MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise noted, the section references to (i) "us", "our", "we", "the Company" and "YUM" refer to YUM Brands, Inc. and its consolidated subsidiaries, (ii) "the Parent" refers to YUM Brands, Inc., on a stand-alone basis, (iii) "the Issuers" refers to KFC Holding Co., Pizza Hut Holdings, LLC and Taco Bell of America, LLC, which are direct wholly-owned subsidiaries of the Parent and co-issuers of $1.05 billion of 5.00% Senior Notes due 2024, $1.05 billion of 5.25% Senior Notes due 2026 , and $750 million of 4.75% Senior Notes due 2027 (collectively, the "Subsidiary Senior Unsecured Notes") and co-borrowers under the Credit Agreement, as defined in our annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC (the "2017 10-K") on February 22, 2018; (iii) "the Specified Guarantors" refers to collectively Yum Restaurant Services Group, LLC, Restaurant Concepts LLC and Taco Bell Corp. (including their subsidiaries except for Taco Bell Funding, LLC and its special-purpose, wholly owned subsidiaries), which are directly wholly-owned subsidiaries of the Parent and guarantors of the Notes and under the Credit Agreement; (iv) "the Companies" refers to collectively the Issuers and the Specified Guarantors, (v) "the Taco Bell Securitization Entities" refers to collectively Taco Bell Funding, LLC, a Delaware special purpose limited liability company and wholly owned subsidiary of Taco Bell Corp, and its special-purpose, wholly owned subsidiaries, and (vi) the "Restricted Group" refers collectively to the Companies and their subsidiaries, other than the Taco Bell Securitization Entities which will not be subject to the covenants under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement, and also excludes the Parent and ABR Insurance Company which will not be subject to such covenants as well.

This discussion should be read in conjunction with the Consolidated Financial Statements ("Financial Statement") and the section "Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in our annual report on Form 10-K for the year ended December 31, 2017 filed with the SEC (the "2017 10-K") on February 22, 2018, and contains additional information related to the pro forma results of operations and financial condition of the Restricted Group. None of the financial information in this discussion has been audited or reviewed by our auditors. This discussion has been prepared and posted to our website in accordance with our reporting obligations under the Indenture governing the Subsidiary Senior Unsecured Notes and the Credit Agreement. You should read the following Restricted Group's pro forma results of operation and financial condition together with the information included in our 2017 10-K, especially the information under the heading "Risk Factors".

Pro Forma Results of Operations for the Restricted Group

The following table sets forth certain unaudited financial and operating data of the Restricted Group as of the dates and for the periods indicated after giving pro forma effect to the exclusion of the Taco Bell Securitization Entities from the Restricted Group as if the Securitization Transaction had occurred on the first day of fiscal year 2015.

				% B/(W)			
				2017		2016	
	2017	2016	2015	Reported	Ex FX	Reported	Ex FX
Company sales	$ 3,572	$ 4,189	$ 4,336	(15)	(15)	(3)	-
Franchise and license fees and income	1,816	1,710	1,656	6	6	3	6
Total revenues	$ 5,388	$ 5,899	$ 5,992	(9)	(9)	(2)	2
G&A expenses	$ 879	$ 1,015	$ 946	13	14	(7)	(9)
Operating Profit	$ 2,317	$ 1,255	$ 1,035	85	82	21	26

For fiscal years 2017, 2016 and 2015 rent expense for the Restricted Group was $214 million, $234 million and $254 million, respectively.

				% Increase (Decrease)	
	2017	2016	2015	2017	2016
Unit Count					
Franchise & License	37,804	35,435	34,093	7	4
Company-owned	1,481	2,841	3,163	(48)	(10)
	39,285	38,276	37,256	3	3

	2017	2016
System Sales Growth (decline), reported	3%	2 %
System Sales Growth, excluding FX	3%	5 %
System Sales Growth, excluding FX and 53rd week	4%	4 %
Same-Store Sales Growth %	2%	1 %

The Securitization Transaction and the exclusion of the Taco Bell Securitization Entities from the Restricted Group had the following pro forma impact on the financial and operating data of the Restricted Group and the Taco Bell Division of the Restricted Group in comparison to the corresponding data of YUM and the Taco Bell Division:

Units

- A total of 5,799, 5,399 and 5,227 U.S. Taco Bell franchise units were excluded from the Restricted Group for the fiscal years 2017, 2016 and 2015, respectively, as the Restricted Group will no longer receive franchise fees from these restaurants.

Franchise and License Fees and Income

- Franchise and license fees and income decreased $490 million, $457 million and $426 million for fiscal years 2017, 2016 and 2015, respectively, due to the exclusion of the franchise fees paid by all U.S. Taco Bell franchise restaurants as a result of the Securitization Transaction.

Company Restaurant Expenses

- Company restaurant expenses increased $74 million, $84 million and $85 million for fiscal years 2017, 2016 and 2015, respectively, due to the payment of royalty fees of 5.5% of annual sales to the Taco Bell Securitization Entities by all U.S. Company-owned Taco Bell restaurants (which are part of the Restricted Group);

G&A Expenses

- G&A expenses decreased $120 million, $114 million and $112 million for fiscal years 2017, 2016 and 2015 due to the management fees paid by the Taco Bell Securitization Entities to Taco Bell Corp. as manager of the Taco Bell Securitization Entities. These fees are recorded as a reduction of G&A expenses and, on an annual basis, are equal to the sum of a base fee of $35 million plus 15.1% of total securitization cash revenue paid to the Taco Bell Securitization Entities by company stores and franchisees for the year.

Consequently, the overall operating margins of the Restricted Group were negatively impacted due to the loss of franchise and license fees from U.S. franchised restaurants and our obligation to pay franchise fees on U.S. Company-owned restaurants to the Taco Bell Securitization Entities, while maintaining the same level of expenses (other than the reimbursement of a portion of G&A expenses).

System sales were negatively impacted by the refranchising of U.S. Company-owned Taco Bell restaurants. These refranchised units were no longer included in the Restricted Group upon completion of the refranchising transaction.

Restricted Group - Taco Bell Division

				% B/(W) 2017			% B/(W) 2016		
	2017	2016	2015	Reported	Ex FX	Ex FX and 53rd Week in 2016	Reported	Ex FX	Ex FX and 53rd Week in 2016
Company sales	$ 1,359	$ 1,540	$ 1,544	(12)	(12)	(10)	—	—	(2)
Franchise and license fees and income	31	28	21	14	14	14	37	38	38
Total revenues	$ 1,390	$ 1,568	$ 1,565	(11)	(11)	(10)	—	—	(1)
Restaurant profit	$ 231	$ 258	$ 259	(11)	(11)	(9)	—	—	(3)
Restaurant margin %	16.9%	16.8%	16.7%	0.1 ppts.	0.1 ppts.	0.3 ppts.	0.1 ppts.	0.1 ppts.	(0.1) ppts.
G&A expenses	$ 68	$ 97	$ 109	31	31	31	10	10	10
Operating Profit	$ 175	$ 168	$ 147	4	4	8	14	14	9

	2017	2016
System Sales Growth (decline), reported	(7)%	1 %
System Sales Growth, excluding FX	(7)%	2 %
System Sales Growth, excluding FX and 53rd week	(6)%	_ %
Same-Store Sales Growth %	2%	1 %

				% Increase (Decrease)	
	2017	2016	2015	2017	2016
Unit Count					
Franchise & License	397	328	286	21	15
Company-owned	653	885	900	(26)	(2)
	1,050	1,213	1,186	(13)	2

Company Sales. In 2017, the decrease in Company sales, excluding the impacts of foreign currency translation and 53^{rd} week in 2016, was driven primarily by refranchising, partially offset by net new unit growth and company same-store sales growth of 3%.

In 2016, the decrease in Company sales, excluding the impacts of foreign currency translation and 53^{rd} week, was driven primarily by refranchising, partially offst by net new unit growth and company same-store sales growth of 1%.

Restaurant Profit. In 2017, the decrease in Restaurant profit, excluding the impacts of foreign currency translation and 53^{rd} week in 2016, was driven primarily by refranchising, higher labor costs, commodity cost inflation and increased cost of sales associated with value offerings, partially offset by company same-store sales growth of 3%.

In 2016, the decrease in Restaurant profit, excluding the impacts of foreign currency translation and 53^{rd} week, was driven primarily by higher labor costs, refranchising and store-level investments, partially offset by company same-store sales growth of 1% and favorable commodity costs.

G&A. In 2017, the decrease in G&A, excluding the impacts of foreign currency translation and 53^{rd} week in 2016, was driven by the positive impact of YUM's Strategic Transformation Initiatives, including reductions in G&A directly attributable to refranchising, and lower litigation costs.

In 2016, the decrease in G&A, excluding the impacts of foreign currency translation and 53^{rd} week, was driven by lapping the Live Mas Scholarship contribution and lower litigation costs.

Operating Profit. In 2017, the increase in Operating Profit, excluding the impacts of foreign currency translation and 53^{rd} week in 2016, was driven by same-store sales growth, lower G&A expenses and net new unit growth, partially offset by refranchising and higher restaurant operating costs.

In 2016, the increase in Operating Profit, excluding the impacts of foreign currency translation and 53^{rd} week, was driven by same-store sales growth, lower G&A and net new unit growth, partially offset by higher restaurant operating costs and refranchising.

Additional Information Related to Restricted Group:

Separation of Yum China

On October 31, 2016 (the "Distribution Date"), we completed the spin-off of our China business (the "Separation") into an independent, publicly-traded company under the name of YUM China Holdings, Inc. ("Yum China"). Concurrent with the Separation, a subsidiary of the Company entered into a Master License Agreement with a subsidiary of Yum China for the exclusive right to use and sublicense the use of intellectual property owned by YUM and its affiliates for the development and operation of KFC, Pizza Hut and Taco Bell restaurants in China. Prior to the Separation, our operations in mainland China were reported in our former China Division segment results. As a result of the Separation, the results of operations and cash flows of the separated business are presented as discontinued operations in our Consolidated Statements of Income and Consolidated Statements of Cash Flows for the periods presented prior to the Separation.

The financial and operational data presented in our 2017 10-K gives pro forma effect to the 3% license fee paid by Yum China to the Restricted Group pursuant to the master license. As a result of the Separation, we have restated the results of our KFC and Pizza Hut Divisions for historical periods prior to the Separation to reflect the intercompany royalties that were previously eliminated as intercompany transactions and related taxes that were previously included in our former China Division results. We have also restated the results of our KFC and Pizza Hut Divisions to include the royalties paid by third-party franchisees previously included in China Division results that will be continued pursuant to the master license agreement following the Separation. As a result, no pro-forma treatment is required since the historical results of operations for our KFC and Pizza Hut Divisions present the impact of the Separation.

Change in Reporting Calendar and Adoption of New Pension Standard

Effective with the beginning of fiscal 2017 YUM changed its fiscal year from a year ending on the last Saturday of December to a year beginning on January 1 and ending December 31 of each year. Because the new 2017 fiscal year commenced with the end of our 2016 fiscal year ended December 31, 2016, there was no transition period in connection with the change in the fiscal year.

In connection with the new fiscal year, the Company has moved from a 52-week periodic fiscal calendar with three 12-week interim quarters and a 16-week fourth quarter that requires adding a 53rd week every five or six years, to a monthly reporting calendar with each quarter comprised of three months. Our U.S. subsidiaries will continue to report fiscal calendars ending in late December that include three 12-week interim quarters and a 16-week fourth quarter in fiscal years with 52 weeks and a 17-week fourth quarter in fiscal years with 53 weeks. Our next fiscal year with 53 weeks will occur in 2019.

The change in the Company's fiscal year was made primarily to accommodate the removal of reporting lags from our international subsidiary fiscal calendars, which will significantly improve the alignment of our global reporting calendars. As a result of removing these reporting lags each international subsidiary will now operate either on a monthly calendar consistent with the Company's new calendar or on a periodic calendar consistent with the calendars of our U.S. subsidiaries.

Additionally, these restated results reflect the impact of Accounting Standards Update No. 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Post retirement Benefit Cost*, which we adopted in the first quarter of 2017 on a retrospective basis.

Refer to the 2017 10-K for further discussion.