
- 10.6.1† YUM! Brands Executive Income Deferral Program, Plan Document for the 409A Program, as effective January 1, 2005, and as Amended through June 30, 2009, which is incorporated by reference from Exhibit 10.10.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2009.
- 10.7† YUM! Brands Pension Equalization Plan, Plan Document for the Pre-409A Program, as effective January 1, 2005, and as Amended through December 31, 2010, which is incorporated by reference from Exhibit 10.7 to Yum's Quarterly Report on Form 10-Q for the quarter ended March 19, 2011.
- 10.7.1† YUM! Brands, Inc. Pension Equalization Plan, Plan Document for the 409A Program, as effective January 1, 2005, and as Amended through December 30, 2008, which is incorporated by reference from Exhibit 10.13.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2009.
- 10.7.2† YUM! Brands Pension Equalization Plan Amendment, as effective January 1, 2012, which is incorporated by reference from Exhibit 10.7.2 to Yum's Quarterly Report on Form 10-Q for the quarter ended March 23, 2013.
- 10.7.3† YUM! Brands Pension Equalization Plan Amendment, as effective January 1, 2013, which is incorporated by reference from Exhibit 10.7.3 to Yum's Quarterly Report on Form 10-Q for the quarter ended March 23, 2013.
- 10.8† Form of Directors' Indemnification Agreement, which is incorporated herein by reference from Exhibit 10.17 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.9† Form of YUM! Brands, Inc. Change in Control Severance Agreement, which is incorporated herein by reference from Exhibit 10.1 to Yum's Report on Form 8-K filed on March 21, 2013.

10.10†	YUM Long Term Incentive Plan, as Amended through the Fourth Amendment, as effective November 21, 2008, which is incorporated by reference from Exhibit 10.18 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2009.
10.11	Second Amended and Restated YUM Purchasing Co-op Agreement, dated as of January 1, 2012, between YUM and the Unified Foodservice Purchasing Co-op, LLC, which is incorporated herein by reference from Exhibit 10.11 to YUM's Annual Report on Form 10-K for the fiscal year ended December 31, 2011.
10.12†	YUM Restaurant General Manager Stock Option Plan, as effective April 1, 1999, and as amended through June 23, 2003, which is incorporated herein by reference from Exhibit 10.22 to YUM's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.13†	YUM SharePower Plan, as effective October 7, 1997, and as amended through June 23, 2003, which is incorporated herein by reference from Exhibit 10.23 to YUM's Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.14†	Form of YUM Director Stock Option Award Agreement, which is incorporated herein by reference from Exhibit 10.25 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.15†	Form of YUM 1999 Long Term Incentive Plan Award Agreement, which is incorporated herein by reference from Exhibit 10.26 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.15.1†	Form of YUM 1999 Long Term Incentive Plan Award Agreement (2013) (Stock Options), which is incorporated herein by reference from Exhibit 10.15.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended March 23, 2013.
10.15.2†	Form of YUM 1999 Long Term Incentive Plan Award Agreement (2015) (Stock Options), which is incorporated herein by reference from Exhibit 10.15.2 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.
10.16†	YUM! Brands, Inc. International Retirement Plan, as in effect January 1, 2005, which is incorporated herein by reference from Exhibit 10.27 to YUM's Annual Report on Form 10-K for the fiscal year ended December 25, 2004.
10.17†	Letter of Understanding, dated July 13, 2004, and as amended on May 18, 2011, by and between the Company and Samuel Su, which is incorporated herein by reference from Exhibit 10.28 to YUM's Annual Report on Form 10-K for the fiscal year ended December 25, 2004, and from Item 5.02 of Form 8-K on May 24, 2011.
10.18†	Form of 1999 Long Term Incentive Plan Award Agreement (Stock Appreciation Rights) which is incorporated by reference from Exhibit 99.1 to YUM's Report on Form 8-K as filed on January 30, 2006.
10.18.1†	Form of YUM 1999 Long Term Incentive Plan Award Agreement (2013) (Stock Appreciation Rights), which is incorporated by reference from Exhibit 10.18.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended March 23, 2013.
10.18.2†	Form of YUM 1999 Long Term Incentive Plan Award Agreement (2015) (Stock Appreciation Rights), which is incorporated herein by reference from Exhibit 10.18.2 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.
10.20†	YUM! Brands Leadership Retirement Plan, as in effect January 1, 2005, which is incorporated herein by reference from Exhibit 10.32 to YUM's Quarterly Report on Form 10-Q for the quarter ended March 24, 2007.

10.20.1†	YUM! Brands Leadership Retirement Plan, Plan Document for the 409A Program, as effective January 1, 2005, and as Amended through December, 2009, which is incorporated by reference from Exhibit 10.21.1 to YUM's Annual Report on Form 10-K for the fiscal year ended December 26, 2009.
10.21†	1999 Long Term Incentive Plan Award (Restricted Stock Unit Agreement) by and between the Company and David C. Novak, dated as of January 24, 2008, which is incorporated herein by reference from Exhibit 10.33 to YUM's Annual Report on Form 10-K for the fiscal year ended December 29, 2007.
10.22†	YUM! Performance Share Plan, as amended and restated January 1, 2013, which is incorporated by reference from Exhibit 10.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 2015.
10.23†	YUM! Brands Third Country National Retirement Plan, as effective January 1, 2009, which is incorporated by reference from Exhibit 10.25 to YUM's Annual Report on Form 10-K for the fiscal year ended December 26, 2009.
10.24†	2010 YUM! Brands Supplemental Long Term Disability Coverage Summary, as effective January 1, 2010, which is incorporated by reference from Exhibit 10.26 to YUM's Annual Report on Form 10-K for the fiscal year ended December 26, 2009.
10.25†	1999 Long Term Incentive Plan Award (Restricted Stock Unit Agreement) by and between the Company and Jing-Shyh S. Su, dated as of May 20, 2010, which is incorporated by reference from Exhibit 10.27 to YUM's Annual Report on Form 10-K for the fiscal year ended December 25, 2010.
10.27†	1999 Long Term Incentive Plan Award (Stock Appreciation Rights) by and between the Company and David C. Novak, dated as of February 6, 2015, which is incorporated herein by reference from Exhibit 10.27 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.
10.28†	YUM! Brands, Inc. Compensation Recovery Policy, Amended and Restated January 1, 2015, which is incorporated herein by reference from Exhibit 10.28 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 2014.
10.29†	Retirement Agreement and General Release, dated August 13, 2015, by and between the Company and Jing-Shyh S. Su, which is incorporated by reference from Exhibit 10.29 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 5, 2015.
10.30†	Letter of Understanding dated December 7, 2015 by and between the Company and Patrick J. Grismer as filed herewith.
12.1	Computation of ratio of earnings to fixed charges.
21.1	Active Subsidiaries of YUM.
23.1	Consent of KPMG LLP.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

+ Confidential treatment has been granted for certain portions which are omitted in the copy of the exhibit electronically filed with the SEC. The omitted information has been filed separately with the SEC pursuant to our application for confidential treatment.

† Indicates a management contract or compensatory plan.

December 7, 2015

Patrick J. Grismer
6732 Elmcroft Circle
Louisville, KY 40241

Pat,

This letter will confirm our mutual understanding regarding the payment and benefits we intend to provide you in connection with your resignation from Yum! Brands, Inc. (the "Company") scheduled for February 19, 2016 (the "Termination Date") and in consideration of your agreement to continue in your position as Chief Financial Officer of the Company until the Termination Date. The Company will announce your intention to resign as Chief Financial Officer in a press release and Form 8-K filing on December 7, 2015. You will have the opportunity to review and comment upon the Company's press release and 8-K filing addressing your resignation. The announcement will identify the anticipated Termination Date. The details of the payment, benefits and conditions are described below.

Payment and Benefits

- Your current salary and participation in benefit plans will continue through your Termination Date but will end on the date your employment terminates for any reason, even if that date occurs before the Termination Date.
 - On your Termination Date, the Company will accelerate vesting of that certain number of your unvested stock appreciation rights ("SARs") (the SARs as to which vesting is accelerated is herein referred to as the "Accelerated Vesting SARs") which have an aggregate value on the Termination Date of five hundred thousand dollars (\$500,000). The value of each Accelerated Vesting SAR shall be equal to the excess of (a) the Fair Market Value (as defined in the Yum! Brands, Inc. Long-Term Incentive Plan (the "LTIP")) of a share of Stock (as defined in the LTIP) as of the Termination Date over (b) the exercise price of the Accelerated Vesting SAR. The Company shall have the sole discretion to determine which of your outstanding SARs will constitute Accelerated Vesting SARs. This additional consideration referred to herein as the "Accelerated Vesting".
 - The Company's management will recommend to the Management Planning and Development ("MP&D") Committee that you receive no less than an "on target" performance rating and no less than an individual factor of 100 for 2015 for purposes of determining your annual bonus for 2015 under the Yum Leaders' Bonus program. You will not receive a bonus for 2016.
 - Between the date of this letter and the Termination Date, you will be allowed reasonable flexibility to pursue job search activities, including interviewing.
-

As we discussed, the Accelerated Vesting is contingent on the following:

- You completing the year-end process for filing the Company's Form 10-K for the 2015 fiscal year and remaining employed through the Termination Date; and
- You signing the attached Waiver and Release of All Claims, Covenant Not to Sue and Agreement to Provide Assistance After Termination ("Waiver") within the time provided in Section 10 of the Waiver, and also signing the Reaffirmation of the Waiver on the Termination Date and your not revoking the Waiver or Reaffirmation of the Waiver.

The Accelerated Vesting above will be in addition to your regular annual bonus and any other benefits you are eligible to receive pursuant to the terms of the applicable bonus and benefits plans. The Accelerated Vesting will not be included for purposes of determining your benefits under the Yum! Brands Leadership Retirement Plan. As we discussed, you may exercise your vested Yum SARs and stock options in accordance with their terms. The Company confirms that there is a 90-day post-employment exercise period available to you for all of your vested SARs and stock options upon your termination of employment (or a longer period should your employment terminate due to death or total disability as determined by the MP&D Committee). Applicable tax withholding on any exercise will be satisfied by the Company withholding of shares upon exercise. Any vested SARs and stock options that are not exercised in accordance with their terms will be forfeited. Exercises and share sale transactions are subject to pre-clearance under our insider trading policy, it being understood that exercises that do not involve sale transactions will be approved.

The rights you currently have to indemnification, advancement of expenses and coverage under currently applicable directors and officers insurance with respect to any suit or proceedings arising out of your having served as or your activities as an officer or employee of the Company or any of its subsidiaries, affiliates, joint ventures or as a trustee or administrator of any employee benefit plan will continue after the Termination Date, and rights to indemnification and advancement of expenses will also apply in connection with assistance you may provide pursuant to the attached Waiver.

This offer is not a contract of employment nor does it create an implied contract of continued employment. Either the Company or you can terminate your employment relationship at any time, with or without cause, with or without notice. If the Company terminates your employment for Cause before the Termination Date, you will not receive the Accelerated Vesting. "Cause" shall mean any of the following: (A) you have engaged in willful conduct involving misappropriation, dishonesty, or serious moral turpitude or other willful conduct which is demonstrably and materially injurious to the Company; or (B) you are convicted of a felony. If the Company terminates your employment for reasons other than Cause before the Termination Date, you will still be eligible to receive the Accelerated Vesting.

Pat, thank you for your many years of service and contributions to Yum. We look forward to working with you and to your continued contribution through this transition.

Sincerely,

Greg Creed
Chief Executive Officer

I accept the agreement described above and accept the terms within.

Signature: _____ Date: _____

**WAIVER AND RELEASE OF ALL CLAIMS, COVENANT NOT TO SUE AND AGREEMENT TO PROVIDE
ASSISTANCE AFTER TERMINATION (this "WAIVER")**

1. RELEASE.

In consideration for the agreement of YUM! Brands, Inc. (the "Company") to provide the Accelerated Vesting following my last day of employment described in the attached Letter Agreement of December 7, 2015 (the "Letter Agreement"), I, Patrick J. Grismer, on behalf of myself and my heirs, executors, administrators, attorneys and assigns, hereby waive, release and forever discharge the Company together with the Company's subsidiaries, divisions and affiliates, whether direct or indirect, its and their joint ventures and joint venturers (including their respective directors, officers, employees, shareholders, partners and agents, past, present, and future), and each of its and their respective successors and assigns (hereinafter collectively referred to as "Releasees"), from any and all known or unknown actions, causes of action, claims or liabilities of any kind which have been or could be asserted against the Releasees arising out of or related to my employment with and/or separation from employment with the Company and/or any of the other Releasees and/or any other occurrence up to and including the date of this Waiver, including but not limited to:

(a) claims, actions, causes of action or liabilities arising under Title VII of the Civil Rights Act, as amended, the Age Discrimination in Employment Act (the "ADEA") as amended including the Older Workers Benefit Protection Act, as amended, the Rehabilitation Act, as amended, the Americans with Disabilities Act, the Family and Medical Leave Act, as amended, and/or any other federal, state, municipal, or local employment discrimination statutes or ordinances (including, but not limited to, claims based on age, sex, attainment of benefit plan rights, race, color, religion, national origin, marital status, sexual orientation, ancestry, harassment, parental status, handicap, disability, retaliation, and veteran status); and/or

(b) claims, actions, causes of action or liabilities arising under any other federal, state, municipal, or local statute, law, ordinance or regulation (including, but not limited to, the Employee Retirement Income Security Act, as amended, the Sarbanes-Oxley Act of 2002, and the WARN Act); and/or

(c) any claims that the Company is in any way obligated for any reason to pay me damages, expenses, litigation costs (including attorneys' fees), wages, bonuses, salary continuation, stock options and stock appreciation rights, long or short term incentive pay, vacation pay, separation pay, termination pay, any type of payments or benefits based on my separation from employment, incentive pay, commissions, disability benefits or sick pay, life insurance, or any other employee benefits of any kind, compensatory damages, punitive damages, and/or interest; and/or

(d) any other claim whatsoever including, but not limited to, claims based upon breach of contract, wrongful termination, retaliatory discharge, defamation, intentional infliction of emotional distress, tort, personal injury, invasion of privacy, violation of public policy, negligence and/or any other common law, statutory or other claim whatsoever arising out of or relating to my employment with and/or separation from employment with the Company and/or any of the other Releasees.

Excluded from this Waiver is any claim or right (i) which cannot be waived as a matter of law; (ii) arising after the date of this Waiver; (iii) to enforce the Company's obligations in the Letter Agreement, (iv) to vested payments, benefits or other accrued but unpaid entitlements under the terms of any applicable bonus or benefit plans; (v) to or for indemnification, advancement of expenses and/or coverage under any insurance policies with respect to suits, proceedings or investigations arising out of my having served as an officer or employee of the Company or any of its subsidiaries, affiliates, joint venturers or as a trustee or administrator of any employee benefit plan; and/or (vi) to file an administrative charge of discrimination with, or participate in an investigation or proceeding conducted by, the Equal Employment Opportunity Commission or any other federal, state or local agency responsible for enforcing employment laws.

2. COVENANT NOT TO SUE.

Except to enforce the Company's obligations in the Letter Agreement, I also agree never to sue any of the Releasees or become party to a lawsuit on the basis of any claim arising out of or related to my employment with and/or separation from employment with the Company and/or any of the other Releasees arising at any time up to and including the date I sign this Waiver. Although I am releasing claims that I may have under the OWBPA and ADEA, I understand that I may challenge the knowing and voluntary nature of this Waiver before a court, the Equal Employment Opportunity Commission (EEOC), or any other federal, state or local agency charged with the enforcement of employment laws.

3. BREACH OF COVENANT NOT TO SUE.

I further acknowledge and agree that if I breach the provisions of paragraph (2) above, then the provisions of paragraph (9) below shall apply.

4. EXISTING AGREEMENTS

I acknowledge and agree that I continue to be bound by the confidentiality and arbitration agreements previously entered into between me and the Company.

5. ASSISTANCE AFTER TERMINATION

In consideration for the Company's continuing agreement relating to indemnification and advancement of expenses set forth in the Letter Agreement, I agree to provide the Company and any Releasees and their attorneys full and complete cooperation and assistance by providing truthful information in connection with any and all circumstances, facts or events existing or occurring during my employment, such cooperation and assistance to include assisting with the prosecution or defense of claims by or against the Company or any Releasees as they relate to circumstances, facts or events existing or occurring during my employment, including after the Termination Date. Such cooperation and assistance shall be provided at such time and in such manner as the Company, Releasees or their attorneys may reasonably request.

6. NON DISPARAGEMENT

I agree not to make any defamatory or disparaging statement, writing, or communication pertaining to the character, reputation, business practices or conduct of the Company or the Releasees. For the avoidance of doubt, this includes any such statement, writing or communication made on social media.

7. WAIVER OF RECOVERY.

To the extent permitted by law, I further waive my right to any monetary recovery should any federal, state, or local administrative agency pursue any claims on my behalf arising out of or related to my employment with and/or separation from employment with the Company and/or any of the other Releasees.

8. WAIVER AND ACKNOWLEDGEMENT.

I further waive, release and discharge Releasees from any reinstatement rights which I have or could have and I acknowledge that I have not suffered any on-the-job injury for which I have not already filed a claim.

9. BREACH OF LETTER AGREEMENT OR THIS WAIVER.

I further agree that if I breach provisions of the Letter Agreement or this Waiver, including but not limited to the Covenant not to Sue, in paragraph (2), then (a) the Company shall be entitled to apply for and receive an injunction to restrain such breach, (b) the Company shall not be obligated to carry out the Accelerated Vesting, or, if the Accelerated Vesting has already occurred, I shall be obligated upon demand to repay to the Company the total dollar value of the Stock I received on the date I exercise the Accelerated Vesting SARs less one thousand dollars (\$1,000) (the "Accelerated Vesting Return Amount") and further, to the extent that I have not exercised any Accelerated Vesting SARs, the Company shall have the right to rescind such unexercised Accelerated Vesting SARs, and (c) I shall be obligated to pay to the Company its costs and expenses in enforcing the provisions of the Letter Agreement and this Waiver and defending against any lawsuit (including court costs, expenses and reasonable legal fees). I further agree that the foregoing covenants in this paragraph (9) shall not affect the validity of this Waiver and shall not be deemed to be a penalty nor a forfeiture.

10. ACKNOWLEDGEMENT OF TIME TO CONSIDER AND RIGHT TO CONSULT AN ATTORNEY.

I acknowledge that I have been given twenty-one (21) days to consider this Waiver thoroughly and I was advised in writing by this agreement to consult with my personal attorney, at my own expense, if desired, before signing below.

11. REVOCATION OF WAIVER.

I understand that I may revoke this Waiver within seven (7) days after its signing and that any revocation must be made in writing and submitted within such seven (7) day period to **Tracy Skeans** at the Company. I further understand that if I revoke this Waiver, either the Company shall not carry out the Accelerated Vesting or, if the Accelerated Vesting has already occurred, I shall be obligated upon demand to repay to the Company the Accelerated Vesting Return Amount, and further, to the extent that I have not exercised any Accelerated Vesting SARs, the Company shall have the right to rescind such unexercised Accelerated Vesting SARs.

12. ACKNOWLEDGEMENT OF CONSIDERATION.

I also understand that the Accelerated Vesting which I will receive in exchange for signing and not later revoking this Waiver is in addition to anything of value to which I already am entitled.

13. ACKNOWLEDGEMENT OF WAIVER.

I FURTHER UNDERSTAND THAT THIS WAIVER INCLUDES A RELEASE OF ALL KNOWN AND UNKNOWN, SUSPECTED AND UNSUSPECTED CLAIMS TO DATE.

14. SEVERABILITY.

I acknowledge and agree that if any provision of this Waiver is found, held or deemed by a court of competent jurisdiction to be void, unlawful or unenforceable under any applicable statute or controlling law, the remainder of this Waiver shall continue in full force and effect.

15. GOVERNING LAW/ARBITRATION OF DISPUTES.

This Waiver shall be interpreted and enforced according to the laws of the Commonwealth of Kentucky, without regard to any conflict of laws provisions, except to the extent superseded by applicable federal law. I agree promptly, and in any event within ninety (90) days, to resolve any dispute arising out of this Waiver, through binding confidential arbitration conducted in Louisville, Kentucky, in accordance with the Employment Arbitration Rules and Mediation Procedures of the American Arbitration Association (the "AAA"); provided, one neutral arbitrator shall be chosen in accordance with AAA rules to arbitrate any such dispute. I irrevocably consent to such jurisdiction for purposes of the arbitration, and judgment may be entered thereon in any state or federal court in the same manner as if I were a resident of the state or federal district in which said judgment is sought to be entered. Each party shall be responsible for its own legal fees, costs and expenses.

16. ACKNOWLEDGEMENT OF UNDERSTANDING.

I further acknowledge and agree that I have carefully read and fully understand all of the provisions of this Waiver, that I voluntarily enter into this Waiver by signing below, and that if I choose to do so in less than twenty-one (21) days, I do so of my own free will and without duress or coercion by the Company.

Patrick J. Grismer

(Date)

Reaffirmation

By signing this Reaffirmation, I agree that I have read the terms of the Waiver again, that I understand the terms, including my right to revoke the Reaffirmation within seven (7) days after signing, and I freely agree that the terms and conditions of the Waiver are extended up to and including the Termination Date,

Patrick J. Grismer

(Date)

Please return to:
Tracy Skeans
YUM! Brands, Inc.
1441 Gardiner Lane
Louisville, KY 40213

TERM LOAN CREDIT AGREEMENT

dated as of

December 8, 2015

among

YUM! BRANDS, INC.,

The Lenders Party Hereto

and

GOLDMAN SACHS BANK USA
as Administrative Agent

CITIBANK, N.A.

and

JPMORGAN CHASE BANK, N.A.
as Syndication Agents

and

GOLDMAN SACHS BANK USA,
J.P. MORGAN SECURITIES LLC
and
CITIGROUP GLOBAL MARKETS INC.
as Lead Arrangers and Bookrunners

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CREDIT AGREEMENT dated as of December 8, 2015, among YUM! BRANDS, INC., the LENDERS party hereto and GOLDMAN SACHS BANK USA, as Administrative Agent.

The parties hereto hereby agree as follows:

ARTICLE 1 DEFINITIONS

Section 1.01. *Defined Terms. As used in this Agreement, the following terms have the meanings specified below:*

“**ABR**”, when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

“**Acquired Business**” means any Person, property, business or asset acquired (or, as applicable, proposed to be acquired) by the Company or a Subsidiary pursuant to a Permitted Acquisition.

“**Act**” has the meaning assigned to such term in Section 10.15.

“**Adjusted EBITDA**” means, for any period, the Consolidated EBITDA of the Company for such period, adjusted (a) to include (to the extent not otherwise included) the Consolidated EBITDA of any Acquired Business acquired during such period (and, solely for purposes of determining whether a proposed acquisition is a Permitted Acquisition pursuant to clause (d) of the definition of the term “Permitted Acquisition”, any Acquired Business that, at the time of calculation of Adjusted EBITDA for such purpose, has been acquired subsequent to the end of such period and prior to such time as well as that proposed to be acquired) pursuant to a Permitted Acquisition and not subsequently sold, transferred or otherwise disposed of during such period (or, solely for purposes of determining whether a proposed acquisition is a Permitted Acquisition, subsequent to the end of such period and prior to such time), based on the actual Consolidated EBITDA of such Acquired Business for such period (including the portion thereof attributable to such period prior to the date of acquisition of such Acquired Business) and (b) to exclude the Consolidated EBITDA of any Sold Business sold, transferred or otherwise disposed of during such period (and, solely for purposes of determining whether a proposed acquisition is a Permitted Acquisition pursuant to clause (d) of the definition of the term “Permitted Acquisition”, any Sold Business that, at the time of calculation of Adjusted EBITDA for such purpose, has been sold, transferred or otherwise disposed of subsequent to the end of such period and prior to such time), based on the actual Consolidated EBITDA of such Sold Business for such period (including the portion thereof attributable to such period prior to the date of sale, transfer or disposition of such Sold Business). For purposes of calculating Adjusted EBITDA for any period, the portion of the Consolidated EBITDA of any Acquired Business that is to be included in Adjusted EBITDA for such period that is attributable to the period prior to the date of acquisition of such Acquired Business shall be determined as though all net income of such Acquired Business for such period was distributed to the holders of the Equity Interests of such Acquired Business ratably.

“Adjusted LIBO Rate” means with respect to any LIBOR Borrowing for any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the LIBO Rate for U.S. Dollars for such Interest Period.

“Administrative Agent” means GS Bank, in its capacity as administrative agent for the Lenders hereunder. Unless the context requires otherwise, the term “Administrative Agent” shall include any Affiliate of GS Bank through which GS Bank shall perform any of its obligations in such capacity hereunder.

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Administrative Agent.

“Affiliate” means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

“Alternate Base Rate” means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the New York Fed Bank Rate in effect on such day plus $\frac{1}{2}$ of 1% and (c) the Adjusted LIBO Rate that would be applicable to a LIBOR Loan with an interest period of one month commencing on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus 1%. For purposes of clause (c) above, the Adjusted LIBO Rate on any day shall be based on the rate per annum appearing on the ICE LIBOR USD page of the Reuters screen displaying the London interbank offered rate administered by the ICE Benchmark Administration (or on any successor or substitute screen provided by Reuters, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such screen, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to U.S. Dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, on such day for deposits in U.S. Dollars with a maturity of one month. Any change in the Alternate Base Rate due to a change in the Prime Rate, the New York Fed Bank Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the new York Fed Bank Rate or the Adjusted LIBO Rate, respectively.

“Applicable Percentage” means, with respect to any Lender, the percentage of the total Commitments represented by such Lender’s Commitment; *provided* that in the case of Section 2.23 when a Defaulting Lender shall exist, **“Applicable Percentage”** shall mean the percentage of total Commitments (disregarding any Defaulting Lender’s Commitment) represented by such Lender’s Commitment. If the Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Commitments most recently in effect, giving effect to any assignments and to any Lender’s status as a Defaulting Lender at the time of determination.

“**Applicable Rate**” means, for any day, with respect to any commitment Fees payable hereunder, LIBOR Loan or ABR Loan, as the case may be, the applicable rate per annum set forth below under the caption “Commitment Fee”, “LIBO Rate Spread” or “ABR Spread”, as the case may be, as determined in the manner set forth below based upon the ratings by Moody’s and S&P, respectively, applicable on such date to the Index Debt.

Category	<u>Index Debt Ratings</u> (Moody’s/S&P)	<u>Commitment Fee</u> (basis points)	<u>LIBO Rate Spread</u> (basis points)	<u>ABR Spread</u> (basis points)
1	A3 / A-	10.0	100.0	0.0
2	Baa1 / BBB+	12.5	112.5	12.5
3	Baa2 / BBB	17.5	125.0	25.0
4	Baa3 / BBB-	22.5	150.0	50.0
5	≤ Ba1 / BB+	25.0	175.0	75.0

For purposes of the foregoing, (i) if neither Moody’s nor S&P shall have in effect a rating for the Index Debt (other than by reason of the circumstances referred to in the last sentence of this paragraph), then the Applicable Rate shall be as set forth in Category 5; (ii) if Moody’s or S&P (but not both) shall have in effect a rating for the Index Debt, then the Applicable Rate shall be based on the rating of the Index Debt by the applicable rating agency; (iii) if both Moody’s and S&P have in effect ratings for the Index Debt and the ratings established by Moody’s and S&P for the Index Debt shall fall within different Categories, the Applicable Rate shall be based on the Category numerically lower (i.e., more favorable to the Borrower) of the two ratings unless one of the two ratings is two or more Categories numerically lower (i.e., more favorable to the Borrower) than the other, in which case the Applicable Rate shall be determined by reference to the Category one numerically higher (i.e., less favorable to the Borrower) than the Category numerically lower (i.e., more favorable to the Borrower) of the two ratings; and (iv) if the ratings established by Moody’s or S&P for the Index Debt shall be changed (other than as a result of a change in the rating system of Moody’s or S&P) (or if either such rating agency that has not been rating the Index Debt establishes a rating therefor), such change (or new rating) shall be effective as of the date on which it is first announced by the applicable rating agency, irrespective of when notice of such change (or new rating) shall have been furnished by the Company to the Administrative Agent and the Lenders pursuant to Section 5.01 or otherwise. Each change (or new rating) in the Applicable Rate shall apply during the period commencing on the effective date of such change (or new rating) and ending on the date immediately preceding the effective date of the next such change (or new rating). If Moody’s or S&P is rating the Index Debt and its rating system shall change, or if only one such rating agency is rating the Index Debt and it shall cease to be in the business of rating corporate debt obligations, the Company and the Lenders shall negotiate in good faith to amend this definition to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Rate shall be determined by reference to the rating most recently in effect prior to such change or cessation.

“**Approved Fund**” has the meaning assigned to such term in Section 10.04.

“Asset Sale” means the sale or other disposition of assets by the Borrower or any other member of the Consolidated Group outside the ordinary course of business, including Equity Issuances by the Borrower’s Subsidiaries (excluding (A) asset sales or other dispositions (including Equity Issuances by the Borrower’s Subsidiaries) between or among members of the Consolidated Group and/or Securitization Subsidiaries, (B) asset sales in connection with any Refranchising Transaction, (C) asset sales in connection with Permitted Securitization Transactions and (D) other asset sales and other dispositions (including Equity Issuances by the Borrower’s Subsidiaries), the Net Cash Proceeds of which do not exceed \$20,000,000 in any single transaction or related series of transactions or \$250,000,000 in the aggregate).

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 10.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

“Availability Period” means, in respect of any Commitments, the period from and including the Effective Date to but excluding the earliest to occur of (i) the Commitment Period End Date, (ii) if the Initial Borrowing shall not have occurred on or prior to such date, the Initial Borrowing End Date and (iii) the ChinaCo Spin Effective Date.

“Bankruptcy Event” means, with respect to any Person, that such Person has become the subject of a bankruptcy or insolvency proceeding, or has had a receiver, conservator, trustee, administrator, custodian, assignee for the benefit of creditors or similar Person charged with the reorganization or liquidation of its business appointed for it, or, in the good faith determination of the Administrative Agent, has taken any action in furtherance of, or indicating its consent to, approval of, or acquiescence in, any such proceeding or appointment; *provided* that a Bankruptcy Event shall not result solely by virtue of (a) any ownership interest, or the acquisition of any ownership interest, in such Person by a Governmental Authority or (b) in the case of a solvent Person, the precautionary appointment of an administrator, guardian, custodian or other similar official by a Governmental Authority under or based on the law of the country where such Lender is subject to home jurisdiction supervision if applicable law requires that such appointment not be publicly disclosed; *provided, however*, that in any such case, where such ownership interest or action does not result in or provide such Person with immunity from the jurisdiction of courts within the United States of America or from the enforcement of judgments or writs of attachment on its assets or permit such Person (or such Governmental Authority) to reject, repudiate, disavow or disaffirm any contracts or agreements made by such Person.

“Board” means the Board of Governors of the Federal Reserve System of the United States of America.

“Borrower” means the Company.

“Borrowing” means (a) Loans of the same Type, made, converted or continued on the same date and, in the case of LIBOR Loans, as to which a single Interest Period is in effect or (b) a Competitive Loan or group of Competitive Loans of the same Type made on the same date and as to which a single Interest Period is in effect.

“Borrowing Minimum” means US\$10,000,000.

“Borrowing Multiple” means US\$1,000,000.

“Borrowing Request” means a request by the Borrower for a Borrowing in accordance with Section 2.03.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; *provided* that when used in connection with a LIBOR Loan, the term “Business Day” shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

“Capital Expenditures” means, for any period, (a) the additions to property, plant and equipment and other capital expenditures of the Company and its Included Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Company for such period prepared in accordance with GAAP (except for the exclusion of Excluded Subsidiaries) and (b) Capital Lease Obligations incurred by the Company and its Included Subsidiaries during such period; *provided* that consideration paid for Permitted Acquisitions shall not be construed to constitute Capital Expenditures.

“Capital Lease Obligations” of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

“Change in Control” means (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of the Securities Exchange Act of 1934 and the rules of the Securities and Exchange Commission thereunder as in effect on the date hereof), of Equity Interests representing more than 30% of the aggregate ordinary voting power represented by the issued and outstanding Equity Interests of the Company; (b) occupation of a majority of the seats (other than vacant seats) on the board of directors of the Company by Persons who were neither (i) nominated by the board of directors of the Company nor (ii) appointed by directors so nominated; or (c) the acquisition of direct or indirect Control of the Company by any Person or group.

“Change in Law” means (a) the adoption of any law, rule or regulation after the Effective Date, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Effective Date or (c) compliance by any Lender (or, for purposes of Section 2.16(b), by any lending office of such Lender or by such Lender’s holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Effective Date that would be complied with by similarly situated banks acting reasonably; *provided, however*, notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith and (ii) all requests, rules, guidelines or directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III,

shall in each case be deemed to be a **“Change in Law”**, regardless of the date enacted, adopted, promulgated or issued.

“Change in Tax Law” means the occurrence, after the Effective Date, of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation, implementation or application thereof by any Governmental Authority or (c) the making or issuance of any request, rule, guideline or directive (whether or not having the force of law) by any Governmental Authority.

“ChinaCo Spin Effective Date” means the effective date of the transaction under which Yum! China is spun off and the Company splits into two separate publicly traded companies pursuant to the Company’s announcement and press release dated October 20, 2015 regarding such transaction.

“CLO” has the meaning assigned to such term in Section 10.04.

“Code” means the Internal Revenue Code of 1986, as amended from time to time.

“Commitment” means with respect to each Lender, the commitment of such Lender to make Loans to the Borrower hereunder. The initial amount of each Lender’s Commitment is set forth on Schedule 2.01. The aggregate amount of the Commitments as of the Effective Date is US\$1,500,000,000.

“Commitment Period End Date” means the date occurring three months after the Effective Date.

“Company” means Yum! Brands, Inc., a North Carolina corporation.

“Competitive Bid” means an offer by a Lender to make a Competitive Loan in accordance with Section 2.04.

“Competitive Bid Rate” means, with respect to any Competitive Bid, the Margin or the Fixed Rate, as applicable, offered by the Lender making such Competitive Bid.

“Competitive Bid Request” means a request by the Borrower for Competitive Bids in accordance with Section 2.04.

“Competitive Loan” means a Loan that is made pursuant to a Competitive Bid Request.

“Consenting Lender” has the meaning set forth in Section 2.10(d).

“Consolidated EBITDA” means, for any Person for any period, Consolidated Net Income of such Person for such period, plus, without duplication and to the extent deducted from revenues in determining such Consolidated Net Income, the sum of (a) the aggregate amount of Consolidated Interest Expense of such Person for such period, (b) the aggregate amount of income tax expense of such Person for such period, (c) all amounts attributable to depreciation and amortization of such Person for such period, (d) all non-cash charges and non-cash losses of such Person during such period and (e) all losses from the sale of assets outside the ordinary course of business of such Person during such period and minus, without duplication and to the extent added to revenues in determining such Consolidated Net Income for such period, all gains from the sale of assets outside the ordinary course of business of such Person during such period, all as determined on a consolidated basis with respect to such Person and its subsidiaries in accordance with GAAP (except, in the case of the Company, for the exclusion of Excluded Subsidiaries). Unless the context otherwise requires, references to “Consolidated EBITDA” are to Consolidated EBITDA of the Company and the Included Subsidiaries.

“Consolidated EBITDAR” means, for any Person for any period, the sum of Consolidated EBITDA of such Person for such period and Rental Expense of such Person for such period. Unless the context otherwise requires, references to “Consolidated EBITDAR” are to Consolidated EBITDAR of the Company and the Included Subsidiaries.

“Consolidated Group” means the Borrower and its Subsidiaries (other than any Securitization Subsidiaries).

“Consolidated Indebtedness” means, as of any date of determination, without duplication (a) the aggregate principal amount of Indebtedness of the Company and the Included Subsidiaries outstanding as of such date (including Indebtedness of Excluded Subsidiaries to the extent Guaranteed by the Company or any Included Subsidiary), plus (b) the Securitization Amount as of such date, minus (c) the aggregate amount of cash and Permitted Investments (other than any cash and Permitted Investments that are subject to a Lien) owned by the Company and the Included Subsidiaries as of such date, determined on a consolidated basis in accordance with GAAP (except for the exclusion of Excluded Subsidiaries); *provided* that, for purposes of this definition, the term “Indebtedness” shall exclude obligations as an account party in respect of letters of credit to the extent that such letters of credit have not been drawn upon.

“Consolidated Interest Expense” means, for any Person for any period, the interest expense, both expensed and capitalized (including the interest component in respect of Capital Lease Obligations), accrued or paid by such Person during such period, determined on a consolidated basis with respect to such Person and its Subsidiaries in accordance with GAAP (except, in the case of the Company, for the exclusion of Excluded Subsidiaries); *provided* that interest expense of an Excluded Subsidiary shall be deemed to be interest expense of the Company to the extent such interest expense relates to Indebtedness to the extent Guaranteed by the Company or an Included Subsidiary. Unless the context otherwise requires, references to “Consolidated Interest Expense” are to Consolidated Interest Expense of the Company and the Included Subsidiaries.

“Consolidated Net Income” means, for any Person for any period, net income or loss of such Person for such period determined on a consolidated basis with respect to such Person and its subsidiaries in accordance with GAAP; *provided* that, in the case of the Company, there shall be excluded (a) the income of any Person (other than a Foreign Subsidiary) in which any other Person (other than the Company or any Domestic Subsidiary or any director holding qualifying shares in compliance with applicable law) has a joint interest, except to the extent of the Attributable Income (as defined below) of such Person, (b) the income of any Excluded Subsidiary, except to the extent of the amount of dividends or other distributions (including distributions made as a return of capital or repayment of principal of advances) actually paid to the Company or any Included Subsidiaries by such Excluded Subsidiary during such period and (c) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Company or any of the Subsidiaries or the date such Person’s assets are acquired by the Company or any of the Subsidiaries. Unless the context otherwise requires, references to “Consolidated Net Income” are to Consolidated Net Income of the Company and the Included Subsidiaries. For purposes hereof, “Attributable Income” means, for any period, (i) in the case of any Domestic Subsidiary at least 90% of the Equity Interests in which are owned (directly or indirectly) by the Company, a portion of the net income of such Subsidiary for such period equal to the Company’s direct or indirect ownership percentage of the Equity Interests of such Subsidiary or (ii) in the case of any Domestic Subsidiary less than 90% of the Equity Interests in which are owned (directly or indirectly) by the Company, the amount of dividends or other distributions (including distributions made as a return of capital or repayment of principal of advances) actually paid by such Subsidiary to the Company or a wholly owned Domestic Subsidiary.

“Consolidated Net Tangible Assets” means, with respect to the Company as of any date, the total amount of assets (less applicable valuation allowances) after deducting (a) all current liabilities (excluding (i) the amount of liabilities which are by their terms extendable or renewable at the option of the obligor to a date more than 12 months after the date as of which the amount is being determined, (ii) the current portion of long-term Indebtedness and (iii) Loans outstanding hereunder) and (b) all goodwill, tradenames, trademarks, patents, unamortized debt discount and expense and other like intangible assets, all as set forth on the most recent balance sheet of the Company and its consolidated Subsidiaries included in financial statements of the Company delivered to the Administrative Agent on or prior to such date of determination pursuant to clause (a) or (b) of Section 5.01 and determined on a consolidated basis in accordance with GAAP.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Credit Party” means the Administrative Agent or any Lender.

“Debt Issuance” means the incurrence of Indebtedness by the Borrower or any other member of the Consolidated Group (excluding (i) Indebtedness owed to any member of the Consolidated Group, (ii) borrowings under the Existing Credit Agreement or any revolving facility entered into to refinance, replace, renew or extend the Existing Credit Agreement in a principal amount not to exceed \$1,300,000,000 outstanding at any time, (iii) any other ordinary course borrowings under working capital, letter of credit or overdraft facilities, (iv) issuances of commercial paper and refinancings thereof, (v) purchase money indebtedness incurred in the ordinary course of business, (vi) Indebtedness with respect to capital leases incurred in the ordinary course of business, (vii) Indebtedness in connection with Permitted Securitization Transactions and (viii) other Indebtedness in an amount not to exceed \$200,000,000 in the aggregate).

“Default” means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

“Defaulting Lender” means any Lender that (a) has failed, within two Business Days of the date required to be funded or paid, (i) to fund any portion of its Loans (such Lender, a **“Non-Funding Lender”**) or (ii) to pay to any Credit Party any other amount required to be paid by it hereunder, unless, in the case of clause (i) above, such Lender notifies the Administrative Agent in writing that such failure is the result of such Lender’s good faith determination that a condition precedent to funding (specifically identified and including the particular Default, if any) has not been satisfied, (b) has notified the Company or any Credit Party in writing, or has made a public statement to the effect, that it does not intend or expect to comply with any of its funding obligations under this Agreement (unless such writing or public statement indicates that such position is based on such Lender’s good-faith determination that a condition precedent (specifically identified and including the particular Default, if any) to funding a Loan cannot be satisfied) or generally under other agreements in which it commits to extend credit, (c) has failed, within three Business Days after request by a Credit Party or the Company, acting in good faith, to provide a certification in writing from an authorized officer of such Lender that it will comply with its obligations (and is financially able to meet such obligations) to fund prospective Loans, *provided* that such Lender shall cease to be a Defaulting Lender pursuant to this clause (c) upon such Credit Party’s and the Company’s receipt of such certification in form and substance satisfactory to it and the Administrative Agent, or (d) has become the subject of a Bankruptcy Event.

“Disclosed Matters” means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

“Domestic Subsidiary” means a Subsidiary that is not a Foreign Subsidiary.

“Effective Date” means the date on which the conditions specified in Section 4.01 are satisfied (or waived in accordance with Section 10.02).

“Environmental Laws” means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the presence, management, Release or threatened Release of any hazardous or toxic substances or wastes or to health and safety matters.

“Environmental Liability” means any liability, contingent or otherwise (including any liability for damages, costs of environmental compliance, investigation or remediation, fines, penalties or indemnities), of the Company or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the presence, Release or threatened Release of any Hazardous Materials or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

“Equity Interests” means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person, and any warrants, options or other rights entitling the holder thereof to purchase or acquire any such equity interests.

“Equity Issuance” means the issuance of any Equity Interests (excluding issuances pursuant to employee stock plans or other benefit or employee incentive arrangements).

“Equity Payment” means any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests in the Company or any Subsidiary, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such Equity Interests in the Company or any option, warrant or other right to acquire any such Equity Interests in the Company.

ERISA means the Employee Retirement Income Security Act of 1974, as amended from time to time.

“ERISA Affiliate” means any trade or business (whether or not incorporated) that, together with the Company or any Subsidiary, is treated as a single employer under Section 414 of the Code.

“ERISA Event” means (a) any “reportable event”, as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) any failure by any Plan to satisfy the minimum funding standard (as defined in Section 412 of the Code or Section 302 of ERISA), applicable to such Plan, in each instance whether or not waived; (c) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Company or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Company or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Company or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Company or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Company or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a

determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA or in “endangered” or “critical” status, within the meaning of Section 305 of ERISA or Section 432 of the Code.

“**Event of Default**” has the meaning assigned to such term in Article VII.

“**Excluded Subsidiary**” means (a) a Foreign Subsidiary of which securities or other ownership interests representing less than 80% of the outstanding capital stock or other equity interests, as the case may be, are, at the time any determination is being made, beneficially owned, whether directly or indirectly, by the Company or (b) a Non-Controlled Subsidiary.

“**Excluded Taxes**” means, with respect to the Administrative Agent, any Lender, or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder (a “**Recipient**”), (a) income or franchise Taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits Taxes imposed by the United States of America or any similar Tax imposed by any other jurisdiction in which such Recipient is located, (c) in the case of a Lender (other than an assignee pursuant to a request by the Company under Section 2.20(b) or an assignee if an Event of Default has occurred or is occurring), any U.S. Federal withholding Tax that is imposed on amounts payable to such Lender under any Loan Document pursuant to a law in effect on the date on which such Lender first becomes a party to any Loan Document or designates a new lending office, except to the extent that such Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Tax pursuant to Section 2.18(a), (d) Taxes attributable to such Lender’s failure to comply with Section 2.18(d), except to the extent that such failure resulted from a Change in Tax Law after the date such Lender first becomes a party to any Loan Document which rendered such Lender no longer legally entitled to deliver the form, forms or other documentation required by Section 2.18(d) or otherwise ineligible for an exemption from, or reduced rate of, withholding and (e) any Taxes imposed under FATCA.

“Existing Credit Agreement” means the Credit Agreement dated as of March 22, 2012 among the Borrower, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent, as the same may be amended, restated, supplemented or otherwise modified from time to time.

“Extension Date” has the meaning set forth in Section 2.10(e).

“Facility” means the term loan credit facility made available to the Borrower pursuant to this Agreement.

“FATCA” means Sections 1471 through 1474 of the Code as of the date of this Agreement and any current or future regulations or official interpretations thereof, any agreements entered into pursuant to Section 1471(b)(1) of the Code, any applicable intergovernmental agreement entered into between the United States and any other Governmental Authority in connection with the implementation of the foregoing and any fiscal or regulatory legislation, rules or official practices adopted pursuant to any such intergovernmental agreement.

“Federal Funds Effective Rate” means, for any day, the rate calculated by the New York Fed based on such day’s federal funds transactions by depository institutions (as determined in such manner as the New York Fed shall set forth on its public website from time to time) and published on the next succeeding Business Day by the New York Fed as an overnight bank funding rate (from and after such date as the New York Fed shall commence to publish such composite rate).

“Fee Letter” means the fee letter, dated as of the date hereof, among the Borrower, the Administrative Agent and the Lead Arrangers.

“Financial Officer” means the chief financial officer, principal accounting officer, treasurer or controller of the Company.

“Fixed Charge Coverage Ratio” means, for any period, the ratio of (i) Consolidated EBITDAR of the Company for such period minus Capital Expenditures for such period to (ii) the sum of Consolidated Interest Expense of the Company for such period plus Rental Expense of the Company for such period.

“Fixed Rate” means, with respect to any Competitive Loan (other than a LIBOR Competitive Loan), the fixed rate of interest per annum specified by the Lender making such Competitive Loan in its related Competitive Bid.

“Fixed Rate Loan” means a Competitive Loan bearing interest at a Fixed Rate.

“Foreign Lender” means, in respect of any payments to be made by or on account of any obligation of the Borrower hereunder, any Lender that is organized under the laws of a jurisdiction other than the jurisdiction in which the Borrower is organized.

“Foreign Subsidiary” means a Subsidiary organized under the laws of a jurisdiction other than the United States of America, any State thereof or the District of Columbia.

“GAAP” means generally accepted accounting principles in the United States of America.

“Governmental Authority” means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supra-national body exercising such powers or functions, such as the European Union or the European Central Bank).

“GS Bank” means Goldman Sachs Bank USA.

“Guarantee” of or by any Person (the **“guarantor”**) means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the **“primary obligor”**) in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; *provided* that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

“Guarantee Agreement” means the Guarantee Agreement substantially in the form of Exhibit B among the Borrower, the Guarantors and the Administrative Agent.

“Guarantors” means the Subsidiary Guarantors.

“Hazardous Materials” means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates or byproducts, asbestos or asbestos-containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

“Hedging Agreement” means any interest rate protection agreement, foreign currency exchange agreement or other interest or currency exchange rate hedging arrangement.

“Included Subsidiary” means any Subsidiary that is not an Excluded Subsidiary.

“Indebtedness” of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of outstanding Indebtedness of others (other than Guarantees of contingent lease payments related to sales of restaurants by the Company and the Subsidiaries or their predecessors in interest (howsoever effected)), (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers’ acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person’s ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

“Indemnified Taxes” means Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of the Borrower hereunder or under any other Loan Document.

“Index Debt” means (a) indebtedness in respect of the obligations of the Company under the Existing Credit Agreement or any revolving facility entered into to refinance, replace, renew or extend the Existing Credit Agreement or, if such indebtedness is rated by neither Moody’s nor S&P, then (b) senior unsecured, long-term indebtedness for borrowed money of the Company that is not guaranteed by any other Person or subject to any other credit enhancement (regardless of whether there is any such indebtedness outstanding).

“Initial Borrowing” has the meaning assigned to such term in Section 4.02(c).

“Initial Borrowing End Date” has the meaning assigned to such term in Section 4.02(c).

“Interest Election Request” means a request by a Borrower to convert or continue a Borrowing in accordance with Section 2.09.

“Interest Payment Date” means (a) with respect to any ABR Loan, the last day of each March, June, September and December, (b) with respect to any LIBOR Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a LIBOR Borrowing with an Interest Period of more than three months’ duration, each day prior to the last day of such Interest Period that occurs at intervals of three months’ duration after the first day of such Interest Period and (c) with respect to any Fixed Rate Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Fixed Rate Borrowing with an Interest Period of more than 90 days’ duration (unless otherwise specified in the applicable Competitive Bid Request), each day prior to the last day of such Interest Period that occurs at intervals of 90 days’ duration after the first day of such Interest Period, and any other dates that are specified in the applicable Competitive Bid Request as Interest Payment Dates with respect to such Borrowing.

“Interest Period” means (a) with respect to any LIBOR Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two or three months (or, solely in the case of the Initial Borrowing, six months) thereafter, as the Borrower may elect and (b) with respect to any Fixed Rate Borrowing, the period (which shall not be less than one day or more than 360 days) commencing on the date of such Borrowing and ending on the date specified in the applicable Competitive Bid Request; *provided* that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless, in the case of a LIBOR Borrowing only, such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period pertaining to a LIBOR Borrowing that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

“IRS” means the U.S. Internal Revenue Service.

“JPMCB” means JPMorgan Chase Bank, N.A.

“Lead Arranger” means each of GS Bank, J.P. Morgan Securities LLC and Citigroup Global Markets Inc. in its capacity as a lead arranger in respect of the credit facilities established hereunder.

“Lenders” means the Persons listed on Schedule 2.01 and any other Person that shall have become a party hereto pursuant to an Assignment and Assumption, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Assumption.

“Leverage Ratio” means, on any date, the ratio of (a) Consolidated Indebtedness as of such date to (b) Adjusted EBITDA for the period of four consecutive fiscal quarters of the Company ended on such date (or, if such date is not the last day of a fiscal quarter, ended on the last day of the fiscal quarter of the Company most recently ended prior to such date).

“LIBO Rate” means, with respect to any LIBOR Borrowing for any Interest Period, (a) the applicable Screen Rate or (b) if no Screen Rate is available for such Interest Period, the arithmetic mean (rounded up to four decimal places) of the rates quoted by the Reference Banks to leading banks in the London interbank market for the offering of deposits in U.S. Dollars and for a period comparable to such Interest Period, in each case as of the Specified Time on the Quotation Day; *provided* that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“LIBOR”, when used in reference to any Loan or Borrowing, refers to whether such Loan or Borrowing, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate (or, in the case of a Competitive Loan, the LIBO Rate).

“Lien” means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party (other than any such rights of a financial institution under repurchase agreements described in clause (d) of the definition of “Permitted Investments” entered into with such financial institution) with respect to such securities.

“Lien Basket Amount” means, at any time, the sum of (a) the Securitization Amount at such time in respect of Permitted Securitization Transactions and Liens arising in connection therewith to the extent not otherwise permitted by clause (h) of Section 6.02, plus (b) the aggregate principal amount of obligations (including contingent obligations, in the case of Guarantees or letters of credit) at such time secured by Liens permitted under clause (i) of Section 6.02, plus (c) the fair market value of all property sold or transferred after the Effective Date pursuant to Sale and Lease-Back Transactions permitted by clause (c) of Section 6.11.

“Loan” means any loan made by a Lender to the Borrower pursuant to this Agreement.

“Loan Documents” means this Agreement, the Guarantee Agreement, the Fee Letter and any promissory notes issued pursuant to Section 2.11(e).

“Loan Parties” means the Borrower and the Guarantors.

“Local Time” means New York City time.

“Margin” means, with respect to any Competitive Loan bearing interest at a rate based on the LIBO Rate, the marginal rate of interest, if any, to be added to or subtracted from the LIBO Rate to determine the rate of interest applicable to such Loan, as specified by the Lender making such Loan in its related Competitive Bid.

“Material Adverse Effect” means a material adverse effect on (a) the business, assets, operations or condition, financial or otherwise, of the Company and the Subsidiaries taken as a whole, (b) the ability of the Company to perform any of its obligations under any Loan Document or (c) the rights and remedies available to the Lenders under any Loan Document.

“Material Indebtedness” means Indebtedness (other than (a) the Loans and (b) Indebtedness owing to the Company or a Subsidiary), or obligations in respect of one or more Hedging Agreements, of any one or more of the Company and its Subsidiaries in an aggregate principal amount exceeding \$125,000,000. For purposes of determining Material Indebtedness, the “principal amount” of the obligations of the Company or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Company or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

“Maturity Date” means the date occurring six months after the Effective Date (the **“Original Maturity Date”**), as such date may be extended pursuant to Section 2.10.

“Maturity Date Extension Request” has the meaning set forth in Section 2.10(d).

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

“Net Cash Proceeds” means:

(a) with respect to any sale or other disposition of assets by the Borrower or any of its Subsidiaries, the excess, if any, of (i) the cash received in connection therewith (including any cash received by way of deferred payment pursuant to, or by monetization of, a note receivable or otherwise, but only as and when so received) over (ii) the sum of (A) payments made to retire any Indebtedness that is secured by such asset and that is required to be repaid in connection with the sale thereof (other than Loans), (B) the fees and expenses incurred by the Borrower or any of its Subsidiaries in connection therewith, (C) taxes paid or reasonably estimated to be payable in connection with such transaction and (D) the amount of reserves established by the Borrower or any of its Subsidiaries in good faith and pursuant to commercially reasonable practices for adjustment in respect of the sale price of such asset or assets in accordance with applicable generally accepted accounting principles; *provided* that if the amount of such reserves exceeds the amounts charged against such reserve, then such excess, upon the determination thereof, shall then constitute Net Cash Proceeds; and *provided further*, that if the Borrower or any of its Subsidiaries receives proceeds that would otherwise constitute Net Cash Proceeds from a sale or other disposition of assets, the Borrower or such Subsidiary may reinvest, or commit to reinvest, any portion of such proceeds in the business of the Borrower or any of its Subsidiaries and, in such case, such proceeds shall only constitute Net Cash Proceeds to the extent not so reinvested (or committed to be reinvested) within the 90-day period following receipt of such proceeds;

(b) with respect to any Debt Issuance, the excess, if any, of (i) cash received by the Borrower and its Subsidiaries in connection with such Debt Issuance over (ii) the sum of (A) payments made to retire any Indebtedness for borrowed money that is required to be repaid in connection with such Debt Issuance (other than the Loans) and (B) the aggregate amount of all Taxes paid or reasonably estimated to be payable and all underwriting discounts and commissions and other fees and expenses incurred by the Borrower and its Subsidiaries in connection with such Debt Incurrence; and

(c) with respect to any Permitted Securitization Transaction, the excess, if any, of (i) the aggregate Securitization Amount in respect of such Permitted Securitization Transaction over (ii) the aggregate amount of all Taxes paid or reasonably estimated to be payable and all underwriting discounts and commissions and other fees and expenses incurred by the Borrower and its Subsidiaries in connection with such Permitted Securitization Transaction (such excess, the **“Net Securitization Amount”**); *provided* that for purposes of clause (i) above, the “Securitization Amount” shall be deemed to be zero unless and until (and then only to the extent) that the aggregate amount of the Net Securitization Amounts in respect of all Permitted Securitization Transactions entered into from and after the Effective Date is greater than US\$250,000,000.

“Net Securitization Amount” has the meaning set forth in the definition of **“Net Cash Proceeds”**.

“New York Fed” means the Federal Reserve Bank of New York.

“New York Fed Bank Rate” means, for any day, the greater of (a) the Federal Funds Effective Rate in effect on such day and (b) the Overnight Bank Funding Rate in effect on such day; *provided* that if both such rates are not so published for any day that is a Business Day, the term “New York Fed Bank Rate” means the rate quoted for such day for a federal funds transaction at 11:00 a.m. on such day received by the Administrative Agent from a Federal funds broker of recognized standing selected by it; and *provided further*, that if any of the aforesaid rates shall be less than zero, such rate shall be deemed to be zero for purposes of this Agreement.

“Non-Controlled Subsidiary” means any direct or indirect subsidiary of the Company with respect to which the Company (a) has reasonably determined that it does not have sufficient operational control over such subsidiary to ensure that such subsidiary (i) complies with the warranties and covenants applicable to other Subsidiaries hereunder or (ii) does not take or omit to take any actions that would constitute or lead to an Event of Default hereunder and (b) has notified the Administrative Agent in writing that such subsidiary is a “Non-Controlled Subsidiary” hereunder and such notice specifies, in reasonable detail, the reasons for such a determination as described in clause (a) above; *provided* that (A) no Subsidiary Guarantor, or Principal Domestic Subsidiary shall be a Non-Controlled Subsidiary, (B) no subsidiary of which securities or other ownership interests representing more than 80% of the outstanding Equity Interests at the time any determination is being made, beneficially owned, whether directly or indirectly, by the Company shall be a Non-Controlled Subsidiary and (C) as of any date of determination, the Consolidated EBITDAR, calculated for the period of four consecutive fiscal quarters most recently ended of all Non-Controlled Subsidiaries (combined) shall not exceed 7.5% of the Company’s Consolidated EBITDAR for such period, in each case determined as though the Non-Controlled Subsidiaries were Included Subsidiaries for this purpose.

“Non-Defaulting Lender” means, at any time, any Lender that is not a Defaulting Lender at such time.

“Non-Funding Lender” has the meaning set forth in the definition of **“Defaulting Lender”**.

“Original Maturity Date” has the meaning set forth in the definition of **“Maturity Date”**.

“Other Taxes” means any and all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement except for any such taxes imposed in connection with an assignment (other than an assignment made pursuant to Section 2.20).

“Overnight Bank Funding Rate” means, for any day, the rate comprised of both overnight federal funds and overnight LIBOR borrowings by U.S.-managed banking offices of depository institutions (as such composite rate shall be determined by the New York Fed as set forth on its public website from time to time) and published on the next succeeding Business Day by the New York Fed as an overnight bank funding rate (from and after such date as the New York Fed shall commence to publish such composite rate).

“Parent” means, with respect to any Lender, any Person as to which such Lender is, directly or indirectly, a subsidiary.

“Participant” has the meaning set forth in Section 10.04.

“Participant Register” has the meaning set forth in Section 10.04(c)(ii).

“PBGC” means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

“Permitted Acquisition” means the acquisition by the Company or a Subsidiary of the assets of a Person constituting a business unit or any Equity Interests of a Person; *provided* that (a) immediately after giving effect thereto no Default shall have occurred and be continuing or would result therefrom, (b) all transactions related thereto shall be consummated in accordance with applicable laws, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, (c) in the case of an acquisition of Equity Interests in a Person, after giving effect to such acquisition, at least 90% of the Equity Interests in such Person, and any other Subsidiary resulting from such acquisition, shall be owned directly or indirectly by the Company or any of its wholly owned Subsidiaries, (d) the Company and its Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Sections 6.09 and 6.10 recomputed as of the last day of the most recently ended fiscal quarter of the Company for which financial statements are available as if such acquisition had occurred on the first day of each relevant period for testing such compliance (using Adjusted EBITDA in lieu of Consolidated EBITDA for the relevant period and including, for purposes of Section 6.10, pro forma adjustments to Consolidated Interest Expense and Rental Expense for the relevant period as if such acquisition had occurred on the first day of such period), (e) the Company has delivered to the Administrative Agent a certificate of a Financial Officer to the effect set forth in clauses (a), (c) and (d) above, together with all relevant financial information for the business or entity being acquired and (f) in the case of an acquisition of a publicly-owned entity, such acquisition shall not have been preceded by an unsolicited tender offer.

“Permitted Encumbrances” means:

- (a) Liens imposed by law for taxes that are not yet due or are being contested in compliance with Section 5.04;
- (b) carriers’, warehousemen’s, mechanics’, materialmen’s, repairmen’s and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 30 days or are being contested in compliance with Section 5.04;
- (c) pledges and deposits made in the ordinary course of business in compliance with workers’ compensation, unemployment insurance and other social security laws or regulations;
- (d) deposits to secure the performance of bids, trade contracts, leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;
- (e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (l) of Section 7.01;
and
- (f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not materially detract from the value of the affected property or interfere with the ordinary conduct of business of the Company or any Subsidiary;

provided that the term **“Permitted Encumbrances”** shall not include any Lien securing Indebtedness.

“Permitted Investments” means:

(a) direct obligations of, or obligations on which the principal of and interest are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within three years from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and rated, at such date of acquisition, at least A-1 by S&P or P-1 by Moody's;

(c) investments in certificates of deposit, bankers' acceptances and time deposits maturing within 180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any Lender, any Affiliate of any Lender, or any other commercial bank organized under the laws of the United States of America or any State thereof (or domestic office of any commercial bank that is organized under the laws of any country that is a member of the OECD) which has a combined capital and surplus and undivided profits of not less than US\$500,000,000;

(d) fully collateralized repurchase agreements (i) with a term ending on the next Business Day for direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America) and entered into with a financial institution satisfying the criteria described in clause (c) above, or (ii) with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above;

(e) investments in money market funds (i) with a policy to invest substantially all their assets in one or more investments described in the foregoing items (a), (b), (c) and (d) or (ii) having the highest credit rating obtainable from S&P or from Moody's;

(f) investments in (i) any debt securities rated AA- or above by S&P and Aa3 or above by Moody's and maturing within one year from the date of acquisition thereof and (ii) mutual funds with assets of at least US\$5,000,000,000 and that invest 100% of their assets in securities described in clause (a) above or subclause (i) of this clause (f); and

(g) in the case of any Foreign Subsidiary, investments by such Subsidiary that are denominated in U.S. Dollars, Euros or the currency of the jurisdiction where such Foreign Subsidiary's principal business activities are conducted and are available in the principal financial markets of the jurisdiction and otherwise are comparable (as nearly as practicable) to the investments described above; *provided that*, for purposes of this clause (g), (i) the foregoing clause (a) shall be deemed to include obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the government of the jurisdiction in which such Foreign Subsidiary is located, in each case maturing within one year from the date of acquisition thereof, and (ii) commercial banks referred to in the foregoing clause (c) shall be deemed to include commercial banks located in the applicable jurisdiction that the applicable Foreign Subsidiary determines in good faith to be among the most creditworthy banks available for deposits in the location where such deposits are being made.

“Permitted Securitization Transaction” means any sale, assignment or other transfer (or series of related sales, assignments or other transfers) by the Company or any Subsidiary of receivables or royalty payments owing to the Company or such Subsidiary or any interest in any of the foregoing pursuant to a securitization transaction, together in each case with any collections and other proceeds thereof, any collection or deposit account related thereto, and any collateral, guarantees or other property or claims supporting or securing payment by the obligor thereon of, or otherwise related to, any such receivables or royalty payments.

“Person” means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

“Plan” means any “employee pension benefit plan” as defined in Section 3(2) of ERISA (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Company or any ERISA Affiliate is (or, if such plan were terminated, would under ERISA be deemed to be) an “employer” as defined in Section 3(5) of ERISA.

“Prime Rate” means the rate of interest per annum publicly announced from time to time by JPMCB as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

“Principal Domestic Subsidiary” means (a) any Subsidiary organized in the United States of America (other than a Subsidiary the material assets of which consist primarily of Equity Interests in one or more Foreign Subsidiaries) whose assets exceed 5% of the consolidated assets of the Company and its consolidated Subsidiaries or whose revenues exceed 5% of the consolidated revenues of the Company and its consolidated Subsidiaries, in each case as of the end of the most recent fiscal quarter or for the most recently ended four consecutive fiscal quarters, respectively, or (b) any Subsidiary that holds any material trademark (including any Kentucky Fried Chicken, KFC, Pizza Hut or Taco Bell trademark) for use in the United States of America or any jurisdiction therein; *provided* that any Subsidiary shall not be deemed to be a “Principal Domestic Subsidiary” if the Company determines in good faith that the delivery of a guarantee by such Subsidiary may result in adverse tax consequences.

“Quotation Day” means for any Interest Period, two Business Days prior to the first day of such Interest Period.

“**Recipient**” has the meaning set forth in the definition of the term “Excluded Taxes”.

“**Reference Banks**” means with respect to the LIBO Rate, the principal London offices of JPMCB or such other banks as may be appointed by the Administrative Agent in consultation with the Company.

“**Refranchising Transaction**” means a transaction in which the Company or any of its Subsidiaries sells, transfers, leases or otherwise disposes of assets (excluding the sale, transfer or disposition of intellectual property, except for licenses of intellectual property to franchisees or prospective franchisees) comprising one or more restaurants to the franchisee or prospective franchisee thereof.

“**Register**” has the meaning set forth in Section 10.04.

“**Related Parties**” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“**Release**” means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing or migrating into or through the environment or any facility, building or structure.

“**Rental Expense**” means, for any Person for any period, the minimum rental expense of such Person deducted in determining Consolidated Net Income of such Person for such period. Unless the context otherwise requires, references to “Rental Expense” are to Rental Expense of the Company and the Included Subsidiaries.

“**Required Lenders**” means, at any time, Lenders holding unused Commitments and outstanding Loans representing more than 50% of the sum of the total unused Commitments and total aggregate principal amount of outstanding Loans at such time; *provided* that for purposes of declaring the Loans to be due and payable pursuant to Section 7.01, and for all purposes after the Loans become due and payable pursuant to Article VII or the Commitments expire or terminate, the outstanding Competitive Loans of the Lenders shall be included in their respective outstanding Loans in determining the Required Lenders.

“**S&P**” means Standard & Poor’s.

“**Screen Rate**” means (a) in respect of the LIBO Rate for any Interest Period, the rate determined by Administrative Agent to be the London interbank offered rate administered by the ICE Benchmark Administration (or any other person which takes over the administration of that rate) for deposits (for delivery on the first day of such period) with a term equivalent to such period in Dollars displayed on the ICE LIBOR USD page of the Reuters Screen (or any replacement Reuters page which displays that rate) or on the appropriate page of such other information service which publishes that rate from time to time in place of Reuters, determined as of the Specified Time on such Quotation Day (and if such page is replaced or such service ceases to be available, another page or service displaying the appropriate rate designated by the Administrative Agent after consultation with the Company).

“Sale and Lease-Back Transaction” has the meaning assigned to such term in Section 6.11.

“Securitization Amount” means, at any date of determination thereof and in respect of any Permitted Securitization Transaction, (a) in the case of a Permitted Securitization Transaction structured as a borrowing of loans secured by receivables or royalty payments, the outstanding principal amount of Indebtedness incurred in respect of such Permitted Securitization Transaction that is secured by such receivables or royalty payments and (b) in the case of a Permitted Securitization Transaction structured as a sale or other transfer of receivables or royalty payments (other than a sale or transfer of such receivables or royalty payments to a Subsidiary), the aggregate amount of cash consideration received by the Company or any of its Subsidiaries from such sale or transfer, but only to the extent representing the outstanding equivalent of principal, capital or comparable interests in respect of such receivables or royalty payments that remain uncollected at such time and would not be distributed to the Company or a Subsidiary if such Permitted Securitization Transactions were to be terminated at such time.

“Securitization Subsidiary” means any Subsidiary that is formed by the Company or any of its Subsidiaries for the sole purpose of effecting or facilitating a Permitted Securitization Transaction and that (a) owns no assets other than receivables, royalty payments and other assets that are related to such Permitted Securitization Transaction and (b) engages in no business and incurs no Indebtedness, in each case, other than those related to such Permitted Securitization Transaction.

“Sold Business” means any Person, property, business or asset sold, transferred or otherwise disposed of by the Company or any Subsidiary, other than in the ordinary course of business.

“Specified Currency” has the meaning assigned to such term in Section 10.14.

“Specified Time” means with respect to the LIBO Rate, 11:00 a.m., London time.

“subsidiary” means, with respect to any Person (the **“parent”**) at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent’s consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

“Subsidiary” means any subsidiary of the Company; *provided* that except for purposes of Sections 3.04, 3.11, 5.01(a), 5.01(b) and 5.01(f), the term “Subsidiary” shall not include a Non-Controlled Subsidiary.

“Subsidiary Guarantors” means (a) the Subsidiaries listed on Schedule A and (b) any other Subsidiary that is a “Subsidiary Guarantor” (under and as defined in the Existing Credit Agreement) at any time other than a Foreign Subsidiary.

“Syndication Agent” means each of JPMCB and Citibank, N.A., in its capacity as a syndication agent in respect of the credit facilities established hereunder.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Transactions” means the execution, delivery and performance by each Loan Party of the Loan Documents to which it is to be party, the borrowing of Loans and the use of the proceeds thereof.

“Type”, when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is determined by reference to the Adjusted LIBO Rate, the Alternate Base Rate or, in the case of a Competitive Loan or Borrowing, the LIBO Rate or a Fixed Rate.

“U.S. Dollars” or **“US\$”** or **“\$”** refers to lawful money of the United States of America.

“U.S. Person” means any Person that is a “United States person” as defined in Section 7701(a)(30) of the Code.

“Withdrawal Liability” means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

Section 1.02. *Classification of Loans and Borrowings.* For purposes of this Agreement, Loans may be classified and referred to by Type (e.g., a “LIBOR Loan”). Borrowings also may be classified and referred to by Type (e.g., a “LIBOR Borrowing”).

Section 1.03. *Terms Generally.* The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include”, “includes” and “including” shall be deemed to be followed by the phrase “without limitation”. The word “will” shall be construed to have the same meaning and effect as the word “shall”. Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person’s successors and assigns and, in the case of any Governmental Authority, any other Governmental Authority that shall have succeeded to any or all functions thereof, (c) the words “herein”, “hereof” and “hereunder”, and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the

words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

Section 1.04. *Accounting Terms; GAAP.* Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that (a) if the Company notifies the Administrative Agent that the Company requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application or interpretation thereof on the operation of such provision (or if the Administrative Agent notifies the Company that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith and (b) notwithstanding any other provision contained herein, (i) all terms of an accounting or financial nature used herein shall be construed, and all computations of amounts and ratios referred to herein shall be made, without giving effect to any election under Statement of Financial Accounting Standards 159, The Fair Value Option for Financial Assets and Financial Liabilities, or any successor thereto (including pursuant to the Accounting Standards Codification), to value any Indebtedness of the Company or any Subsidiary at “fair value”, as defined therein and (ii) for purposes of determining compliance with any provision of this Agreement, the determination of whether a lease is to be treated as an operating lease or capital lease shall be made without giving effect to any change in accounting for leases pursuant to GAAP resulting from the implementation of proposed Accounting Standards Update - Leases (Topic 840) issued August 17, 2010, or any successor proposal.

ARTICLE 2 THE CREDITS

Section 2.01. *Commitments.* Subject to the terms and conditions set forth herein, each Lender agrees to make Loans denominated in U.S. Dollars to the Borrower from time to time during the Availability Period in an aggregate principal amount that will not result in (i) such Lender’s Loans exceeding such Lender’s Commitment or (ii) the sum of the total Loans extended hereunder plus the aggregate principal amount of outstanding Competitive Loans exceeding the total Commitments. The Loans shall be available in up to three drawings. Within the foregoing limits and subject to the terms and conditions set forth herein, the Loans borrowed under this Section 2.01 and paid or prepaid may not be reborrowed.

Section 2.02. *Loans and Borrowings.* (a) Each Loan shall be made as part of a Borrowing consisting of Loans of the same Type made by the Lenders ratably in accordance with their respective Commitments. Each Competitive Loan shall be made in accordance with the procedures set forth in Section 2.04. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments and Competitive Bids of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.15, (i) each Borrowing shall be comprised entirely of ABR Loans or LIBOR Loans and (ii) each Competitive Borrowing shall be comprised entirely of LIBOR Loans or Fixed Rate Loans, in each case as the Borrower may request in accordance herewith. Each Lender at its option may make any Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; *provided* that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement and shall not result in any increased costs under Section 2.16 or any obligation by the Borrower to make any payment under Section 2.18 in excess of the amounts, if any, that such Lender would be entitled to claim under Section 2.16 or 2.18, as applicable, without giving effect to such change in lending office.

(c) At the commencement of each Interest Period for any LIBOR Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of the Borrowing Multiple and not less than the Borrowing Minimum. At the time that each ABR Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of US\$1,000,000 and not less than US\$10,000,000; *provided* that an ABR Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Commitments. Each Competitive Borrowing shall be in an aggregate amount that is an integral multiple of US\$1,000,000 and not less than US\$10,000,000. Borrowings of more than one Type may be outstanding at the same time; *provided* that there shall not at any time be more than a total of 3 LIBOR Borrowings outstanding.

(d) [Intentionally Omitted]

(e) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Maturity Date.

Section 2.03. *Requests for Borrowings.* To request a Borrowing, the Borrower shall notify the Administrative Agent of such request (a) in the case of a LIBOR Borrowing, not later than 1:00 p.m., Local Time, three Business Days before the date of the proposed Borrowing and (b) in the case of an ABR Borrowing, not later than 1:00 p.m., Local Time, on the date of the proposed Borrowing. Each such Borrowing Request shall be irrevocable and shall be made by hand delivery or telecopy to the Administrative Agent of a duly completed and executed Borrowing Request in the form of Exhibit C (or by telephone notification, confirmed promptly by hand delivery or telecopy to the Administrative Agent of a duly completed and executed Borrowing Request in the form of Exhibit C).

Each such telephonic and written Borrowing Request shall specify the following information in compliance with Sections 2.01 and 2.02:

- (i) the aggregate principal amount of such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) the Type of such Borrowing;
- (iv) in the case of a LIBOR Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term “**Interest Period**” and
- (v) the location and number of the Borrower’s account to which funds are to be disbursed, which shall comply with the requirements of Section 2.08.

Any Borrowing Request that shall fail to specify any of the information required by the preceding provisions of this paragraph may be rejected by the Administrative Agent if such failure is not corrected promptly after the Administrative Agent shall give written or telephonic notice thereof to the Borrower and, if so rejected, will be of no force or effect. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender that will make a Loan as part of the requested Borrowing of the details thereof and of the amount of such Lender’s Loan to be made as part of the requested Borrowing.

Section 2.04. *Competitive Bid Procedure.* (a) Subject to the terms and conditions set forth herein, from time to time during the Availability Period the Borrower may request Competitive Bids and may (but shall not have any obligation to) accept Competitive Bids and borrow Competitive Loans; provided that the sum of the aggregate principal amount of outstanding Loans (including Competitive Loans) at any time shall not exceed the total Commitments and provided further that notwithstanding anything herein to the contrary, no Competitive Bids may be accepted and no Competitive Loans may be made without the prior written consent of all of the Lenders. To request Competitive Bids, the Borrower shall notify the Administrative Agent of such request by (x) in the case of a LIBOR Borrowing, not later than 11:00 a.m., Local Time, four Business Days before the date of the proposed Borrowing and (y) in the case of a Fixed Rate Borrowing, not later than 10:00 a.m., Local Time, one Business Day before the date of the proposed Borrowing; provided that the Borrower may submit up to (but not more than) three Competitive Bid Requests on the same day, but a Competitive Bid Request shall not be made within five Business Days after the date of any previous Competitive Bid Request, unless any and all such previous Competitive Bid Requests shall have been withdrawn or all Competitive Bids received in response thereto rejected. Each such Competitive Bid Request shall be irrevocable and shall be made by hand delivery or telecopy to the Administrative Agent of a duly completed and executed Competitive Bid Request in the form of Exhibit D (or by telephone notification, confirmed promptly by hand delivery or telecopy to the Administrative Agent of a duly completed and executed Competitive Bid Request in the form of Exhibit D). Each such telephonic and written Competitive Bid Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate principal amount of the requested Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day;
- (iii) the Type of such Borrowing;
- (iv) the Interest Period to be applicable to such Borrowing, which shall be a period contemplated by the definition of the term “**Interest Period**”; and
- (v) the location and number of the Borrower’s account to which funds are to be disbursed, which shall comply with the requirements of Section 2.08.

Promptly following receipt of a Competitive Bid Request in accordance with this Section, the Administrative Agent shall notify the Lenders of the details thereof by telecopy, inviting the Lenders to submit Competitive Bids.

(b) Each Lender may (but shall not have any obligation to) make one or more Competitive Bids to the Borrower in response to a Competitive Bid Request. Each Competitive Bid by a Lender must be in a form approved by the Administrative Agent and must be received by the Administrative Agent by telecopy, in the case of (i) a LIBOR Competitive Borrowing, not later than 9:30 a.m., Local Time, three Business Days before the proposed date of such Competitive Borrowing and (ii) a Fixed Rate Borrowing, not later than 9:30 a.m., Local Time, on the proposed date of such Competitive Borrowing. Competitive Bids that do not conform substantially to the form approved by the Administrative Agent may be rejected by the Administrative Agent, and the Administrative Agent shall notify the applicable Lender as promptly as practicable. Each Competitive Bid shall specify (i) the principal amount (which shall be expressed in U.S. Dollars and be a minimum of US\$5,000,000 and an integral multiple of US\$1,000,000 and which may equal the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Lender is willing to make, (ii) the Competitive Bid Rate or Rates at which the Lender is prepared to make such Loan or Loans (expressed as a percentage rate per annum in the form of a decimal to no more than four decimal places) and (iii) the Interest Period applicable to each such Loan and the last day thereof.

(c) The Administrative Agent shall promptly notify the Borrower by telecopy of the Competitive Bid Rate and the principal amount specified in each Competitive Bid and the identity of the Lender that shall have made such Competitive Bid.

(d) Subject only to the provisions of this paragraph, the Borrower may accept or reject any Competitive Bid. The Borrower shall notify the Administrative Agent by telephone, confirmed promptly by telecopy in a form approved by the Administrative Agent, whether and to what extent it has decided to accept or reject each Competitive Bid, (i) in the case of a LIBOR Competitive Borrowing, not later than 10:30 a.m., Local Time, three Business Days before the date of the proposed Competitive Borrowing and (ii) in the case of a Fixed Rate Borrowing, not later than 10:30 a.m., Local Time, on the proposed date of the Competitive Borrowing; *provided* that (i) the failure of the Borrower to give such notice shall be deemed to be a rejection of each Competitive Bid, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower rejects a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the aggregate amount of the requested Competitive Borrowing specified in the related Competitive Bid Request, (iv) to the extent necessary to comply with clause (iii) above, such Borrower may accept Competitive Bids at the same Competitive Bid Rate in part, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Competitive Bid, and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of US\$5,000,000 and an integral multiple of US\$1,000,000; *provided further* that if a Competitive Loan must be in an amount less than US\$5,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of US\$1,000,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to clause (iv) the amounts shall be rounded to integral multiples of US\$1,000,000 in a manner determined by such Borrower. A notice given by the Borrower pursuant to this paragraph shall be irrevocable.

(e) The Administrative Agent shall promptly notify each bidding Lender by telecopy whether or not its Competitive Bid has been accepted (and, if so, the amount and Competitive Bid Rate so accepted), and each successful bidder will thereupon become bound, subject to the terms and conditions hereof, to make the Competitive Loan in respect of which its Competitive Bid has been accepted.

(f) If the Administrative Agent shall elect to submit a Competitive Bid in its capacity as a Lender, it shall submit such Competitive Bid directly to the Borrower at least one quarter of an hour earlier than the time by which the other Lenders are required to submit their Competitive Bids to the Administrative Agent pursuant to paragraph (b) of this Section.

Section 2.05. *[Intentionally Omitted]*.

Section 2.06. *[Intentionally Omitted]*.

Section 2.07. *[Intentionally Omitted]*.

Section 2.08. *Funding of Borrowings.* (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof, by wire transfer of immediately available funds in U.S. Dollars by 12:00 noon, Local Time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of such Borrower maintained with the Administrative Agent, and designated by such Borrower in the applicable Borrowing Request or Competitive Bid Request.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to such Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of such Borrower, the interest rate applicable to the Loans included in such Borrowing. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

Section 2.09. *Interest Elections.* (a) Each Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a LIBOR Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a Borrowing of a different Type or to continue such Borrowing and, in the case of a LIBOR Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Competitive Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election, by the time and date that a Borrowing Request would be required under Section 2.03 if such Borrower were requesting a Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such Interest Election Request shall be irrevocable and shall be made by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower (or by telephone notification, confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower). Without limiting the rights of the Borrower to repay outstanding Borrowings, each conversion or continuation of a Borrowing shall comply with the applicable provisions of Section 2.02.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) in the case of an election resulting in a Borrowing, the Type of the resulting Borrowing; and

(iv) in the case of an election resulting in a Borrowing, if the resulting Borrowing is to be a LIBOR Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a LIBOR Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each affected Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a LIBOR Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be continued as a Borrowing of the same Type with an Interest Period one month's duration.

(f) Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a LIBOR Borrowing and (ii) unless repaid, each LIBOR Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

Section 2.10. *Termination, Reduction and Extension of Commitments.* (a) Unless previously terminated, the Commitments shall terminate (x) on the date of each Borrowing, in an amount equal to the aggregate principal amount of such Borrowing, (y) in full (excluding the Commitments of Non-Funding Lenders), on the last day of the Availability Period and (z) in the case of any Non-Funding Lenders, in full, on the Maturity Date.

(b) The Company may at any time terminate, or from time to time reduce, the Commitments; *provided* that each reduction of the Commitments shall be in an amount that is an integral multiple of US\$5,000,000 and not less than US\$10,000,000.

(c) The Company shall notify the Administrative Agent of any election to terminate or reduce the Commitments under paragraph (b) of this Section at least three Business Days (or such lesser number of days as may be acceptable to the Administrative Agent) prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Company pursuant to this Section shall be irrevocable; *provided* that a notice of termination of the Commitments delivered by the Company may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Company (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Commitments shall be permanent. Each reduction of the Commitments shall be made ratably among the Lenders in accordance with their respective Commitments.

(d) *Mandatory Termination or Reduction of Commitments.*

(i) In the event that the Borrower or any other member of the Consolidated Group actually receives any Net Cash Proceeds arising from any Permitted Securitization Transactions, Debt Issuance or Asset Sale, in each case during the period commencing on the Effective Date and ending on the last day of the Availability Period, then the Commitments then outstanding shall be automatically reduced in an amount equal to 100% of such Net Cash Proceeds (minus the amount of such Net Cash Proceeds required to be applied to prepay Loans outstanding at such time in accordance with Section 2.12(c)) on the day of receipt by the Borrower or, as applicable, any other member of the Consolidated Group of such Net Cash Proceeds. The Borrower shall promptly notify the Administrative Agent of the receipt by the Borrower, or, as applicable, any other member of the Consolidated Group, of such Net Cash Proceeds from any Debt Issuance or Asset Sale, and such notice shall be accompanied by a reasonably detailed calculation of the Net Cash Proceeds received.

(ii) All reductions of the Commitments pursuant to Section 2.10(d)(i) shall be made ratably to the Lenders' individual Commitments. For the avoidance of doubt, Net Cash Proceeds shall first be applied to the prepayment of Loans outstanding at any time in accordance with Section 2.12(c) and then to the reduction of Commitments in accordance with 2.10(d)(i).

(e) (i) The Company may, by delivery of a written notice (a “**Maturity Date Extension Notice**”) to the Administrative Agent (which shall promptly deliver a copy to each of the Lenders) not less than 30 days and not more than 60 days prior to the Maturity Date, require the Lenders to extend the Maturity Date for an additional period of three months (the “**Extended Maturity Date**”); *provided* that there shall be no more than one extension of the Maturity Date pursuant to this Section. Upon delivery of the Maturity Date Extension Notice to the Lenders, (the date of such delivery, the “**Extension Date**”) the Maturity Date shall be extended to the Extended Maturity Date.

(ii) Notwithstanding the foregoing provisions of this Section 2.10, no extension of the Maturity Date shall be effective with respect to any Lender unless, (A) on and as of the Extension Date in respect of such extension, no Event of Default shall have occurred and be continuing and (B) on or prior to the Original Maturity Date, the Company shall have paid the extension fees required under Section 2.13(c).

Section 2.11. *Repayment of Loans; Evidence of Debt.* (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Loan of such Lender owing by the Borrower to such Lender on the earlier to occur of (x) the Maturity Date and (y) the ChinaCo Spin Effective Date and (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Competitive Loan owing by the Borrower on the earlier to occur of (x) last day of the Interest Period applicable to such Loan and (y) the ChinaCo Spin Effective Date.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made to each Borrower hereunder, the Type thereof and, in the case of any LIBOR Borrowing, the Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender’s share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; *provided* that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay its Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans made by it to the Borrower be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans of the Borrower evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 10.04) be represented by one or more promissory notes in such form payable to the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

Section 2.12. *Prepayment of Loans.* (a) The Borrower shall have the right at any time and from time to time to prepay any of its Borrowings in whole or in part, subject to prior notice in accordance with paragraph (b) of this Section; provided that the Borrower shall not have the right to prepay any Competitive Loan without the prior consent of the Lender thereof.

(b) The Borrower shall notify the Administrative Agent by telephone (confirmed by telecopy) of any prepayment by such Borrower hereunder (i) in the case of prepayment of a LIBOR Borrowing, not later than 11:00 a.m., Local Time, three Business Days before the date of prepayment or (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., Local Time, one Business Day before the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of each Borrowing or portion thereof to be prepaid; *provided* that if a notice of optional prepayment is given in connection with a conditional notice of termination of the Commitments as contemplated by Section 2.10, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.10. Promptly following receipt of any such notice relating to a Borrowing, the Administrative Agent shall advise the participating Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02. Each prepayment of a Borrowing shall be applied ratably to the Loans included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.14.

(c) *Mandatory Prepayment of Loans.*

(i) In the event that the Borrower or any other member of the Consolidated Group actually receives any Net Cash Proceeds arising from any Permitted Securitization Transaction, Debt Issuance or Asset Sale, in each case after the Effective Date, then the Borrower shall prepay the Loans in an amount equal to 100% of such Net Cash Proceeds not later than three Business Days following the receipt by the Borrower or any such Subsidiary of such Net Cash Proceeds. The Borrower shall promptly (and not later than the date of receipt thereof) notify the Administrative Agent of the receipt by the Borrower or, as applicable, any other member of the Consolidated Group, of such Net Cash Proceeds from any Debt Issuance or Asset Sale, and such notice shall be accompanied by a reasonably detailed calculation of the Net Cash Proceeds. Each prepayment of Loans shall be applied ratably and shall be accompanied by accrued interest and fees on the amount prepaid to the date fixed for prepayment, plus, in the case of any LIBOR Borrowing, any amounts due to the Lenders under Section 10.03(a).

(d) Prior to any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (b) of this Section; *provided*, that if the Borrower fails to so select such Borrowing or Borrowings, such prepayment shall be applied to the outstanding Borrowings in the direct order of maturity of the relevant Interest Periods applicable thereto.

Section 2.13. *Fees.*

(a) Commitment Fees. The Company agrees to pay to the Administrative Agent, for the account of each Lender, a commitment fee, which shall accrue at the Applicable Rate on the daily unused amount of the Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Commitment terminates. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Commitments terminate, commencing on the first such date to occur after the date hereof. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(b) Upfront Fees. The Company agrees to pay to the Administrative Agent, for the account of each Lender, an upfront fee at the rate set forth in the Fee Letter on the aggregate amount of the Commitments in effect on the Effective Date, which fee shall be earned and payable on the Effective Date.

(c) Extension Fees. In the event that the Extension Date occurs, the Company agrees to pay to the Administrative Agent, for the account of each Lender, an extension fee at the rate set forth in the Fee Letter on the aggregate outstanding principal amount of the Loans of such Lender on the Original Maturity Date, which fee shall be earned and payable on the Original Maturity Date.

(d) The Company agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Company and the Administrative Agent.

(e) All fees payable hereunder shall be paid in U.S. Dollars on the dates due, in immediately available funds, to the Administrative Agent for distribution, in the case of commitment fees, upfront fees and Extension Fee, to the applicable Lenders. Fees paid shall not be refundable under any circumstances.

Section 2.14. *Interest.* (a) *The Loans comprising each ABR Borrowing shall bear interest at the Alternate Base Rate plus the Applicable Rate.*

(b) The Loans comprising each LIBOR Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Loans as provided in paragraph (a) of this Section.

(g) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan; *provided* that (i) interest accrued pursuant to paragraph (f) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Loan prior to the end of the Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any LIBOR Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion. All interest shall be payable in U.S. Dollars.

(d) All interest hereunder shall be computed on the basis of a year of 360 days, except that (i) interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate, Adjusted LIBO Rate or LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.15. *Alternate Rate of Interest; Illegality.* (a) *If prior to the commencement of any Interest Period for a LIBOR Borrowing:*

(i) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period; or

(ii) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate or the LIBO Rate, as applicable, for such Interest Period will not adequately and fairly reflect the cost to such Lenders (or Lender) of making or maintaining their Loans (or its Loan) included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Company and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Company and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a LIBOR Borrowing, shall be ineffective and (ii) if any Borrowing Request requests a LIBOR Borrowing, such Borrowing shall be made as an ABR Borrowing; *provided* that if the circumstances giving rise to such notice do not affect all the Lenders, then requests by the Borrower for LIBOR Competitive Borrowings may be made to Lenders that are not affected thereby.

(b) Notwithstanding any other provision of this Agreement, in the event that it becomes unlawful for any Lender or any applicable lending office of such Lender to make, maintain, or fund LIBOR Loans in U.S. Dollars hereunder, then such Lender shall promptly notify the Company thereof and such Lender's obligation to make or continue any LIBOR Loans, to convert other Types of Loans into LIBOR Loans shall be suspended until the circumstances giving rise to suspension no longer exist (in which case such Lender shall again make, maintain, and fund LIBOR Loans), and each such LIBOR Loan then outstanding shall (a) in the case of all Loans (other than Competitive Loans), be converted into ABR Loans on the last day of the then-current Interest Period with respect thereto and (b) in the case of Competitive Loans, be due and payable on the last day of the then-current Interest Period with respect thereto.

Section 2.16. *Increased Costs. (a) If any Change in Law shall:*

- (i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender;
- (ii) subject any Recipient to any Taxes (other than (A) Indemnified Taxes and (B) Excluded Taxes) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto; or
- (iii) impose on any Lender or the London interbank market any other condition affecting this Agreement or LIBOR Loans or Fixed Rate Loans made by such Lender;

and the result of any of the foregoing shall be to increase the cost to such Lender or such other Recipient of making or maintaining any Loan (or of maintaining its obligation to make any such Loan) or reduce the amount of any sum received or receivable by such Lender or such other Recipient hereunder (whether of principal, interest or otherwise), then the Company will pay to such Lender or such other Recipient, as the case may be, such additional amount or amounts as will compensate such Lender or such other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender reasonably determines that any Change in Law regarding capital or liquidity requirements has or would have the effect of reducing the rate of return on such Lender's capital or on the capital of such Lender's holding company, if any, as a consequence of this Agreement or the Loans made by such Lender, to a level below that which such Lender or such Lender's holding company could have achieved but for such Change in Law (taking into consideration such Lender's policies and the policies of such Lender's holding company with respect to capital adequacy or liquidity), then from time to time the Company will pay to such Lender such additional amount or amounts as will compensate such Lender or such Lender's holding company for any such reduction suffered.

(c) A certificate of a Lender setting forth the amount or amounts necessary to compensate such Lender or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section shall be delivered to the Company and shall be conclusive absent manifest error. The Company shall pay such Lender, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's right to demand such compensation; *provided* that the Company shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than 180 days prior to the date that such Lender notifies the Company of the Change in Law giving rise to such increased costs or reductions and of such Lender's intention to claim compensation therefor; *provided further* that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 180 day period referred to above shall be extended to include the period of retroactive effect thereof.

(e) Notwithstanding the foregoing provisions of this Section, a Lender shall not be entitled to compensation pursuant to this Section in respect of any Competitive Loan if the Change in Law that would otherwise entitle it to such compensation shall have been publicly announced prior to submission of the Competitive Bid pursuant to which such Loan was made.

Section 2.17. *Break Funding Payments.* In the event of (a) the payment of any principal of any LIBOR Loan or Fixed Rate Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any LIBOR Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any LIBOR Loan or Fixed Rate Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.12(b) and is revoked in accordance therewith), (d) the failure to borrow any Competitive Loan after accepting the Competitive Bid to make such Loan, or (e) the assignment of any LIBOR Loan or Fixed Rate Loan other than on the last day of the Interest Period applicable thereto as a result of a request by the Company pursuant to Section 2.20, then, in any such event, the Borrower shall compensate each affected Lender for the loss, cost and expense attributable to such event. In the case of a LIBOR Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for deposits in U.S. Dollars and of

a comparable amount and period from other banks in the London interbank market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section shall be delivered to the Company and shall be conclusive absent manifest error; provided that after receiving written request therefor by the Borrower, each affected Lender shall promptly provide such Borrower with an estimate of any amount or amounts that such Lender is entitled to receive pursuant to this Section. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof; provided that the Company shall not be required to compensate a Lender pursuant to this Section for any such amounts incurred more than 180 days prior to the date that such Lender delivers such certificate.

Section 2.18. *Taxes.* (a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the applicable Recipient receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) (i) The Borrower shall indemnify each Recipient, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by such Recipient, on or with respect to any payment by or on account of any obligation of the Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section 2.18(c)(i)) and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority *provided* that if the Recipient fails to file notice to the Borrower of the imposition of any Indemnified Taxes or Other Taxes within 120 days following the receipt of actual written notice by such Recipient of the imposition of such Indemnified Taxes or Other Taxes, there will be no obligation for such Borrower to pay interest or penalties attributable to the period beginning after such 120th day and ending seven days after the Borrower receives notice from such Recipient, as applicable. A certificate as to the amount of such payment or liability delivered to the Borrower by a Lender, or by the Administrative Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(i) Each Lender shall severally indemnify the Administrative Agent, within 10 days after demand therefor, for (A) any Indemnified Taxes attributable to such Lender (but only to the extent that any Loan Party has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Loan Parties to do so), (B) any Taxes attributable to such Lender's failure to comply with the provisions of Section 10.04(c)(ii) relating to the maintenance of a Participant Register and (C) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by the Administrative Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by the Administrative Agent shall be conclusive absent manifest error. Each Lender hereby authorizes the Administrative Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by the Administrative Agent to the Lender from any other source against any amount due to the Administrative Agent under this Section 2.18(c)(ii). Notwithstanding anything to the contrary in the preceding sentence, the completion, execution and submission of such documentation (other than such documentation set forth in Section 2.18(d)(ii) below) shall not be required if in the Lender's reasonable judgment such completion, execution or submission would subject such Lender to any material unreimbursed cost or expense or would materially prejudice the legal or commercial position of such Lender.

(d) (i) Any Lender, with respect to the Borrower, that is entitled to an exemption from or reduction of withholding Tax under the law of the jurisdiction in which such Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by such Borrower or the Administrative Agent as will permit such payments to be made without withholding or at a reduced rate.

(ii) Without limiting the generality of the foregoing:

(A) Each Lender that is a U.S. Person shall deliver to the Administrative Agent (with a copy to the Borrower) on or prior to the date on which such Person becomes a party hereunder (and from time to time thereafter upon the reasonable request of such Borrower or the Administrative Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. Federal backup withholding; and

(B) Each Lender that is not a U.S. Person shall establish a complete exemption from U.S. Federal withholding Tax with respect to payments hereunder or under any other Loan Document through application of the Code or an applicable treaty by delivering to each Borrower and the Administrative Agent on or prior to the date on which such Lender becomes a party to this Agreement (or after accepting an assignment of any interest hereunder) and from time to time thereafter upon reasonable request by the Administrative Agent or such Borrower, two duly completed copies of the following, as applicable: (1) IRS W-8BEN or IRS W-8BEN-E claiming eligibility of the Lender for benefits of an income tax treaty to which the United States is a party, (2) in the case of a Lender claiming eligibility for the benefits of the exemption for "portfolio interest" under Section 881(c) of the Code, IRS W-8BEN or IRS W-8BEN-E along with a certificate to the effect that such Lender is not (x) a "bank" within the meaning of Section 881(c)(3)(A)

of the Code, (y) a “10 percent shareholder” of the Borrower within the meaning of Section 881(c)(3)(B) of the Code or (z) a “controlled foreign corporation” receiving interest from a related person within the meaning of Section 881(c)(3)(C) of the Code, (3) IRS Form W-8ECI or (4) IRS Form W-8IMY and all supporting documentation (including any of the documentation listed in clauses (1), (2) and (3), as applicable) required pursuant to applicable Treasury Department regulations, or, in each case, an applicable successor form, provided that if the Foreign Lender is a partnership and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide the certification listed in (2) above on behalf of such direct and indirect partner.

(e) If a payment made to a Lender under any Loan Document would be subject to U.S. Federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Lender shall deliver to the Borrower and the Administrative Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Administrative Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Borrower or the Administrative Agent as may be necessary for the Borrower and the Administrative Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA and to determine the amount to deduct and withhold from such payment.

(f) If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 2.18 (including by the payment of additional amounts pursuant to this Section 2.18), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this paragraph (f) (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph (f), in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph (f) the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if the Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts with respect to such Tax had never been paid. This paragraph shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes that it deems confidential) to the indemnifying party or any other Person.

(g) Each party's obligations under this Section 2.18 shall survive the resignation or replacement of the Administrative Agent or any assignment of rights by, or the replacement of, a Lender, the termination of the Commitments and the repayment, satisfaction or discharge of all obligations hereunder or under any other Loan Document.

Section 2.19. *Payments Generally; Pro Rata Treatment; Sharing of Set-offs.* (a) The Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees, or of amounts payable under Section 2.16 or 2.18, or otherwise) in U.S. Dollars prior to 12:00 noon, Local Time, on the date when due, in immediately available funds, without set-off or counterclaim. All such payments in U.S. Dollars shall be made to the Administrative Agent at its offices at its address specified in Section 10.01, except that payments pursuant to Sections 2.16, 2.17, 2.18 and 10.03 shall be made directly to the Persons entitled thereto, without set-off or counterclaim. Any amounts received after the time required to be received hereunder on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. The Administrative Agent shall distribute any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment hereunder shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day (provided that if such payment date is the Maturity Date, the date for payment shall be the immediately preceding Business Day) and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. Any payment required to be made by the Administrative Agent hereunder shall be deemed to have been made by the time required if the Administrative Agent shall, at or before such time, have taken the necessary steps to make such payment in accordance with the regulations or operating procedures of the clearing or settlement system used by the Administrative Agent to make such payment.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied *first*, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties and *second*, towards payment of principal then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Loans to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Loans; *provided* that (i) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans to any assignee or participant, other than to the Company or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of such Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of any Lenders hereunder that such Borrower will not make such payment, the Administrative Agent may assume that such Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the applicable Lenders the amount due. In such event, if the Borrower has not in fact made such payment, then each of the applicable Lenders severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.08(b), 2.19(d) or 10.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

Section 2.20. *Mitigation Obligations; Replacement of Lenders.* (a) If any Lender requests compensation under Section 2.16, or if the Borrower is required to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.18, then such Lender shall use reasonable efforts to file any certificate or document reasonably requested by the Company or designate a different lending office for funding or booking its affected Loans hereunder or to assign its affected rights and obligations hereunder to another of its offices, branches or affiliates, if such filing, designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.16 or 2.18, as the case may be, in the future and (ii) in the judgment of such Lender, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Company hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.16, or if any Lender is a Defaulting Lender, or if the Borrower is required to pay any Indemnified Taxes or additional amounts to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.18, or if the Company is entitled to replace a Lender pursuant to Section 10.02(c), then the Company may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 10.04), all its interests, rights and obligations under this Agreement (other than in respect of any outstanding Competitive Loans held by it and any existing rights to payments under Section 2.16 and Section 2.18) to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); *provided* that (i) the Company shall have received the prior written consent of the Administrative Agent, which consent shall not be unreasonably withheld or delayed, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans (other than Competitive Loans), accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.16 or payments required to be made pursuant to Section 2.18, such assignment and delegation will result in a reduction in such compensation or payments.

Section 2.21. *[Intentionally Omitted]*.

Section 2.22. *[Intentionally Omitted]*.

Section 2.23. *Defaulting Lenders*. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes a Defaulting Lender, then the following provisions shall apply for so long as such Lender is a Defaulting Lender:

(a) commitment fees shall cease to accrue on the amount of the Commitment of such Defaulting Lender pursuant to Section 2.13(a); and

(b) the Commitment and Loans of such Defaulting Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder or under any other Loan Document (including any consent to any amendment, waiver or other modification pursuant to Section 10.02); *provided* that this clause (b) shall apply to the vote of a Defaulting Lender in the case of an amendment, waiver, or other modification referred to in clause (i) or (ii) of the first proviso of Section 10.02(b) unless such Defaulting Lender shall be affected by such amendment, waiver or other modification.

In the event that the Administrative Agent and the Company, each agrees that a Defaulting Lender has adequately remedied all matters that caused such Lender to be a Defaulting Lender, then such Lender shall cease to be a Defaulting Lender.

ARTICLE 3 REPRESENTATIONS AND WARRANTIES

The Company represents and warrants to the Lenders that:

Section 3.01. *Organization; Powers.* Each of the Company and its Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required, in each case except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

Section 3.02. *Authorization; Enforceability.* The Transactions to be entered into by each Loan Party are within such Loan Party's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement and any promissory notes issued pursuant to Section 2.11(e) have been duly executed and delivered by the Company and constitute, and the Guarantee Agreement when executed and delivered by each Guarantor will constitute, a legal, valid and binding obligation of such Loan Party, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 3.03. *Governmental Approvals; No Conflicts.* The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except such as have been obtained or made and are in full force and effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of the Loan Parties or any order of any Governmental Authority, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon any Loan Party or its assets, or give rise to a right thereunder to require any payment (other than pursuant to this Agreement) to be made by any Loan Party, and (d) will not result in the creation or imposition of any Lien on any asset of any Loan Party, except, with respect to clauses (b) and (c), any such violations, defaults and payments which, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect and except, with respect to clause (d), any such Liens permitted under Section 6.02.

Section 3.04. *Financial Condition; No Material Adverse Change.* (a) The Company has heretofore furnished to the Lenders its consolidated balance sheet and related statements of income, cash flows and shareholders' equity and comprehensive income as of and for the fiscal year ended December 31, 2014, reported on by KPMG LLP, independent public accountants. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of the Company and its consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP.

(b) As of the Effective Date, there has been no material adverse change in the business, assets, operations or condition, financial or otherwise, of the Company and its Subsidiaries, taken as a whole, since December 31, 2014.

Section 3.05. *Properties.* (a) Each of the Company and its Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to the business of the Company and its Subsidiaries on a consolidated basis, except for minor defects in title and other matters that do not interfere with their ability to conduct their businesses on a consolidated basis as currently conducted or to utilize such properties for their intended purposes on a consolidated basis.

(b) Each of the Company and its Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to the business of the Company and its Subsidiaries on a consolidated basis, and the use thereof by the Company and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

Section 3.06. *Litigation and Environmental Matters.* (a) There are no actions, suits or proceedings (and, to the knowledge of the Company, there are no investigations) by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries (i) as to which there is a reasonable likelihood of an adverse determination and that, if adversely determined, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that, other than actions, suits or proceedings commenced by the Administrative Agent or any Lender, involve this Agreement or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, neither the Company nor any of its Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the date of this Agreement, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or would reasonably be expected to result in, a Material Adverse Effect.

Section 3.07. *Compliance with Laws and Agreements.* Each of the Company and its Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

Section 3.08. *Investment Company Status.* Neither the Company nor any of its Subsidiaries is an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940.

Section 3.09. *Taxes.* Each of the Company and its Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Company or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

Section 3.10. *ERISA.* No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Accounting Standards Codification Topic 715) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount which, if it were required to be fully paid, would reasonably be expected to result in a Material Adverse Effect.

Section 3.11. *Disclosure.* The Company has disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject (to its knowledge, in the case of those to which only its Non-Controlled Subsidiaries are subject), and all other matters known to it, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect; provided that for purposes of this sentence, any information disclosed in any publicly available filing made by the Company with the Securities and Exchange Commission pursuant to the rules and regulations of the Securities and Exchange Commission shall be considered to have been disclosed to the Lenders.

Section 3.12. *Subsidiary Guarantors.* As of the Effective Date, there are no Principal Domestic Subsidiaries other than the Subsidiary Guarantors and the Subsidiaries listed on Schedule B.

ARTICLE 4 CONDITIONS

Section 4.01. *Effective Date.* The obligations of the Lenders to make Loans hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 10.02):

- (a) The Administrative Agent (or its counsel) shall have received from each party hereto either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy or other electronic transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.
- (b) The Administrative Agent (or its counsel) shall have received from the Subsidiary Guarantors either (i) a counterpart of the Guarantee Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy or other electronic transmission of a signed signature page of the Guarantee Agreement) that such party has signed a counterpart of the Guarantee Agreement.
- (c) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Effective Date) of each of (i) Mayer Brown LLP, U.S. Counsel for the Loan Parties, (ii) K&L Gates LLP, special North Carolina counsel to the Company and (iii) Carson Stewart, Esq., Corporate Counsel of the Company, in each case, in form and substance reasonably satisfactory to the Administrative Agent.
- (d) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Loan Parties (such evidence of good standing to be limited to the good standing of each Loan Party in such Loan Party's jurisdiction of organization), the authorization of the Transactions and any other legal matters relating to the Loan Parties, the Loan Documents or the Transactions, all in form and substance reasonably satisfactory to the Administrative Agent and its counsel *provided*, that the documents and certificates set forth on Schedule 4.01 need not be delivered to the Administrative Agent on the Effective Date, but shall instead be delivered within the time limit specified on such schedule, as such time limit may be extended from time to time by the Administrative Agent in its reasonable discretion.
- (e) The Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of the Company, solely in his capacity as such and not individually, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02.

(f) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Company hereunder.

(g) [Intentionally Omitted].

(h) To the extent requested by not later than five Business Days prior to the Effective Date, the Lenders shall have received all documentation and other information required by bank regulatory authorities under applicable “know your customer” and anti-money laundering rules and regulations, including information required under the Act.

The Administrative Agent shall notify the Company and the Lenders of the Effective Date, and such notice shall be conclusive and binding. The obligations of the Lenders to make Loans hereunder shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 10.02) at or prior to 3:00 p.m., New York City time, on December 8, 2015 (and, in the event such conditions are not so satisfied or waived, the Commitments shall terminate at such time).

Section 4.02. *Each Credit Event.* The obligation of each Lender to make a Loan during the Availability Period on the occasion of any Borrowing is subject to the satisfaction of the following conditions:

(a) The representations and warranties of the Company set forth in this Agreement shall be true and correct (or, in the case of any representation or warranty not qualified as to materiality, true and correct in all material respects) on and as of the date of such Borrowing, except to the extent that any such representations and warranties expressly relate to an earlier date in which case any such representations and warranties shall be true and correct (or, in the case of any such representation or warranty not qualified as to materiality, true and correct in all material respects) at and as of such earlier date.

(b) At the time of and immediately after giving effect to such Borrowing no Default shall have occurred and be continuing and, solely in the event that any amounts remain outstanding or any commitments remain in place under the Existing Credit Agreement, no “Default” or “Event of Default” shall have occurred and be continuing under the Existing Credit Agreement.

(c) The initial Borrowing under the facility (the “**Initial Borrowing**”) shall be made not later than 10 Business Days following the Effective Date (such date, the “**Initial Borrowing End Date**”).

Each Borrowing shall be deemed to constitute a representation and warranty by the Company on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE 5
AFFIRMATIVE COVENANTS

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full, the Company covenants and agrees with the Lenders that:

Section 5.01. *Financial Statements and Other Information.* The Company will furnish to the Administrative Agent (with sufficient copies for each Lender):

(a) within 90 days after the end of each fiscal year of the Company, its audited consolidated balance sheet and related statements of income, cash flows and shareholders' equity and comprehensive income as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG LLP or other independent public accountants of recognized national standing (without a qualification, exception or explanatory paragraph relating to the Company's ability to continue as a going concern and without any qualification, exception or explanatory paragraph as to the scope of such audit) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of the Company and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP (identifying in an explanatory paragraph any material accounting changes); *provided* that delivery of the Company's form 10-K containing the information required to be contained therein pursuant to the rules and regulations of the Securities and Exchange Commission, including the financial statements described above reported on by KPMG LLP or other independent public accountants of recognized national standing (without a qualification, exception or explanatory paragraph relating to the Company's ability to continue as a going concern and without any qualification, exception or explanatory paragraph as to the scope of such audit), shall be deemed to satisfy the requirements of this clause (a);

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Company, its condensed consolidated balance sheet and related statements of income, cash flows and shareholders' equity and comprehensive income as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of the Company and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes; *provided* that delivery of the Company's Form 10-Q, containing the information required to be contained therein pursuant to the rules and regulations of the Securities and Exchange Commission, together with the certificate of a Financial Officer as described above, shall be deemed to satisfy the requirements of this clause (b);

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Company (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.01, 6.09 and 6.10 (including any adjustments necessary to reflect the existence of any Excluded Subsidiaries) and (iii) stating whether any material change in GAAP or in the application thereof has occurred since the date of the audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) promptly after any certificate is delivered to the “Administrative Agent” under the Existing Credit Agreement pursuant to Section 5.01(d) of such Existing Credit Agreement (as in effect on the date hereof), a copy of such certificate;

(e) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by the Company or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by the Company to its shareholders generally, as the case may be; and

(f) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Company or any Subsidiary, or compliance with the terms of this Agreement, as the Administrative Agent or any Lender may reasonably request; *provided* that any request by a Lender for any information pursuant to this clause (f) shall be made through the Administrative Agent.

(g) Any financial statement, report, proxy statement or other material required to be delivered pursuant to clause (a), (b) or (e) of this Section shall be deemed to have been furnished to the Administrative Agent and each Lender on the date that such financial statement, report, proxy statement or other material is posted on the Securities and Exchange Commission’s website at www.sec.gov; *provided* that the Administrative Agent will promptly inform the Lenders of any such notification by the Company.

Section 5.02. *Notices of Material Events.* The Company will furnish to the Administrative Agent written notice of any of the following promptly after a Financial Officer or other executive officer of the Company becomes aware thereof:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Company or any Affiliate thereof that, if adversely determined, would reasonably be expected to result in a Material Adverse Effect;

- (c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Company and its Subsidiaries in an aggregate amount exceeding US\$100,000,000; and
- (d) any other development (except any change in general economic conditions) that results in, or would reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of the Company setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.03. *Existence; Conduct of Business.* The Company will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of the business of the Company and its Subsidiaries on a consolidated basis; provided that the foregoing shall not prohibit any merger, consolidation, liquidation, dissolution or sale of assets permitted under Section 6.03.

Section 5.04. *Payment of Obligations.* The Company will, and will cause each of its Subsidiaries to, pay its obligations, including Tax liabilities, that, if not paid would reasonably be expected to result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Company or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP and (c) the failure to make payment pending such contest would not reasonably be expected to result in a Material Adverse Effect.

Section 5.05. *Maintenance of Properties; Insurance.* The Company will, and will cause each of its Subsidiaries to, (a) keep and maintain all property material to the conduct of their business on a consolidated basis in good working order and condition, ordinary wear and tear excepted, and (b) maintain, with financially sound and reputable insurance companies (or pursuant to self-insurance arrangements that are consistent with those used by other companies that are similarly situated), insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

Section 5.06. *Books and Records; Inspection Rights.* The Company will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. The Company will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all during normal business hours; provided that in the case of any Lender, unless an Event of Default has occurred and is continuing, the Company shall not be required to permit any such visits by such Lender or its representatives pursuant to this Section more than once during any calendar year (and the Lenders will exercise reasonable efforts to coordinate such visits through the Administrative Agent).

Section 5.07. *Compliance with Laws.* The Company will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

Section 5.08. *Use of Proceeds.* The proceeds of all Loans will be used only for general corporate purposes, including Equity Payments. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations U and X.

ARTICLE 6 NEGATIVE COVENANTS

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full, the Company covenants and agrees with the Lenders that:

Section 6.01. *Subsidiary Indebtedness.* The Company will not permit the aggregate principal amount of Indebtedness of its Domestic Subsidiaries (excluding (a) any Indebtedness of a Domestic Subsidiary owed to the Company or another Domestic Subsidiary, (b) any Indebtedness of a Guarantor, so long as its Guarantee under the Guarantee Agreement remains in effect, (c) any Indebtedness of a Securitization Subsidiary that is included in calculating the Securitization Amount, (d) any Guarantee by a Domestic Subsidiary of Indebtedness of a Foreign Subsidiary, if the assets of such Domestic Subsidiary consist solely of investments in Foreign Subsidiaries and a de minimis amount of other assets and (e) Indebtedness existing as of the Effective Date and set forth on Schedule 6.01, but including (except as provided in clause (d) above) any Guarantee by a Domestic Subsidiary (other than a Guarantor) of Indebtedness of any other Person, including the Company, a Guarantor or a Foreign Subsidiary) at any time to exceed US\$200,000,000.

Section 6.02. *Liens.* The Company will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(a) Permitted Encumbrances;

(b) any Lien on any property or asset of the Company or any Domestic Subsidiary existing on the date hereof; *provided* that (i) such Lien shall not apply to any other property or asset of the Company or any Subsidiary and (ii) such Lien shall secure only those obligations which it secures on the date hereof and refinancings, extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof; *provided further* that, any such Lien securing obligations in excess of US\$10,000,000 on the date hereof shall not be permitted under this clause (b) unless such Lien is set forth in Schedule 6.02;

(c) any Lien existing on any property or asset prior to the acquisition thereof by the Company or any Subsidiary or existing on any property or asset of any Person that becomes a Subsidiary after the date hereof prior to the time such Person becomes a Subsidiary; *provided* that (i) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (ii) such Lien shall not apply to any other property or assets of the Company or any Subsidiary and (iii) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(d) Liens on fixed or capital assets (including equipment) hereafter acquired, constructed or improved by the Company or any Subsidiary; *provided* that (i) such security interests secure Indebtedness incurred to finance the acquisition, construction or improvement of such fixed or capital assets, (ii) such security interests and the Indebtedness secured thereby are incurred prior to or within 90 days after such acquisition or the completion of such construction or improvement, (iii) the Indebtedness secured thereby does not exceed 90% of the cost of acquiring, constructing or improving such fixed or capital assets and (iv) such security interests shall not apply to any other property or assets of the Company or any Subsidiary;

(e) Liens securing Capital Lease Obligations arising out of Sale and Lease-Back Transactions; *provided* that (i) such Sale and Lease-Back Transaction is consummated within 90 days after the purchase by the Company or a Subsidiary of the property or assets which are the subject of such Sale and Lease-Back Transaction and (ii) such Liens do not at any time encumber any property or assets other than the property or assets that are the subject of such Sale and Lease-Back Transaction;

(f) any Lien on any property or asset of any Subsidiary securing obligations in favor of the Company or any other Subsidiary;

(g) any Lien on any property or asset of any Foreign Subsidiary securing obligations of any Foreign Subsidiary;

(h) Permitted Securitization Transactions and Liens arising in connection with any Permitted Securitization Transaction;
and

(i) other Liens not otherwise permitted by the foregoing clauses of this Section (including Permitted Securitization Transactions and Liens arising in connection with any Permitted Securitization Transaction, to the extent exceeding the amount in clause (h) above); *provided* that the Lien Basket Amount shall not at any time exceed 15% of the Consolidated Net Tangible Assets of the Company.

Section 6.03. *Fundamental Changes.* (a) The Company will not, and will not permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) all or substantially all of the assets of the Company and the Subsidiaries (taken as a whole), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Event of Default shall have occurred and be continuing and no Default shall result therefrom (i) any Person may merge into the Company in a transaction in which the Company is the surviving corporation, (ii) any Person may merge with any Subsidiary in a transaction in which the surviving entity is a Subsidiary, (iii) any Subsidiary may liquidate or dissolve if the Company determines in good faith that such liquidation or dissolution is in the best interests of the Company and is not materially disadvantageous to the Lenders and (iv) this Section shall not be construed to restrict Permitted Securitization Transactions; provided that for purposes of this Section 6.03, one or more Refranchising Transactions shall not constitute the sale, transfer or disposition of all or substantially all of the assets of the Company and the Subsidiaries.

(b) A substantial majority of the business engaged in by the Company and its Subsidiaries will continue to be businesses of the type conducted by the Company and its Subsidiaries on the Effective Date and businesses reasonably related thereto; *provided* that the foregoing shall not be construed to restrict the conduct of businesses that are limited to serving the Company and its Subsidiaries and their respective franchisees and licensees, such as the creation of Subsidiaries to conduct insurance or inventory purchasing activities for the Company and its Subsidiaries and their respective franchisees and licensees.

Section 6.04. *OFAC/FCPA.* The Borrower will not directly, or, to the Borrower's knowledge, indirectly use the proceeds of the Loans, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (i) in any manner that would result in a violation of any sanctions administered or enforced by the U.S. Department of the Treasury's Office of Foreign Assets Control or the U.S. State Department, the United Nations Security Council, the European Union, Her Majesty's Treasury by any Person (including any Person participating in the Loans, whether as lender, underwriter, advisor, investor, or otherwise) or (ii) in violation of the U.S. Foreign Corrupt Practices Act of 1977 or any other applicable anti-corruption law.

Section 6.05. *Hedging Agreements.* The Company will not, and will not permit any of its Subsidiaries to, enter into any Hedging Agreement or commodity price protection agreement or other commodity price hedging arrangement, other than Hedging Agreements, commodity price protection agreements and other commodity price hedging arrangements entered into in the ordinary course of business to hedge or mitigate risks to which the Company or any Subsidiary is exposed in the conduct of its business or the management of its liabilities.

Section 6.06. *[Intentionally omitted]*.

Section 6.07. *Transactions with Affiliates.* The Company will not, and will not permit any of its Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other material transactions with, any of its then Affiliates, except (a) in the ordinary course of business for consideration and on terms and conditions not less favorable to the Company or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties (including pursuant to joint venture agreements entered into after the Effective Date with third parties that are not Affiliates), (b) transactions between or among the Company and its wholly owned Subsidiaries or between or among wholly owned Subsidiaries, in each case not involving any other Affiliate, (c) the Company may declare and pay dividends with respect to its capital stock payable solely in additional shares of its capital stock, (d) the Company and its Subsidiaries may make Equity Payments in respect of any of their respective Equity Interests, or pursuant to or in accordance with stock option plans or employee benefit plans for management or employees of the Company and its Subsidiaries and (e) the foregoing shall not prevent the Company or any Subsidiary from performing its obligations under agreements existing on the date hereof between the Company or any of its Subsidiaries and any joint venture of the Company or any of its Subsidiaries in accordance with the terms of such agreements as in effect on the date hereof or pursuant to amendments or modifications to any such agreements that are not adverse to the interests of the Lenders.

Section 6.08. *Issuances of Equity Interests by Principal Domestic Subsidiaries.* The Company will not permit any Principal Domestic Subsidiary to issue any additional Equity Interest in such Principal Domestic Subsidiary other than (a) to the Company, (b) to another Subsidiary in which the Company owns, directly or indirectly, a percentage interest not less than the percentage interest owned in the Principal Domestic Subsidiary issuing such Equity Interest, (c) any such issuance that does not reduce the Company's aggregate direct and indirect percentage ownership interest in such Principal Domestic Subsidiary and (d) issuances of Equity Interests after the date hereof which are not otherwise permitted by the foregoing clauses of this Section, provided that the aggregate consideration received therefor (net of all consideration paid in connection with all repurchases or redemptions thereof) does not exceed US\$100,000,000 during the term of this Agreement.

Section 6.09. *Leverage Ratio.* The Company will not permit the Leverage Ratio as of any date to exceed 2.75 to 1.0.

Section 6.10. *Fixed Charge Coverage Ratio.* The Company will not permit the Fixed Charge Coverage Ratio for any period of four consecutive fiscal quarters ending after the Effective Date to be less than 1.40 to 1.00.

Section 6.11. *Sale and Lease-Back Transactions.* The Company will not, and will not permit any of its Domestic Subsidiaries to, enter into any arrangement, directly or indirectly, whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereinafter acquired, and thereafter rent or lease such property or other property that it intends to use for substantially the same purpose or purposes as the property sold or transferred (a "**Sale and Lease-Back Transaction**"), except (a) any Sale and Lease-Back Transaction consummated within 90 days after the purchase by the Company or a Domestic Subsidiary of the property or assets (other than assets acquired pursuant to any Permitted Acquisition) which are the subject of such Sale and Lease-Back Transaction, (b) any Sale and Lease-Back Transaction between the Company and any Subsidiary or any Subsidiary and any other Subsidiary and (c) other Sale and Lease-Back Transactions; provided that any Sale and Lease-Back

Transaction permitted by clause (c) above shall be subject to compliance with the limitation set forth in the proviso to clause (i) of Section 6.02.

Section 6.12. *Equity Payments.* The Borrower will not, and will not permit any of its Subsidiaries to declare or make, or agree to pay or make, directly or indirectly, any Equity Payment, except the Borrower and its Subsidiaries may make Equity Payments (i) in the form of dividends or other distributions made to the Borrower's or its Subsidiary's equity holders, which in the case of such Equity Payments by the Borrower shall be made ratably to the Borrower's equity holders and shall be consistent with past practice and in the case of such Equity Payments by a Subsidiary shall be made ratably (or on a greater than ratable basis to the Borrower or any Subsidiary) to such Subsidiary's equity holders, (ii) in accordance with stock option plans or employee benefit plans for management or employees of the Company and its Subsidiaries, (iii) the Borrower and each Subsidiary may declare and make dividend payments or other distributions payable solely in the common stock or other common Equity Interests of such Person and (iv) so long as no Event of Default shall have occurred and be continuing or would result therefrom, additional Equity Payments in an aggregate amount not to exceed US\$2,000,000,000 during the term of this Agreement.

ARTICLE 7 EVENTS OF DEFAULT

Section 7.01. *Events of Default.* If any of the following events ("**Events of Default**") shall occur:

- (a) the Borrower shall fail to pay any principal of any Loan payable by it when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;
- (b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Section) payable by it under this Agreement, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of five days;
- (c) any representation or warranty made or deemed made by or on behalf of the Company or any Subsidiary in or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with this Agreement or any amendment or modification hereof or waiver hereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) the Company shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.03 (with respect to the Company's existence) or 5.08 or in Article VI;

(e) the Borrower shall fail to observe or perform any covenant, condition or agreement contained in this Agreement (other than those specified in clause (a), (b) or (d) of this Section), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Company (which notice will be given at the request of any Lender);

(f) the Company or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity; *provided* that this clause (g) shall not apply to (i) Indebtedness that becomes due as a result of the voluntary sale or transfer of property or assets by the Company or a Subsidiary or (ii) any amount that becomes due under a Hedging Agreement as a result of the termination thereof, other than a termination by the applicable counterparty attributable to an event or condition that constitutes or is in the nature of an event of default in respect of the Company or a Subsidiary;

(h) [Intentionally Omitted];

(i) subject to Section 7.02, an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Company or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(j) subject to Section 7.02, the Company or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (i) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Company or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(k) subject to Section 7.02, the Company or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(l) subject to Section 7.02, one or more judgments for the payment of money in an aggregate amount in excess of US\$125,000,000 (excluding amounts believed in good faith by the Company to be covered by insurance from financially sound insurance companies) shall be rendered against the Company, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Company or any Subsidiary to enforce any such judgment;

(m) an ERISA Event shall have occurred that, when taken together with all other ERISA Events that have occurred, would reasonably be expected to result in a Material Adverse Effect;

(n) a Change in Control shall occur; or

(o) any Guarantee by any Guarantor under the Guarantee Agreement shall be determined by a court of competent jurisdiction, or shall be asserted by a Borrower or a Guarantor, to be unenforceable, or any Guarantor shall fail to observe or perform any material covenant, condition or agreement contained in the Guarantee Agreement; *provided* that the foregoing shall not apply with respect to the termination of any or all the Guarantees under the Guarantee Agreement pursuant to Section 11 thereof or Section 10.02(b) hereof;

then, and in every such event (other than an event with respect to the Borrower described in clause (i) or (j) of this Section), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Company, take any or all of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, (ii) declare the Loans then outstanding, to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Company accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Company, and (iii) enforce its rights under the Guarantee Agreement on behalf of the Lenders; and in case of any event with respect to the Borrower described in clause (i) or (j) of this Section, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

Section 7.02. *Exclusion of Immaterial Subsidiaries.* Solely for purposes of determining whether a Default has occurred under clause (i), (j), (k) or (l) of Section 7.01, any reference in any such clause to any “Subsidiary” shall be deemed not to include any Subsidiary affected by any event or circumstance referred to in any such clause that (a) is not a Principal Domestic Subsidiary, (b) does not have consolidated assets accounting for more than 3% of the consolidated assets of the Company and its Subsidiaries, (c) did not, for the most recent period of four consecutive fiscal quarters, have consolidated revenues accounting for more than 3% of the consolidated revenues of the Company and its Subsidiaries and (d) did not, for the most recent period of four consecutive fiscal quarters, have Consolidated EBITDAR in an amount exceeding 3% of the Company’s Consolidated EBITDAR for such period; provided that (i) notwithstanding anything in the foregoing clauses (a), (b), (c) and (d) to the contrary, any Subsidiary that is a “Subsidiary Borrower” (under and as defined in the Existing Credit Agreement) shall be a Subsidiary for purposes of determining whether a Default has occurred under clause (i), (j), (k) and (l) of Section 7.01 and (ii) if it is necessary to exclude more than one Subsidiary from clause (i), (j), (k) and (l) of Section 7.01 pursuant to this Section in order to avoid a Default thereunder, all excluded Subsidiaries shall be considered to be a single consolidated Subsidiary for purposes of determining whether the conditions specified in clauses (b), (c) and (d) above are satisfied.

ARTICLE 8 THE ADMINISTRATIVE AGENT

Each of the Lenders irrevocably appoints the entity named as Administrative Agent herein and its successors to serve as administrative agent under the Loan Documents, and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The Person serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder and without any duty to account therefor to the Lenders.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02, or as the Administrative Agent shall believe in good faith to be necessary, under the Loan Documents), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Company or any of its Subsidiaries that is communicated to or obtained by the Person serving the Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 10.02) or in the absence of its own gross negligence or willful misconduct (such absence to be presumed unless otherwise determined by a court of competent

jurisdiction by a final and non-appealable judgment). The Administrative Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof (stating that it is a “**Notice of Default**”) is given to the Administrative Agent by a Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document or the occurrence of any Default, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the sufficiency, validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, Internet or intranet website posting or other distribution) reasonably believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person (whether or not such Person in fact meets the requirements set forth in the Loan Documents for being the signatory, sender or authenticator thereof). The Administrative Agent also may rely upon any statement made to it orally or by telephone and reasonably believed by it to be made by the proper Person (whether or not such Person in fact meets the requirements set forth in the Loan Documents for being the signatory, sender or authenticator thereof), and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for a Loan Party), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers hereunder or any other Loan Document by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties, including through its branches as applicable. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders and the Company. Upon any such resignation, the Required Lenders shall have the right, with the consent of the Company (which consent shall not be unreasonably withheld, and shall not be required so long as any Event of Default set forth in clause (i) or (j) of Section 7.01 has occurred and is continuing), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then such retiring Administrative Agent may, on behalf of the Lenders and with the consent of the Company (which consent shall not be unreasonably withheld, and shall not be required so long as any Event of Default set forth in clause (i) or (j) of Section 7.01 has occurred and is continuing; *provided* that the Company shall be deemed to have consented to such an appointment unless it shall have objected thereto by written notice to the Administrative Agent within five Business Days after having received notice thereof), appoint a successor Administrative Agent which shall be a bank with an office (or that has Affiliates with an office) in New York, New York, for the successor Administrative Agent; *provided that*, notwithstanding any of the foregoing, if no successor shall have been so appointed and shall have accepted such appointment within 45 days after the retiring Administrative Agent's notice of its resignation, the retiring Administrative Agent may elect, by notice to the Company and the Lenders, that its resignation shall become effective without a successor having been appointed, in which case (a) the retiring Administrative Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents and (b) all payments, communications and determinations provided to be made by, to or through the Administrative Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Administrative Agent as provided for above in this paragraph. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Company to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Company and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 10.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent, the Lead Arrangers or any other Lender, or any of the Related Parties of any of the foregoing, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent, the Lead Arrangers or any other Lender, or any of the Related Parties of any of the foregoing, and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

Each Lender, by delivering its signature page to this Agreement and funding its Loans on the Effective Date, or delivering its signature page to an Assignment and Assumption pursuant to which it shall become a Lender hereunder, shall be deemed to have acknowledged receipt of, and consented to and approved, each Loan Document and each other document required to be delivered to, or be approved by or satisfactory to, the Administrative Agent or the Lenders on the Effective Date.

Each party hereto agrees and acknowledges that the Syndication Agents, the Documentation Agents and the Lead Arrangers do not have any duties or responsibilities in their capacities as Syndication Agents, Documentation Agents and Lead Arrangers, respectively, hereunder or under any other Loan Document and shall not have, or become subject to, any liability hereunder in such capacities, but all such Persons shall have the benefit of the indemnities provided for hereunder.

The provisions of this Article are solely for the benefit of the Administrative Agent, the Lead Arrangers, the Syndication Agents, the Documentation Agents and the Lenders, and none of the Company or any other Loan Party shall have any rights as a third party beneficiary of any such provisions other than in respect of the consent rights set forth above relating to a successor Administrative Agent.

ARTICLE 9
[INTENTIONALLY OMITTED]

ARTICLE 10
MISCELLANEOUS

Section 10.01. *Notices.* (a) Except in the case of notices and other communications expressly permitted to be given by telephone (and subject to paragraph (b) below), all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(i) if to the Company, to it at Yum! Brands, Inc., P.O. Box 32070, Louisville, KY 40232, (or, in the case of overnight packages, 1441 Gardiner Lane, Louisville, KY 40213-1963), Attention of William L. Gathof, Vice President and Treasurer (Telecopy No. (502) 874-8948);

(ii) if to the Administrative Agent or to GS Bank, in its capacity as a Lender, as follows: Goldman Sachs Bank USA c/o Goldman, Sachs & Co. 30 Hudson Street, 36th Floor Jersey City, NJ 07302, Attention: SBD Operations (Email: gsd.link@gs.com), with a copy to: Goldman Sachs Bank USA 200 West Street New York, New York 10282-2198, Attention: Aaron Peyton; and

(iii) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

(b) Notices and other communications to the Lenders hereunder may be delivered or furnished by electronic communications pursuant to procedures approved by the Administrative Agent and the Company; *provided* that the foregoing shall not apply to notices pursuant to Article II unless otherwise agreed by the Administrative Agent, the Company and the applicable Lenders. The Administrative Agent, the Company may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; *provided* that approval of such procedures may be limited to particular notices or communications.

(c) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 10.02. *Waivers; Amendments.* (a) No failure or delay by the Administrative Agent or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent or any Lender may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by the Company and the Required Lenders or, in the case of any other Loan Document, pursuant to an agreement or agreements in writing entered into by the Administrative Agent and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; *provided* that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan (or the date of any payment required pursuant to Section 2.12(b)) or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.19(b) or (c) in a manner that would alter the pro rata sharing of payments required thereunder, in each case without the written consent of each Lender, or (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender; *provided further* that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent hereunder without the prior written consent of the Administrative Agent.

Notwithstanding the foregoing, no consent with respect to any amendment, waiver or other modification of this Agreement or any other Loan Document shall be required of any Defaulting Lender, except with respect to any amendment, waiver or other modification referred to in clause (i), (ii) or (iii) of the first proviso of this paragraph and then only in the event such Defaulting Lender shall be affected by such amendment, waiver or other modification.

(c) If, in connection with any proposed waiver, amendment or modification of this Agreement or any other Loan Document or any provision hereof or thereof, the consent of one or more of the Lenders whose consent is required is not obtained, then the Company shall have the right to replace each such non-consenting Lender with one or more assignees pursuant to Section 2.20(b); *provided* that at the time of such replacement, each such assignee consents to the proposed waiver, amendment or modification.

Section 10.03. *Expenses; Indemnity; Damage Waiver.* (a) The Company shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent, the Lead Arrangers, the Syndication Agents, the Documentation Agents and their respective Affiliates, including the reasonable fees, charges and disbursements of Davis Polk & Wardwell LLP, counsel for the Administrative Agent and the Lead Arrangers, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated) and (ii) all out-of-pocket expenses incurred by the Administrative Agent or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent or any Lender, in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans.

(b) The Company shall indemnify the Administrative Agent, each Syndication Agent, each Documentation Agent, each Lead Arranger and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an “**Indemnitee**”) against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or the use of the proceeds therefrom, (iii) any actual or alleged presence or Release of Hazardous Materials on or from any property owned or operated by the Company or any of its Subsidiaries, or any Environmental Liability related in any way to the Company or any of its Subsidiaries, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; *provided* that such indemnity shall not, as to any Indemnitee, be available (i) to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee (it being understood that, for purposes of this clause, each of a Lead Arranger, the Administrative Agent or a Lender, on the one hand, and their respective officers, directors, employees, agents and controlling persons, on the other hand, shall be considered to be a single party seeking indemnification) or (ii) with respect to any amounts paid pursuant to any settlement made by such Indemnitee without the consent of the Company, which consent shall not be unreasonably withheld.

(c) To the extent that the Company fails to pay any amount required to be paid by it to the Administrative Agent, under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent such Lender's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; *provided* that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be was incurred by or asserted against the Administrative Agent in its capacity as such. Any payment by a Lender hereunder shall not relieve the Company of its liability in respect thereof.

(d) To the extent permitted by applicable law, each party hereto agrees not to assert, and hereby waives, any claim against any other party hereto, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

Section 10.04. *Successors and Assigns.* (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that (i) the Company may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Company without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, Indemnites and the Related Parties of the Administrative Agent and each Lender) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) (i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees (other than to the Borrower or any Affiliate or Subsidiary of the Borrower or to a natural Person) all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld or delayed) of:

(A) the Company; *provided* that no consent of the Company shall be required (x) for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund (as defined below) with respect to a Lender, or (y) if an Event of Default set forth in clause (a), (b), (i) or (j) of Section 7.01 has occurred and is continuing, any other assignee; and

(B) the Administrative Agent.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment, the amount of the Commitment of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than US\$5,000,000 unless each of the Company and the Administrative Agent otherwise consent; *provided* that no such consent of the Company shall be required if an Event of Default set forth in clause (a), (b), (i) or (j) of Section 7.01 has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement; *provided* that this clause shall not apply to rights in respect of outstanding Competitive Loans;

(C) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire;

(D) in the case of an assignment by a Lender to a CLO (as defined below) administered or managed by such Lender or by an Affiliate of such Lender, the assigning Lender may retain the sole right to approve any amendment, modification or waiver of any provision of this Agreement, *provided* that the Assignment and Assumption between such Lender and such CLO may provide that such Lender will not, without the consent of such CLO, agree to any amendment, modification or waiver described in the first proviso to Section 10.02(b) that affects such CLO;

(E) no assignment shall be permitted that would reasonably be expected to result in any direct or indirect increase in costs, Taxes or other expenses that the Company or any other Loan Party is required to pay or reimburse under any applicable provisions hereunder.

For purposes of this Section 10.04(b), the terms “Approved Fund” and “CLO” have the following meanings:

“**Approved Fund**” means, with respect to any Lender, (a) a CLO administered or managed by such Lender or an Affiliate of such Lender and (b) with respect to any Lender that is a fund which invests in bank loans and similar extensions of credit, any other fund that invests in bank loans and similar extensions of credit and is managed by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“**CLO**” means any entity (whether a corporation, partnership, trust or otherwise) that is engaged in making, purchasing, holding or otherwise investing in bank loans and similar extensions of credit in the ordinary course of its business and is administered or managed by a Lender or an Affiliate of such Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender’s rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.16, 2.17, 2.18 and 10.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 10.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as a non-fiduciary agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Commitment or Commitments of, and principal amount of the Loans owing to, each Lender pursuant to the terms hereof from time to time (the “**Register**”), and shall give prompt written notice to the Company of each Assignment and Assumption so accepted and recorded. The entries in the Register shall be conclusive, and the Company, the Administrative Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The

Register shall be available for inspection by the Company and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c) (i) Any Lender may, without the consent of the Borrower or the Administrative Agent, sell participations to one or more banks or other entities (other than to the Borrower or any Affiliate or Subsidiary of the Borrower or to a natural Person) (a "**Participant**") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment or Commitments and the Loans owing to it); *provided* that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Company, the Administrative Agent, and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce the Loan Documents and to approve any amendment, modification or waiver of any provision of the Loan Documents; *provided* that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 10.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, the Company agrees that each Participant shall be entitled to the benefits of Sections 2.16, 2.17 and 2.18 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 10.08 as though it were a Lender, *provided* that such Participant agrees to be subject to Section 2.19(c) as though it were a Lender.

(ii) Each Lender that sells a participation shall, acting solely for this purpose as an agent of the Borrower, maintain a register on which it enters the name and address of each Participant and the principal amounts (and stated interest) of each Participant's interest in the Loans or other obligations under the Loan Documents (the "**Participant Register**"); *provided* that no Lender shall have any obligation to disclose all or any portion of the Participant Register (including the identity of any Participant or any information relating to a Participant's interest in any Commitments, Loans, or its other obligations under any Loan Document) to any Person except to the extent that such disclosure is necessary to establish that such Commitment, Loan, or other obligation is in registered form under Section 5f.103-1(c) of the U.S. Treasury Regulations. The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, the Administrative Agent (in its capacity as Administrative Agent) shall have no responsibility for maintaining a Participant Register.

(iii) A Participant shall not be entitled to receive any greater payment under Section 2.16 or 2.18 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the prior written consent of the Company. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.18 unless the Company is notified of the participation sold to such Participant and such Participant agrees in writing, for the benefit of the Company, to comply with Section 2.18(d) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank, or any central bank having jurisdiction over such Lender and this Section shall not apply to any such pledge or assignment of a security interest; *provided* that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

Section 10.05. *Survival.* All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid and so long as the Commitments have not expired or terminated. The provisions of Sections 2.16, 2.17, 2.18 and 10.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions contemplated hereby, the repayment of the Loans, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

Section 10.06. *Counterparts; Integration; Effectiveness.* This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the Guarantee Agreement and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 4.01, this Agreement shall become effective when it shall have been executed by the Administrative Agent and when the Administrative Agent shall have received counterparts hereof which, when taken together, bear the signatures of each of the other parties hereto, and thereafter shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 10.07. *Severability.* Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

Section 10.08. *Right of Setoff.* If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Company against any of and all the obligations of the Company now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement, but only to the extent such obligations are then due and payable. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

Section 10.09. *Governing Law; Jurisdiction; Consent to Service of Process.* (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the exclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against the Company or its properties in the courts of any jurisdiction.

(c) The Company hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 10.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

Section 10.10. *WAIVER OF JURY TRIAL.* EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE GUARANTEE AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

Section 10.11. *Headings.* Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

Section 10.12. *Confidentiality.* Each of the Administrative Agent and the Lenders agrees to maintain the confidentiality of the Information (as defined below), except that Information may be disclosed (a) to its and its Affiliates' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process (subject to the last sentence of this paragraph), (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to (i) any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement or (ii) any actual or prospective counterparty (or its advisors) to any swap or derivative transaction relating to the Company and its obligations, (g) with the consent of the Company, (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent or any Lender on a nonconfidential basis from a source other than the Company, (i) to any rating agency when required by it, provided that, prior to any disclosure, such rating agency shall undertake in writing to preserve the confidentiality of such Information or (j) on a confidential basis to the CUSIP Service Bureau or any similar agency in connection with the issuance and monitoring of CUSIP numbers with respect to the Loans. For the purposes of this Section, "**Information**" means all information received from the Company relating to the Company, or its business, other than any such

information that is available to the Administrative Agent or any Lender on a nonconfidential basis prior to disclosure by the Company. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. If any Lender receives any subpoena or similar legal process referred to in clause (c) above, such Lender will endeavor, to the extent practicable, to notify the Company and afford the Company an opportunity to challenge the same before disclosing any confidential Information pursuant thereto.

Section 10.13. *Interest Rate Limitation.* Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively the “**Charges**”), shall exceed the maximum lawful rate (the “**Maximum Rate**”) which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

Section 10.14. *Judgment Currency*. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from the Borrower hereunder in the currency expressed to be payable herein (the “**Specified Currency**”) into another currency, the parties hereto agree, to the fullest extent that they may effectively do so, that the rate of exchange used shall be that at which in accordance with normal banking procedures the Administrative Agent could purchase the Specified Currency with such other currency at the Administrative Agent’s New York office on the Business Day preceding that on which final judgment is given. The obligations of the Borrower in respect of any sum due to any Lender or the Administrative Agent hereunder shall, notwithstanding any judgment in a currency other than the Specified Currency, be discharged only to the extent that on the Business Day following receipt by such Lender or the Administrative Agent (as the case may be) of any sum adjudged to be so due in such other currency such Lender or the Administrative Agent (as the case may be) may in accordance with normal banking procedures purchase the Specified Currency with such other currency; if the amount of the Specified Currency so purchased is less than the sum originally due to such Lender or the Administrative Agent, as the case may be, in the Specified Currency, the Borrower agrees, to the fullest extent that it may effectively do so, as a separate obligation and notwithstanding any such judgment, to indemnify such Lender or the Administrative Agent, as the case may be, against such loss.

Section 10.15 *USA Patriot Act*. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)), (the “**Act**”), it is required to obtain, verify and record information that identifies the Company, which information includes the name and address of the Company and other information that will allow such Lender to identify the Company in accordance with the Act.

Section 10.16. *[Intentionally Omitted]*.

Section 10.17. *No Fiduciary Duty*. The Administrative Agent, each Lender and their respective Affiliates (collectively, solely for purposes of this paragraph, the “**Lenders**”), may have economic interests that conflict with those of the Loan Parties, their stockholders and/or their affiliates. The Company agrees that nothing in the Loan Documents or otherwise will be deemed to create an advisory, fiduciary or agency relationship or fiduciary or other implied duty between any Lender, on the one hand, and such Loan Party, its stockholders or its affiliates, on the other. The Company acknowledge and agree that (a) the transactions contemplated by the Loan Documents (including the exercise of rights and remedies hereunder and thereunder) are arm’s-length commercial transactions between the Lenders, on the one hand, and the Loan Parties, on the other, and (b) in connection therewith and with the process leading thereto, (i) no Lender has assumed an advisory or fiduciary responsibility in favor of any Loan Party, its stockholders or its affiliates with respect to the transactions contemplated hereby (or the exercise of rights or remedies with respect thereto) or the process leading thereto (irrespective of whether any Lender has advised, is currently advising or will advise any Loan Party, its stockholders or its Affiliates on other matters) or any other obligation to any Loan Party except the obligations expressly set forth in the Loan Documents and (ii) each Lender is acting solely as principal and not as the agent or fiduciary of any Loan Party, its management, stockholders, creditors or any other Person. The Company acknowledges and

agrees that it has consulted its own legal and financial advisors to the extent it deemed appropriate and that it is responsible for making its own independent judgment with respect to such transactions and the process leading thereto. The Company agrees that it will not claim that any Lender has rendered advisory services of any nature or respect, or owes a fiduciary or similar duty to the Company, in connection with such transaction or the process leading thereto.

[Signature pages follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

YUM! BRANDS, INC.,

By: _____

Name:

Title:

JPMORGAN CHASE BANK, N.A.,

By: _____

Name:

Title:

CITIBANK, N.A.,

By: _____

Name:

Title:

GOLDMAN SACHS BANK USA, individually and as
Administrative Agent,

By:

Name:

Title:

Lender Signature Page to
the YUM! BRANDS, INC., Credit Agreement
dated as of the date first written above

Name of Institution:

By:

Name:

Title:

For any Lender requiring a second signature line:

By:

Name:

Title:

SCHEDULE A
TO
CREDIT AGREEMENT
GUARANTORS

Subsidiary (Jurisdiction of Incorporation)

Kentucky Fried Chicken International Holdings, Inc. (Delaware)
KFC Corporation (Delaware)
KFC Holding Co. (Delaware)
Pizza Hut, Inc. (California)
Pizza Hut International, LLC (Delaware)
Pizza Hut of America, LLC (Delaware)
Taco Bell Corp. (California)
Taco Bell of America, LLC (Delaware)
YUM Restaurant Services Group, LLC (Delaware)

SCHEDULE B
TO
CREDIT AGREEMENT
EXCLUDED SUBSIDIARIES

None.

SCHEDULE 2.01

To Credit Agreement

COMMITMENTS

Lender	Commitment
Citibank, N.A.	\$500,000,000
Goldman Sachs Bank USA	\$500,000,000
JPMorgan Chase Bank, N.A.	\$500,000,000
Total	1,500,000,000

SCHEDULE 3.06

To Credit Agreement

DISCLOSED MATTERS

The matters described in the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 5, 2015 in "Note 12 - Guarantees, Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements (Unaudited) under "Part I - Financial Information" and under the caption "Item 1 - Legal Proceedings" under "Part II - Other Information and Signatures".

SCHEDULE 4.01

To Credit Agreement

POST-CLOSING MATTERS

1. Within 30 days after the Effective Date, the Borrower shall deliver to the Administrative Agent the organizational documents and certificates of good standing for each of Pizza Hut, Inc. and Taco Bell Corp, in each case, certified by the California Secretary of State.
-

SCHEDULE 6.01

To Credit Agreement

EXISTING INDEBTEDNESS

1. Indebtedness of Domestic Subsidiaries (primarily relating to Capital Lease Obligations), in an amount of US\$9,451,053 as of September 5, 2015.
-

SCHEDULE 6.02**To Credit Agreement****EXISTING LIENS**

1. Liens created and existing pursuant to the sale-leaseback agreements, Master Lease Agreements and related agreements entered into by certain subsidiaries of the Borrower and evidencing the following sale-leaseback transactions:

Original Transaction Date	Lessor	Lessee
April 30, 2003	GE Capital Franchise Finance Corporation, successor in interest to FFCA Acquisition Corporation	KFC Corporation (as successor to KFC U.S. Properties, Inc.)
April 30, 2003 Amended August 15, 2003	LoJon Property II LLC	KFC Corporation (as successor to KFC U.S. Properties, Inc.)

YUM! Brands, Inc.
Ratio of Earnings to Fixed Charges Years Ended 2015 - 2011
(In millions except ratio amounts)

	52 Weeks				53 Weeks
	2015	2014	2013	2012	2011
Earnings:					
Pretax income from continuing operations before cumulative effect of accounting changes	1,787	\$ 1,427	\$ 1,551	\$ 2,145	\$ 1,659
50% or less owned Affiliates' interests, net	(20)	(2)	17	(6)	(8)
Interest Expense	159	159	279	181	203
Interest portion of net rent expense	206	219	359	341	314
Earnings available for fixed charges	<u>\$ 2,132</u>	<u>\$ 1,803</u>	<u>\$ 2,206</u>	<u>\$ 2,661</u>	<u>\$ 2,168</u>
Fixed Charges:					
Interest Expense	160	\$ 161	\$ 281	\$ 182	\$ 204
Interest portion of net rent expense	206	219	359	341	314
Total fixed charges	<u>\$ 366</u>	<u>\$ 380</u>	<u>\$ 640</u>	<u>\$ 523</u>	<u>\$ 518</u>
Ratio of earnings to fixed charges	5.83	4.74	3.45	5.09	4.19

SUBSIDIARIES OF YUM! BRANDS, INC.

	State or Country of
<u>Name of Subsidiary</u>	<u>Incorporation</u>
A.C.N. 003 190 163 Pty. Limited	Australia
A.C.N. 003 190 172 Pty. Limited	Australia
A.C.N. 003 273 854 Pty. Limited	Australia
A.C.N. 054 055 917 Pty. Ltd.	Australia
A.C.N. 085 239 961 Pty. Ltd. (SA1)	Australia
A.C.N. 085 239 998 Pty. Ltd. (SA2)	Australia
ABR Insurance Company	Vermont
Ashton Fried Chicken Pty. Limited	Australia
Atto Primo (Shanghai) Co., Ltd.	China
Baotou Little Sheep Jingchen Catering Co., Ltd	China
Baotou Little Sheep Shenhua Catering Company Limited	China
Beijing KFC Co., Ltd.	China
Beijing Pizza Hut Co., Ltd.	China
Beijing Yizhuang Little Sheep Catering Co., Ltd.	China
Beijing Zhichun Road Little Sheep Catering Co., Ltd.	China
Changsha Fuwang Catering Management Co., Ltd	China
Changsha KFC Co., Ltd.	China
ChangSha Little Sheep Catering Administration Co., Ltd	China
Changsha Yongao Catering Co. Ltd.	China
China XiaoFeiYang Catering Chain Co., Ltd.	British Virgin Islands
Chongqing KFC Co., Ltd.	China
Cyprus Caramel Restaurants Limited	Cyprus
Dalian KFC Co., Ltd.	China
Dezhou Little Sheep Catering Co., Ltd.	China
Dongguan Humen Little Sheep Catering Co. Ltd.	China
Dongguan KFC Co., Ltd.	China
East Dawning (Shanghai) Co., Ltd.	China
Finger Lickin' Chicken Limited	United Kingdom
Foshan Little Sheep Catering Co., Ltd	China
Foshan Mengjie Catering Company Limited	China
Fuzhou Cangshan Little Sheep Catering Co., Ltd.	China
Fuzhou Fuxing Little Sheep Catering Company Limited	China
Fuzhou Gulou Hualin Little Sheep Catering Co., Ltd.	China
Fuzhou Gulou Little Sheep Catering Company Limited	China
Fuzhou Taijiang Little Sheep Catering Co., Ltd.	China
Gansu Hongfu Little Sheep Catering Management Company Limited	China
Gansu Hongxi Little Sheep Catering Co., Ltd.	China
Gansu Hongxiang Little Sheep Catering Co., Ltd.	China

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
GanSu Little Sheep Catering Co., Ltd	China
GCTB, LLC f/k/a GCTB, Inc.	Virginia
Gloucester Properties Pty. Ltd.	Australia
Guangzhou Little Sheep Corporation Consulting Management Co., Ltd.	China
Guangzhou Little Sheep Trading Company Limited	China
Guangzhou Xingwang Catering Co., Ltd. f/k/a Guangzhou Hajie Catering Co., Ltd	China
Guangzhou Yingfeng Yijing Catering Co., Ltd.	China
Guangzhou Yuansheng Catering Co., Ltd	China
Hangzhou KFC Co., Ltd.	China
Hangzhou YongAo Catering Co. Ltd.	China
Hohhot Little Sheep Catering Co., Ltd	China
Huansheng Advertising (Shanghai) Company Ltd.	China
Huansheng Consulting (Wuhan) Co., Ltd.	China
Huizhou Yanfu Catering Management Co., Ltd	China
Inner Mongolia Little Sheep Catering Chain Company Limited	China
Inner Mongolia Little Sheep Seasoning Company Limited	China
Inventure Restaurantes Ltda.	Brazil
Jiangmen Pengjiang Little Sheep Catering Co., Ltd	China
Jiaozuo Little Sheep Catering Co., Ltd.	China
Jinan Zhaofei Little Sheep Catering Co., Ltd	China
Jinjiang Little Sheep Catering Co., Ltd	China
Kentucky Fried Chicken (Germany) Restaurant Holdings GmbH	Germany
Kentucky Fried Chicken (Great Britain) Limited	United Kingdom
Kentucky Fried Chicken (Great Britain) Services Limited	United Kingdom
Kentucky Fried Chicken Canada Company	Canada
Kentucky Fried Chicken Global B.V.	Netherlands
Kentucky Fried Chicken International Holdings, Inc.	Delaware
Kentucky Fried Chicken Pty. Ltd.	Australia
KFC Advertising, Ltd.	United Kingdom
KFC Asia LLC	Delaware
KFC Australia Holdings Limited f/k/a Yum! Australia Holdings Limited	Cayman Islands
KFC Brasil Publicidade e Propaganda Ltda	Brazil
KFC Chamnord SAS	France
KFC Corporation	Delaware
KFC Europe S.à r.l.	Luxembourg
KFC France SAS	France
KFC Global Holdings, Inc.	Delaware
KFC Holding SAS	France
KFC Holding Co.	Delaware
KFC Holdings B.V.	Netherlands
KFC Intermediate Holdings S.à r.l.	Luxembourg
KFC International Finance Company S.à r.l.	Luxembourg

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
KFC International Holdings I S.à r.l. f/k/a Yum! Finance Holdings II Sarl f/k/a Stealth Investments Sarl	Luxembourg
KFC International Holdings II S.à r.l.	Luxembourg
KFC Italy S.r.l.	Italy
KFC Menapak LLC	Delaware
KFC MENAPAK S.à r.l.	Luxembourg
KFC Mexico B.V.	Netherlands
KFC Mexico Holdings LLC	Delaware
KFC Netherlands B.V.	Netherlands
KFC North America S.à r.l.	Luxembourg
KFC (Pty) Ltd f/k/a Yum Restaurants International (Proprietary) Limited	South Africa
KFC Pacific Holdings Ltd f/k/a THC II Limited	Malta
KFC Pacific LLC	Delaware
KFC Real Estate B.V.	Netherlands
KFC Restaurants Asia Pte., Ltd.	Singapore
KFC Restaurants Spain S.L.	Spain
KFC Russia Holdings I S.à r.l.	Luxembourg
KFC South Africa Holdings B.V.	Netherlands
KFC THC V Ltd f/k/a THC V Limited	Malta
KFC Turkey LLC	Delaware
KFC YFI Holdco S.à r.l.	Luxembourg
KFC Yum! Franchise I LP	Canada
KFC Yum! Franchise III f/k/a Yum! Franchise III	Australia
Kunming KFC Co., Ltd.	China
Lanzhou KFC Co., Ltd.	China
Little Sheep Catering Company Limited, Yongding Road, Beijing City	China
Little Sheep Group Limited	Cayman Islands
Little Sheep Hong Kong Company Limited	Hong Kong
Little Sheep Hong Kong Holdings Company Limited	Hong Kong
Little Sheep Macau - Restaurant Chain of Stores Limited	Macau
Little Sheep MongKok Company Limited	Hong Kong
Little Sheep Tsim Sha Tsui Company Limited	Hong Kong
Little Sheep Tsuen Wan Company Limited	Hong Kong
Little Sheep Yuenlang Co., Ltd	China
Multibranding Pty. Ltd.	Australia
Nanchang KFC Co., Ltd.	China
Nanchang Taoyuan Little Sheep Catering Management Co, Ltd.	China
Nanjing KFC Co., Ltd.	China
Nanjing Lucheng Little Sheep Catering Business Management Co. Ltd.	China
Nanjing Mengle Little Sheep Catering Company Limited	China
Nanjing MengYuan Little Sheep Catering Co., Ltd	China
NanJing XingMeng Little Sheep Catering Co., Ltd	China
Nanning KFC Co., Ltd.	China

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
Nanning Little Sheep Catering Chain Company Limited	China
Nanning Ruyun Catering Co., Ltd.	China
Newcastle Fried Chicken Pty. Ltd.	Australia
NingBo JiangDong ShuGuang Little Sheep Catering Co., Ltd	China
Ningbo Little Sheep Catering Company Limited	China
Norfolk Fast Foods Limited	United Kingdom
Northside Fried Chicken Pty Limited	Australia
Novo BL SAS	France
Novo Re IMMO SAS	France
PH Asia LLC	Delaware
PH Canada Company	Canada
PH Canada Holdco Company	Canada
PH Digico LLC	Delaware
PH Europe LLC f/k/a PH US LLC	Delaware
PH Europe S.à r.l.	Luxembourg
PH Global Holdings, Inc.	Delaware
PH Intermediate Holdings S.à r.l.	Luxembourg
PH International Finance Company S.à r.l.	Luxembourg
PH International Holdings I S.à r.l. f/k/a Yum! Finance Holdings III Sarl f/k/a ITRAS Holdings Sarl	Luxembourg
PH International Holdings II S.à r.l.	Luxembourg
PH Mexico B.V.	Netherlands
PH Mexico S.à r.l.	Luxembourg
PH North America S.à r.l.	Luxembourg
PH Restaurant Holdings GmbH	Germany
PH South Africa Holdings B.V.	Netherlands
PH THC V Ltd	Malta
PH YFI Holdeo S.à r.l.	Luxembourg
PH Yum! Franchise I LP	Canada
PH Yum! Franchise III	Australia
Pizza Hut (Pty) Ltd f/k/a Friedshelf 1503 Proprietary Limited	South Africa
Pizza Hut Australia Pty Limited f/k/a ACN 054 121 416 Pty. Ltd.	Australia
Pizza Hut Delivery Germany GmbH	Germany
Pizza Hut Gida ve Ticaret Anonim Sirketi	Turkey
Pizza Hut HSR Advertising Limited	United Kingdom
Pizza Hut International, LLC	Delaware
Pizza Hut Korea Limited f/k/a Pizza Hut Korea Co., Ltd.	Korea, Republic of
Pizza Hut MENAPAK S.à r.l.	Luxembourg
Pizza Hut of America, LLC f/k/a Pizza Hut of America, Inc.	Delaware
Pizza Hut Pacific Holdings Ltd.	Malta
Pizza Hut Restaurants Asia Pte., Ltd.	Singapore
Pizza Hut Turkey LLC	Delaware
Pizza Hut, Inc.	California

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
Qingdao KFC Co., Ltd.	China
Restaurant Concepts LLC	Delaware
Restaurants Development Co., Ltd.	Thailand
Restaurant Holdings Limited	United Kingdom
Shandong Little Sheep Hotel Management Company Limited	China
Shanghai Changning Little Sheep Catering Company Limited	China
Shanghai ChengShan Little Sheep Catering Co, Ltd	China
Shanghai Fengnan Little Sheep Catering Co., Ltd	China
Shanghai Gumei Little Sheep Catering Co., Ltd	China
Shanghai Huijin Little Sheep Catering Co., Ltd	China
Shanghai Jingan Little Sheep Catering Management Company Limited	China
Shanghai KFC Co., Ltd.	China
Shanghai Little Sheep Catering Company Limited	China
Shanghai Lujiabang Little Sheep Catering Company Limited	China
Shanghai Luyuan Little Sheep Catering Company Limited	China
Shanghai Pengpu Little Sheep Catering Company Limited	China
Shanghai Pizza Hut Co., Ltd.	China
Shanghai Putuo Little Sheep Catering Company Limited	China
Shanghai Qibao Little Sheep Catering Company Limited	China
Shanghai Qingpu Little Sheep Catering Management Company Limited	China
ShangHai WangYuan Little Sheep Catering Co., Ltd	China
Shanghai Yangpu Little Sheep Catering Company Limited	China
Shanghai Zhenhua Little Sheep Catering Co., Ltd	China
Shantou KFC Co., Ltd.	China
ShenYang MengXing Little Sheep Catering Co., Ltd	China
Shenyang Minsheng Little Sheep Catering Company Limited	China
Shenyang Wangda Little Sheep Catering Co., Ltd.	China
Shenyang Xiangjiang Little Sheep Catering Company Limited	China
ShenYang YongAo Little Sheep Catering Co., Ltd	China
Shenzhen Little Sheep Catering Chain Company Limited	China
Shenzhen Little Sheep Enterprise Company Limited	China
Shenzhen Tianjiao Catering Co., Ltd.	China
Shenzhen Xintu Catering Co., Ltd.	China
Shenzheng Huacai Catering Co., Ltd.	China
ShiShi Little Sheep Catering Co., Ltd	China
Southern Fast Foods Limited f/k/a Milne Fast Foods Limited	United Kingdom
Suffolk Fast Foods Limited	United Kingdom
Sunrise Investments, Co., Ltd.	British Virgin Islands
Suzhou KFC Co., Ltd.	China
Taco Bell Corp	California
Taco Bell of America, LLC f/k/a Taco Bell of America, Inc.	Delaware
Taco Bell Restaurants Asia Pte., Ltd.	Singapore

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
Taiyuan KFC Co., Ltd.	China
Tangshan Little Sheep Catering Co., Ltd.	China
TB Asia LLC	Delaware
TB Canada Company	Canada
TB Global Holdings, Inc.	Delaware
TB Intermediate Holdings S.à r.l.	Luxembourg
TB International Finance Company S.à r.l.	Luxembourg
TB International Holdings I S.à r.l.	Luxembourg
TB International Holdings II S.à r.l.	Luxembourg
TB North America S.à r.l.	Luxembourg
TB YFI Holdco S.à r.l.	Luxembourg
TB Yum! Franchise I LP	Canada
THC I Limited	Malta
THC III Limited	Malta
Tianjin KFC Co., Ltd.	China
Tricon Global Restaurants, Inc.	North Carolina
Turkent Gida Ve Turizm Sanayi Ve Ticaret A.S.	Turkey
U.S. Taco Co., LLC	New York
U.S. Taco Holding Co., LLC	New York
Valleythorn Limited	United Kingdom
Versailles Resto S.A.S.	France
Wandle Investments Ltd.	Hong Kong
Wuhan Mengwang Catering Co., Ltd	China
WuHan MengXiang Little Sheep Catering Co., Ltd	China
WuHan YongAo Little Sheep Catering Co., Ltd	China
Wuxi KFC Co., Ltd.	China
Xiamen KFC Co., Ltd.	China
Xiamen Lianqian Little Sheep Catering Co., Ltd	China
Xiamen Shixin Little Sheep Catering Co., Ltd.	China
Xian Hepingmen Little Sheep Catering Co., Ltd	China
Xian Hezong Little Sheep Catering Co., Ltd.	China
XiNing Little Sheep Catering Co., Ltd	China
Xinjiang KFC Co., Ltd.	China
Xinxiang Hongqi Heping Little Sheep Catering Co., Ltd	China
YA Company One Pty. Ltd.	Australia
YRH Holdco Limited	United Kingdom
YCH S.a.r.l.	Luxembourg
YEB Holdings LLC	Delaware
YEB II LLC	Delaware
YEB III LLC	Delaware
YIF US LLC	Delaware
Yinchuan Little Sheep Catering Company Limited	China

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
YRI Europe S.a.r.l.	Luxembourg
YRI Global Liquidity S.a.r.l. f/k/a Bolden Holding Sarl	Luxembourg
YRI Hong Kong II Limited	Hong Kong
YRI Hong Kong IV Limited	Hong Kong
YRI Investment Company S.a.r.l. f/k/a Brownstone Holdings Sarl	Luxembourg
Yum Restaurant Services Group, LLC f/k/a Yum Restaurant Services Group, Inc.	Delaware
Yum Restaurants Espana, S.L.	Spain
Yum! Asia Franchise Pte Ltd	Singapore
Yum! Asia Holdings Pte. Ltd.	Singapore
Yum! Australia Equipment Pty. Ltd.	Australia
Yum! Brands Mexico Holdings II LLC	Delaware
YUM! Finance Holdings I Sarl f/k/a Sunhill Holdings Sarl	Luxembourg
Yum! Food (Shanghai) Co., Ltd.	China
Yum! Franchise China IV S.à r.l.	Luxembourg
Yum! Franchise China Trust I S.à r.l.	Luxembourg
Yum! Franchise China Trust III S.à r.l.	Luxembourg
Yum! Franchise de Mexico, S.a.r.l.	Luxembourg
Yum! Franchise II LLP	United Kingdom
Yum! Global Investments I B.V.	Netherlands
Yum! Global Investments II B.V.	Netherlands
Yum! Global Investments III, LLC	Delaware
Yum! International Finance Company S.a.r.l.	Luxembourg
Yum! International Participations LLC f/k/a Yum! International Participations S.a.r.l	Delaware
Yum! KFC Australia Holdings I LLC f/k/a Yum! Australia Holdings I LLC	Delaware
Yum! KFC Australia Holdings II LLC f/k/a Yum! Australia Holdings II LLC	Delaware
Yum! III (UK) Limited	United Kingdom
Yum! Luxembourg Investments LLC f/k/a Yum! Luxembourg Investments S.a.r.l.	Delaware
Yum! Myanmar Holdings Pte. Ltd.	Singapore
Yum! PH Australia Holdings I LLC	Delaware
Yum! PH Australia Holdings II LLC	Delaware
Yum! Restaurant Holdings	United Kingdom
Yum! Restaurantes do Brasil Ltda.	Brazil
Yum! Restaurants (Chengdu) Co., Ltd.	China
Yum! Restaurants (China) Investment Co., Ltd.	China
Yum! Restaurants (Fuzhou) Co., Ltd.	China
Yum! Restaurants (Guangdong) Co., Ltd.	China
Yum! Restaurants (Hong Kong) Ltd.	Hong Kong
Yum! Restaurants (India) Private Limited	India
Yum! Restaurants (NZ) Ltd.	New Zealand
Yum! Restaurants (Shenyang) Co., Ltd.	China
Yum! Restaurants (Shenzhen) Co., Ltd.	China
Yum! Restaurants (Wuhan) Co., Ltd.	China

<u>Name of Subsidiary</u>	<u>State or Country of Incorporation</u>
Yum! Restaurants (Xian) Co., Ltd.	China
Yum! Restaurants Asia Pte. Ltd.	Singapore
Yum! Restaurants Australia Pty Limited	Australia
Yum! Restaurants China Holdings Limited	Hong Kong
Yum! Restaurants Consulting (Shanghai) Co., Ltd.	China
Yum! Restaurants Europe Limited	United Kingdom
Yum! Restaurants Germany GmbH	Germany
Yum! Restaurants International (MENAPAK) Co. S.P.C.	Bahrain
Yum! Restaurants International (Thailand) Co., Ltd.	Thailand
Yum! Restaurants International Holdings, Ltd.	Delaware
Yum! Restaurants International Limited	United Kingdom
Yum! Restaurants International Ltd. & Co. Kommanditgesellschaft	Germany
Yum! Restaurants International Management LLC f/k/a Yum! Restaurants International Management S.a.r.l.	Delaware
Yum! Restaurants International Russia and CIS LLC	Russian Federation
Yum! Restaurants International Russia LLC	Russia Federation
Yum! Restaurants International S.a.r.l.	Luxembourg
Yum! Restaurants International, Inc.	Delaware
Yum! Restaurants International, S de RL de CV	Mexico
Yum! Restaurants KFC Australia Services Pty Ltd f/k/a Yum! Restaurants Australia Services Pty Ltd	Australia
Yum! Restaurants Limited	United Kingdom
Yum! Restaurants Marketing Private Limited	India
Yum! Restaurants New Zealand Services Pty. Ltd	Australia
Yumsop Pty Limited	Australia
Zhengzhou Hezong Little Sheep Catering Co., Ltd.	China
Zhengzhou Hongzhuan Little Sheep Catering Co., Ltd	China
Zhengzhou KFC Co., Ltd.	China
Zhongshan Little Sheep Catering Co., Ltd	China

Consent of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

YUM! Brands, Inc.:

We consent to the incorporation by reference in the registration statements listed below of YUM! Brands, Inc. and Subsidiaries (YUM) of our report dated February 16, 2016, with respect to the consolidated balance sheets of YUM as of December 26, 2015 and December 27, 2014, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity for each of the fiscal years in the three-year period ended December 26, 2015, and the effectiveness of internal control over financial reporting as of December 26, 2015, which report appears in the December 26, 2015 annual report on Form 10-K of YUM.

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

/s/ KPMG LLP
Louisville, Kentucky
February 16, 2016

CERTIFICATION

I, Greg Creed, certify that:

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

February 16, 2016

/s/ Greg Creed

Chief Executive Officer

CERTIFICATION

I, Patrick J. Grismer, certify that:

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

Date: February 16, 2016

/s/ Patrick J. Grismer

Chief Financial Officer

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

In connection with the Annual Report of YUM! Brands, Inc. (the “Company”) on Form 10-K for the year ended December 26, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Annual Report”), I, Greg Creed, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 16, 2016

/s/ Greg Creed

Chief Executive Officer

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

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

In connection with the Annual Report of YUM! Brands, Inc. (the “Company”) on Form 10-K for the year ended December 26, 2015, as filed with the Securities and Exchange Commission on the date hereof (the “Annual Report”), I, Patrick J. Grismer, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

Date: February 16, 2016

/s/ Patrick J. Grismer

Chief Financial Officer

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

