

**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 31, 2005

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:

Title of Each Class

Name of Each Exchange on Which Registered

Common Stock, no par value

New York Stock Exchange

Rights to purchase Series A
Participating Preferred Stock, no par
value of the Registrant

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 the 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 of 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 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, or non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12-b of the Exchange Act (Check one): Large accelerated filer: Accelerated filer: Non-accelerated filer:

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 11, 2005 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 \$15,137,243,884. 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 24, 2006 was 275,830,856 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 19, 2005 are incorporated by reference into Part III.

PART I

Item 1. Business .

YUM! Brands, Inc. (referred to herein as “YUM” 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.

YUM, the registrant, 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.

This Form 10-K should be read in conjunction with the Cautionary Statements on page 52.

(a) General Development of Business

In January 1997, PepsiCo announced its decision to spin-off its restaurant businesses to shareholders as an independent public company (the “Spin-off”). Effective October 6, 1997, PepsiCo disposed of its restaurant businesses by distributing all of the outstanding shares of common stock of YUM to its shareholders.

On May 7, 2002, YUM completed the acquisition of Yorkshire Global Restaurants, Inc. (“YGR”), the parent company and operator of Long John Silver’s (“LJS”) and A&W All-American Food Restaurants (“A&W”). Additionally, on May 16, 2002, following receipt of shareholder approval, the Company changed its name from TRICON Global Restaurants, Inc. to YUM! Brands, Inc.

Throughout this Form 10-K, the terms “restaurants,” “stores” and “units” are used interchangeably.

(b) Financial Information about Operating Segments

YUM consists of six operating segments: KFC, Pizza Hut, Taco Bell, LJS/A&W, YUM Restaurants International (“YRI” or “International Division”) and YUM Restaurants China (“China Division”). For financial reporting purposes, management considers the four U.S. operating segments to be similar and, therefore, has aggregated them into a single reportable operating segment. In 2005, we began reporting information for our international business in two separate operating segments as a result of changes to our management reporting structure. The China Division includes mainland China (“China”), Thailand and KFC Taiwan, and the International Division includes the remainder of our international operations.

Operating segment information for the years ended December 31, 2005, December 25, 2004 and December 27, 2003 for the Company is included in Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in Part II, Item 7, pages 25 through 52 and in the related Consolidated Financial Statements and footnotes in Part II, Item 8, pages 53 through 96.

(c) Narrative Description of Business

General

YUM is the world’s largest quick service restaurant (“QSR”) company based on number of system units, with over 34,000 units in more than 100 countries and territories. Through the five concepts of KFC, Pizza Hut, Taco Bell, LJS, and A&W (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. In all five of its Concepts, the Company either operates units or they are operated by independent franchisees or licensees under the terms of franchise or license agreements. Franchisees can range in size from individuals owning just one unit to large publicly traded companies. In

addition, the Company owns non-controlling interests in Unconsolidated Affiliates who operate similar to franchisees. As of year-end 2005, approximately 22 percent of YUM's worldwide units were operated by the Company, approximately 66 percent by franchisees, approximately 7 percent by licensees and approximately 5 percent by Unconsolidated Affiliates.

At year-end 2005, we had over 20,000 system units, including over 3,000 multi-branded units, in the U.S. which generated revenues of \$5.9 billion and operating profit of \$760 million during 2005. As of year-end 2005, approximately 23 percent of U.S. units were operated by the Company, approximately 66 percent by franchisees and approximately 11 percent by licensees.

The International Division, based in Dallas, Texas, comprises over 11,000 restaurants, primarily KFCs and Pizza Huts, operating in over 100 countries outside the U.S. In 2005, YRI achieved revenues of \$2.1 billion and operating profit of \$372 million. As of year-end 2005, approximately 12 percent of International Division units were operated by the Company, approximately 77 percent by franchisees, approximately 2 percent by licensees and approximately 9 percent by Unconsolidated Affiliates. In 2005, YRI opened more than 700 new restaurants for the sixth straight year.

The China Division, based in Shanghai, China, has been reported separately since the beginning of 2005. The China Division has more than 2,200 system restaurants, predominately KFCs. In 2005, the China Division achieved revenues of nearly \$1.3 billion and operating profit of \$211 million. As of year-end 2005, approximately 67 percent of China Division units were operated by the Company, approximately 9 percent by franchisees and approximately 24 percent by Unconsolidated Affiliates.

Restaurant Concepts

In each Concept, consumers can dine in and/or carry out food. In addition, Taco Bell, KFC, LJS and A&W offer a drive-thru option in many stores. Pizza Hut offers a drive-thru option on a much more limited basis. Pizza Hut and, on a much more limited basis, KFC offer delivery service.

Each Concept has proprietary menu items and emphasizes the preparation of food with high quality ingredients as well as unique recipes and special seasonings to provide appealing, tasty and attractive food at competitive prices.

The franchise program of the Company is designed to assure consistency and quality, and the Company is selective in granting franchises. Under the standard franchise agreement, franchisees supply capital – initially by paying a franchise fee to YUM, purchasing or leasing the land, building and equipment and purchasing signs, seating, inventories and supplies and, over the longer term, by reinvesting in the business. Franchisees then contribute to the Company's revenues 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 all aspects of the business, including new products, equipment and management techniques.

The Company is actively pursuing the strategy of multibranding, primarily in the U.S., where two or more of its Concepts are operated in a single unit. By combining two or more restaurant concepts, particularly those that have complementary daypart strengths in one location, the Company believes it can generate higher sales volumes from such units, significantly improve returns on per unit investment, and enhance its ability to penetrate a greater number of trade areas throughout the U.S. Through market planning initiatives encompassing all of its Concepts, the Company has established, and annually updates, multi-year development plans by trade area to optimize franchise and company penetration of its Concepts and to improve returns on its existing asset base. The development of multibranded units may be limited, in some instances, by prior development and/or territory rights granted to franchisees.

At year-end 2005, there were 3,289 multibranded units in the worldwide system. These units were comprised of 2,548 units offering food products from two of the Concepts (a “2n1”), 48 units offering food products from three of the Concepts (a “3n1”), and 669 units offering food products from Pizza Hut and WingStreet, a flavored chicken wings concept. YUM has developed 24 units offering food products from KFC and Wing Works, another flavored chicken wings concept developed by YUM.

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 is based in Louisville, Kentucky.
- As of year-end 2005, KFC was the leader in the U.S. chicken QSR segment among companies featuring chicken-on-the-bone as their primary product offering, with a 47 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment which is nearly four times that of its closest national competitor.
- KFC operates in 96 countries and territories throughout the world. As of year-end 2005, KFC had 5,443 units in the U.S., and 8,288 units outside the U.S. Approximately 21 percent of the U.S. units and 24 percent of the non-U.S. units are operated by the Company.
- Traditional KFC restaurants in the U.S. offer fried chicken-on-the-bone products, primarily marketed under the names Original Recipe and Extra Tasty Crispy. Other principal entree items include chicken sandwiches (including the Snacker and the Twister), Colonel’s Crispy Strips, Wings, Popcorn Chicken and, seasonally, Chunky Chicken Pot Pies. KFC restaurants in the U.S. also offer a variety of side items, such as biscuits, mashed potatoes and gravy, coleslaw, corn, and potato wedges, as well as desserts. While many of these products are offered outside of the U.S., international menus are more focused on chicken sandwiches and Colonel’s Crispy Strips, and include side items that are 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 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 is based in Dallas, Texas.
- As of year-end 2005, Pizza Hut was the leader in the U.S. pizza QSR segment, with a 15 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.
- Pizza Hut operates in 91 countries and territories throughout the world. As of year-end 2005, Pizza Hut had 7,566 units in the U.S., and 5,006 units outside of the U.S. Approximately 22 percent of the U.S. units and 18 percent of the non-U.S. units are operated by the Company.
- Pizza Hut features a variety of pizzas, which may include Pan Pizza, Thin ‘n Crispy, Hand Tossed, Sicilian, Stuffed Crust, Twisted Crust, The Big New Yorker, The Insider, The Chicago Dish and 4forALL. Each of these pizzas is offered with a variety of different toppings. In some restaurants, Pizza Hut also offers breadsticks, pasta, salads and sandwiches. Menu items outside of the U.S. are generally similar to those offered in the U.S., though pizza toppings are often suited to local preferences and tastes.

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 is based in Irvine, California.
- As of year-end 2005, Taco Bell was the leader in the U.S. Mexican QSR segment, with a 60 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.
- Taco Bell operates in 14 countries and territories throughout the world. As of year-end 2005, there were 5,845 Taco Bell units in the U.S., and 245 units outside of the U.S. Approximately 21 percent of the U.S. units and 1 percent of the non-U.S. units are operated by the Company.
- Taco Bell specializes in Mexican-style food products, including various types of tacos, burritos, gorditas, chalupas, quesadillas, salads, nachos and other related items. Additionally, proprietary entrée items include Grilled Stuft Burritos and Border Bowls. Taco Bell units feature a distinctive bell logo on their signage.

LJS

- The first LJS restaurant opened in 1969 and the first LJS franchise unit opened later the same year. LJS is based in Louisville, Kentucky.
- As of year-end 2005, LJS was the leader in the U.S. seafood QSR segment, with a 33 percent market share (Source: The NPD Group, Inc.; NPD Foodworld; CREST) in that segment.
- LJS operates in 6 countries and territories throughout the world. As of year-end 2005, there were 1,169 LJS units in the U.S., and 34 units outside the U.S. Approximately 52 percent of the U.S. units are operated by the Company. All non-U.S. units are operated by franchisees or licensees.
- LJS features a variety of seafood items, including meals featuring batter-dipped fish, chicken, shrimp, hushpuppies and portable snack items. LJS units typically feature a distinctive seaside/nautical theme.

A&W

- A&W was founded in Lodi, California by Roy Allen in 1919 and the first A&W franchise unit opened in 1925. A&W is based in Louisville, Kentucky.
- A&W operates in 11 countries and territories throughout the world. As of year-end 2005, there were 449 A&W units in the U.S., and 229 units outside the U.S. Approximately 3 percent of the U.S. units are operated by the Company. All non-U.S. units are operated by franchisees or licensees.
- A&W serves A&W draft Root Beer and a signature A&W Root Beer float, as well as hot dogs and all-American pure-beef hamburgers.

Restaurant Operations

Through its Concepts, YUM develops, operates, franchises and licenses a worldwide system of both traditional and non-traditional QSR restaurants. 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 and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

The Company's restaurant management structure varies by concept and unit size. Generally, each Company 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. In the U.S., the average restaurant has 25 to 30 employees, while internationally this figure can be significantly higher depending on the location and sales volume of the restaurant. Most of the employees work on a part-time basis. We issue detailed manuals, which may then be customized to meet local regulations and customs, covering all aspects of restaurant operations, including food handling and product preparation procedures, safety and quality issues, 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 core 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 set of standards. RGMs' efforts, including CHAMPS performance measures, are monitored by Area Coaches. Area Coaches typically work with approximately six to twelve restaurants. The Company's restaurants are visited from time to time by various senior operators who help ensure adherence to system standards and mentor restaurant team members.

RGMs attend and complete their respective Concepts' required training programs. These programs consist of initial training, as well as additional continuing development and training programs that may be offered or required from time to time. Initial manager training programs generally last at least six weeks and emphasize leadership, business management, supervisory skills (including training, coaching, and recruiting), product preparation and production, safety, quality control, customer service, labor management, and equipment maintenance.

Supply and Distribution

The Company is a substantial purchaser of a number of food and paper products, equipment and other restaurant supplies. The principal items purchased include chicken products, cheese, beef and pork products, paper and packaging materials, flour, produce, certain beverages, seafood, cooking oils, pinto beans, seasonings and tomato-based products.

The Company, along with the representatives of the Company's KFC, Pizza Hut, Taco Bell, LJS and A&W franchisee groups, are members in the Unified FoodService Purchasing Co-op, LLC (the "Unified Co-op") which was created for the purpose of purchasing certain restaurant products and equipment in the U.S. The core mission of the Unified Co-op is to provide the lowest possible sustainable store-delivered prices for restaurant products and equipment. This arrangement combines the purchasing power of the Company and franchisee restaurants in the U.S. which the Company believes will further leverage the system's scale to drive cost savings and effectiveness in the purchasing function. The Company also believes that the Unified Co-op has resulted, and should continue to result, in closer alignment of interests and a stronger relationship with its franchisee community.

The Company is committed to conducting its business in an ethical, legal and socially responsible manner. To encourage compliance with all legal requirements and ethical business practices, YUM has a supplier code of conduct for all U.S. suppliers to our business. To ensure the wholesomeness of food products, suppliers are required to meet or exceed strict quality control standards. Long-term contracts and long-term vendor relationships are used to ensure availability of products. 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 are subject to fluctuation. When prices increase, the Company may be able to pass on such increases to its customers, although there is no assurance this can be done in the future.

Most food products, paper and packaging supplies, and equipment used in the operation of the Company's restaurants are distributed to individual restaurant units by third party distribution companies. Since November 30, 2000, McLane Company, Inc. ("McLane") has been the exclusive distributor for Company-operated KFCs, Pizza Huts and Taco Bells in the U.S. and for a substantial number of franchisee and licensee stores. McLane became the distributor when it assumed all supply and distribution responsibilities under an existing agreement between AmeriServe Food Distribution, Inc. ("AmeriServe") and the Company (the "AmeriServe Agreement"). McLane acquired AmeriServe after AmeriServe emerged from Chapter 11 bankruptcy on November 28, 2000. A discussion of the impact of the AmeriServe bankruptcy reorganization process on the Company is contained in Note 4 to the Consolidated Financial Statements. The terms of the AmeriServe agreement with the Company extend through October 31, 2010 and generally prohibit KFC, Pizza Hut and Taco Bell restaurants from using alternative distributors in the U.S. The Company stores within the LJS system are covered under a separate agreement with McLane.

The International and China Divisions and their franchisees use decentralized sourcing and distribution systems involving many different global, regional, and local suppliers and distributors. In certain countries, the International Division owns all or a portion of the distribution system. The China Division also owns all of the distribution system in mainland China, while the distribution systems for KFC Taiwan and Thailand are dependent on third-parties.

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®, Taco Bell® and Long John Silver's® 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 Company also licenses certain A&W trademarks and service marks (the "A&W Marks"), which are owned by A&W Concentrate Company (formerly A&W Brands, Inc.). A&W Concentrate Company, which is not affiliated with the Company, has granted the Company an exclusive, worldwide (excluding Canada), perpetual, royalty-free license (with the right to sublicense) to use the A&W Marks for restaurant services.

The use of these marks by franchisees and licensees has been authorized in KFC, Pizza Hut, Taco Bell, LJS and A&W 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, pages 25 through 52 and the Consolidated Statements of Cash Flows in Part II, Item 8, page 57.

Customers

The Company's business is not dependent upon a single customer or small group of customers.

Seasonal Operations

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

Backlog Orders

Company restaurants have no backlog orders.

Government Contracts

No material portion of the Company's business is subject to renegotiation of profits or termination of contracts or subcontracts at the election of the U.S. government.

Competition

The retail food industry, in which the Company competes, 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 compete 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. In 2005, the restaurant business in the U.S. consisted of about 900,000 restaurants representing approximately \$476 billion in annual sales. The Company's Concepts accounted for about 2% of those restaurants and about 4% of those sales. There is currently no way to reasonably estimate the size of the competitive market outside the U.S.

Research and Development ("R&D")

The Company operates R&D facilities in Louisville, Kentucky; Dallas, Texas; and Irvine, California and in several locations outside the U.S. The Company expensed \$33 million in 2005 and \$26 million in both 2004 and 2003, for R&D activities. From time to time, independent suppliers also conduct research and development activities for the benefit of the YUM system.

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 2005, there were no material capital expenditures for environmental control facilities and no such material expenditures are anticipated.

Government Regulation

U.S. The Company is subject to various federal, state and local laws affecting its business. Each of the Company's restaurants must comply with licensing and regulation by a number of governmental authorities, which include health, sanitation, safety and fire agencies in the state or municipality in which the restaurant is located. In addition, the Company must comply with various state laws that regulate the franchisor/franchisee relationship. To date, the Company has not been significantly affected by any difficulty, delay or failure to obtain required licenses or approvals.

A small portion of Pizza Hut's and LJS's sales are attributable to the sale of beer and wine. A license is required in most cases for each site that sells alcoholic beverages (in most cases, on an annual basis) and licenses may be revoked or suspended for cause at any time. Regulations governing the sale of alcoholic beverages relate to many aspects of restaurant operations, including the minimum age of patrons and employees, hours of operation, advertising, wholesale purchasing, inventory control and handling, storage and dispensing of alcoholic beverages.

The Company is also subject to federal and state laws governing such matters as employment and pay practices, overtime, tip credits and working conditions. The bulk of the Company's employees are paid on an hourly basis at rates related to the federal and state minimum wages.

The Company is also subject to federal and state child labor laws which, among other things, prohibit the use of certain "hazardous equipment" by employees 18 years of age or younger. The Company has not to date been materially adversely affected by such laws.

The Company continues to monitor its facilities for compliance with the Americans with Disabilities Act ("ADA") in order to conform to its requirements. Under the ADA, the Company could be required to expend funds to modify its restaurants to better provide service to, or make reasonable accommodation for the employment of, disabled persons. We believe that expenditures, if required, would not have a material adverse effect on the Company's operations.

International and China Divisions. The Company's restaurants outside the U.S. are subject to national and local laws and regulations which are similar to those affecting the Company's U.S. restaurants, including laws and regulations concerning labor, health, sanitation and safety. The international restaurants are also subject to tariffs and regulations on imported commodities and equipment and laws regulating foreign investment. International compliance with environmental requirements has not had a material adverse effect on the Company's results of operations, capital expenditures or competitive position.

Employees

As of year-end 2005, the Company employed over 272,000 persons, approximately 78 percent of whom were part-time. Approximately 46 percent of the Company's employees are employed in the U.S. The Company believes that it provides working conditions and compensation that compare favorably with those of its principal competitors. Most Company employees are paid on an hourly basis. Some of the Company's non-U.S. employees are subject to labor council relationships that vary due to the diverse cultures in which the Company operates. The Company considers its employee relations to be good.

(d) Financial Information about Geographic Areas

Financial information about our significant geographic areas (U.S., International Division and China Division) is incorporated herein by reference from Selected Financial Data in Part II, Item 6, page 23; Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in Part II, Item 7, pages 25 through 52; and in the related Consolidated Financial Statements and footnotes in Part II, Item 8, pages 53 through 96.

(e) Available Information

The Company makes available through the Investor Relations section of its internet website at www.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. Our Corporate Governance Principles and our Code of Conduct are also located within this section of the 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 to any shareholder who requests a copy from our Investor Relations Department.

Item 1A. Risk Factors .

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. The following are some of the more significant factors that could affect our business and our results of operations. Other factors may exist that the Company cannot anticipate or that the Company does not consider to be significant based on information that is currently available.

Health concerns arising from outbreaks of Avian Flu may have an adverse effect on our business.

In 2004 and 2005, Asian and European countries experienced outbreaks of Avian Flu, and some commentators have hypothesized that further outbreaks could occur and reach pandemic levels. While fully-cooked chicken has been determined to be safe for consumption, and while the Company has taken and continues to take measures to anticipate and minimize the effect of these outbreaks on our business, any further outbreaks could adversely affect the price and availability of poultry and cause customers to shift their preferences. In addition, outbreaks on a widespread basis could also affect our ability to attract and retain employees.

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

The Company considers food safety a top priority and dedicates substantial resources to ensure that our customers enjoy safe, quality food products. However, food-borne illnesses (such as E. coli, hepatitis A, trichinosis or salmonella) and food safety issues have occurred in the past, and could occur in the future. If such instances of food-borne illness or other food safety issues were to occur, whether at our restaurants or those of our competitors, negative publicity could result which could adversely affect sales and profitability. If our customers become ill from food-borne illnesses, we could also be forced to temporarily close some restaurants. Additionally, the occurrence of food-borne illnesses or food safety issues could adversely affect the price and availability of affected ingredients. Finally, like other companies in the restaurant industry, some of our products may contain genetically engineered food products; increased regulation of and opposition to genetically engineered food products have on occasion and may in the future force us to use alternative sources at increased costs.

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

Our restaurants are operated in numerous countries and territories and our foreign business is significant. We intend to further expand our international operations over the next several years. As a result, our business and operations are

subject to the risk of changes in economic conditions, tax systems, consumer preferences, social conditions and political conditions inherent in foreign operations, including changes in the laws and policies that govern foreign investment in countries where our restaurants are operated, as well as changes in United States laws and regulations relating to foreign trade and investment. In addition, our results of operations and the value of our foreign assets are affected by fluctuations in foreign currency exchange rates, which may favorably or adversely affect 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.

Mainland China is one of our fastest developing markets. Any significant or prolonged deterioration in U.S.-China relations could adversely affect our China business. Our growing investments in our China operations will increase our exposure in this market. Many of the risks and uncertainties of doing business in China are solely within the control of the Chinese government. China's government regulates the scope of our foreign investments and business conducted within China. Although management believes it has structured our China operations to comply with local laws, there are 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 and contract rights in China, our business would be adversely impacted.

Changes in commodity and other operating costs or supply chain and business disruptions could adversely affect our results of operations.

While the Company takes measures to anticipate and react to changes in food and supply costs, any increase in the prices of the ingredients most critical to our menu, such as beef, chicken, cheese and produce, among others, could adversely affect our operating results. Although we try to manage the impact that these fluctuations have on our operating results, we remain susceptible to increases in food costs as a result of factors beyond our control, such as general economic conditions, seasonal fluctuations, weather conditions, demand, food safety concerns, product recalls, labor disputes and government regulations. In addition to food, we purchase electricity, oil and natural gas needed to operate our restaurants, and suppliers purchase gasoline needed to transport food and supplies to us. Any significant increase in energy costs could adversely affect our business through higher rates and the imposition of fuel surcharges by our suppliers. Because we provide moderately priced food, we may choose not to, or be unable to, pass along commodity price increases to our customers. Additionally, significant increases in gasoline prices could result in a decrease of customer traffic at our restaurants. We rely on third party distribution companies to deliver food and supplies to our stores. Interruption of distribution services due to financial distress or other issues could impact our operations. Our operating costs also include premiums that we pay for our insurance (including workers' compensation, general liability, property and health) which may increase over time, thereby further increasing our costs. Finally, our industry is susceptible to natural disasters which could result in restaurant closures and business disruptions.

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

As a result of our franchising programs, our operating results are dependent upon the sales volumes and viability of our franchisees. Any significant inability of our franchisees to operate successfully could adversely affect our operating results. Franchisees may not have access to the financial or management resources that they need to open or continue operating the restaurants contemplated by their franchise agreements with us, or be able to find suitable sites on which to develop them. In addition, franchisees may not be able to negotiate acceptable lease or purchase terms for the sites, obtain the necessary permits and government approvals or meet construction schedules. Our franchisees generally depend upon financing from banks and other financial institutions in order to construct and open new restaurants. In some instances, financing has been difficult to obtain for some operators. Any of these problems could slow our planned growth.

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

As a restaurant industry participant, we are susceptible to claims filed by customers alleging that we are responsible for an illness or injury they suffered at or after a visit to our restaurants. 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 time and money away from our operations and hurt our performance. A judgment for significant 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 the obesity of some guests. We may also be subject to this type of claim 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 industry) may harm our reputation and adversely affect our results.

Changes in governmental regulations may adversely affect our business operations.

We and our franchisees are subject to various federal, state and local regulations. Each of our restaurants is subject to state and local licensing and regulation by health, sanitation, food and workplace safety and other agencies. Requirements of local authorities with respect to zoning, land use, licensing, permitting and environmental factors could delay or prevent development of new restaurants in particular locations.

We are subject to the U.S. Americans with Disabilities Act and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas. The expenses associated with any facilities modifications required by these laws could be material. Our operations are also subject to the U.S. Fair Labor Standards Act, which governs such matters as minimum wages, overtime and other working conditions, family leave mandates and a variety of similar state laws that govern these and other employment law matters. The compliance costs associated with these laws and evolving regulations could be substantial.

We may not attain our target development goals.

We are pursuing a disciplined growth strategy, which, to be successful, will depend in large part on our ability and the ability of our franchisees to upgrade existing restaurants and open new restaurants, and to operate these restaurants on a profitable basis. We cannot guarantee that we, or our franchisees, will be able to achieve our expansion goals or that new, upgraded or converted restaurants will be operated profitably. Further, there is no assurance that any restaurant we open or convert will obtain operating results similar to those of our existing restaurants. The success of our planned expansion, including our multibranding initiatives, will depend upon numerous factors, many of which are beyond our control.

The restaurant industry in which we operate is highly competitive.

The restaurant 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 our restaurants and franchised restaurants are unable to compete successfully with other restaurants in new and existing markets, our business could be adversely affected. In the restaurant 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. In addition, our success depends to a significant extent on numerous factors affecting discretionary consumer spending, including economic conditions, disposable consumer income and consumer confidence. Adverse changes in these factors could reduce guest traffic or impose practical limits on pricing, either of which could harm our results of operations.

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 2005 fiscal year and that remain unresolved.

Item 2. Properties .

As of year-end 2005, the Company owned over 2,000 units and leased land, building or both in over 5,500 units worldwide. These units are further detailed as follows:

- The U.S. owned over 1,700 units and leased land, building or both in over 2,900 units,
- The International Division owned over 200 units and leased land, building or both in over 1,000 units, and
- The China Division leased land, building or both in over 1,500 units.

Company restaurants in the U.S. which are not owned 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 short renewal options. Company restaurants in the International Division which are not owned have initial lease terms and renewal options that vary by country. Company restaurants in the China Division which are not owned are generally leased for initial terms of 10 to 15 years and generally do not have renewal options. The Company generally does not lease or sub-lease units that it owns or leases to franchisees.

Pizza Hut and YRI lease their corporate headquarters and a research facility in Dallas, Texas. Taco Bell leases its corporate headquarters and research facility in Irvine, California. KFC owns its and LJS's, A&W's and YUM's corporate headquarters and a research facility in Louisville, Kentucky. In addition, YUM leases office facilities for certain support groups in Louisville, Kentucky. The China Division leases their corporate headquarters in Shanghai, China. Additional information about the Company's properties is included in the Consolidated Financial Statements and footnotes in Part II, Item 8, pages 53 through 96.

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 claims and contingencies related to lawsuits, taxes, real estate, environmental and other matters arising in the normal course of business. The following is a brief description of the more significant of these categories of lawsuits and other matters. Except as stated below, 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.

Franchising

A substantial number of the restaurants of each of the Concepts are franchised to independent businesses operating under arrangements with the Concepts. In the course of the franchise relationship, occasional disputes arise between the Company and its Concepts' franchisees relating to a broad range of subjects, including, without limitation, quality, service, and cleanliness issues, contentions regarding grants, transfers or terminations of franchises, territorial disputes and delinquent payments.

Suppliers

The Company, through approved distributors, purchases food, paper, equipment and other restaurant supplies from numerous independent suppliers throughout the world. These suppliers are required to meet and maintain compliance with the Company's standards and specifications. On occasion, disputes arise between the Company and its suppliers on a number of issues, including, but not limited to, compliance with product specifications and terms of procurement and service requirements.

Employees

At any given time, the Company or its affiliates employ hundreds of thousands of persons, primarily in its restaurants. In addition, each year thousands of persons seek employment with the Company and its restaurants. From time to time, disputes arise regarding employee hiring, compensation, termination and promotion practices.

Like other retail employers, the Company has been faced in a few states with allegations of purported class-wide wage and hour violations.

On August 13, 2003, a class action lawsuit against Pizza Hut, Inc., entitled Coldiron v. Pizza Hut, Inc., was filed in the United States District Court, Central District of California. Plaintiff alleges that she and other current and former Pizza Hut Restaurant General Managers ("RGMs") were improperly classified as exempt employees under the U.S. Fair Labor Standards Act ("FLSA"). There is also a pendent state law claim, alleging that current and former RGMs in California were misclassified under that state's law. Plaintiff seeks unpaid overtime wages and penalties. On May 5, 2004, the District Court granted conditional certification of a nationwide class of RGMs under the FLSA claim, providing notice to prospective class members and an opportunity to join the class. Approximately 12 percent of the eligible class members have elected to join the litigation. However, on June 30, 2005, the District Court granted Pizza Hut's motion to strike all FLSA class members who joined the litigation after July 15, 2004. The effect of this order is to reduce the number of FLSA class members to only approximately 88 (or approximately 2.5% of the eligible class members).

In November 2005, the parties agreed to a settlement. Pizza Hut believes that definitive settlement documents will be preliminarily and finally approved by the Court within sixty to ninety days following submission of the documents to the Court. We have provided for this settlement amount in our Consolidated Financial Statements.

On November 26, 2001, a lawsuit against Long John Silver's, Inc. ("LJS") entitled Kevin Johnson, on behalf of himself and all others similarly situated v. Long John Silver's, Inc. ("Johnson") was filed in the United States District Court for the Middle District of Tennessee, Nashville Division. Johnson's suit alleged that LJS's former "Security/Restitution for

Losses” policy (the “Policy”) provided for deductions from RGMs and Assistant Restaurant General Managers (“ARGMs”) salaries that violate the salary basis test for exempt personnel under regulations issued pursuant to the FLSA. Johnson alleged that all RGMs and ARGMs who were employed by LJS for the three year period prior to the lawsuit – i.e., since November 26, 1998 – should be treated as the equivalent of hourly employees and thus were eligible under the FLSA for overtime for any hours worked over 40 during all weeks in the recovery period. In addition, Johnson claimed that the potential members of the class are entitled to certain liquidated damages and attorney’s fees under the FLSA.

LJS believed that Johnson’s claims, as well as the claims of all other similarly situated parties, should be resolved in individual arbitrations pursuant to LJS’s Dispute Resolution Program (“DRP”), and that a collective action to resolve these claims in court was clearly inappropriate under the current state of the law. Accordingly, LJS moved to compel arbitration in the Johnson case. LJS and Johnson also agreed to stay the action effective December 17, 2001, pending mediation and entered into a tolling agreement for that purpose. After mediation did not resolve the case, and after limited discovery and a hearing, the Court determined on June 7, 2004, that Johnson’s individual claims should be referred to arbitration. Johnson appealed, and the decision of the District Court was affirmed in all respects by the United States Court of Appeals for the Sixth Circuit on July 5, 2005.

On December 19, 2003, counsel for plaintiff in the above referenced Johnson lawsuit, filed a separate demand for arbitration with the American Arbitration Association (“AAA”) on behalf of former LJS managers Erin Cole and Nick Kaufman, who reside in South Carolina (the “Cole Arbitration”). Claimants in the Cole Arbitration demand a class arbitration on behalf of the same putative class - and the same underlying FLSA claims - as were alleged in the Johnson lawsuit. The complaint in the Cole Arbitration subsequently was amended to allege a practice of deductions (distinct from the allegations as to the Policy) in violation of the FLSA salary basis test, and to add Victoria McWhorter, another LJS former manager, as an additional claimant. LJS has denied the claims and the putative class alleged in the Cole Arbitration, and it is LJS’s position that the claims of Cole, Kaufman, and McWhorter should be individually arbitrated.

Arbitrations under LJS’s DRP, including the Cole Arbitration, are governed by the rules of the AAA. In October 2003, the AAA adopted its Supplementary Rules for Class Arbitrations (“AAA Class Rules”). The AAA appointed an arbitrator for the Cole Arbitration. On June 15, 2004, the arbitrator issued a clause construction award, ruling that the DRP does not preclude class arbitration. LJS moved to vacate the clause construction award in the United States District Court for the District of South Carolina. On September 15, 2005, the federal court in South Carolina ruled that it did not have jurisdiction to hear LJS’s motion to vacate. LJS has appealed the U.S. District Court’s ruling to the United States Court of Appeals for the Fourth Circuit. While judicial review of the clause construction award was pending, the arbitrator permitted claimants to move for a class determination award, which was opposed by LJS. On September 19, 2005, the arbitrator issued a class determination award, certifying a class of LJS’s RGMs and ARGMs employed between December 17, 1998, and August 22, 2004, on FLSA claims, to proceed on an opt-out basis under the AAA Class Rules. That class determination award was upheld on appeal by the United States District Court for the District of South Carolina on January 20, 2006. LJS has appealed the ruling of the U.S. District Court to the United States Court of Appeals for the Fourth Circuit.

LJS believes that the DRP provides for individual arbitrations. LJS also believes that if the Cole Arbitration must proceed on a class basis, (i) the proceedings should be governed by the opt-in collective action structure of the FLSA, (ii) a class should not be certified under the applicable provisions of the FLSA, and (iii) each individual should not be able to recover for more than two years (and a maximum three years) prior to the date they file a consent to join the arbitration. We have provided for the estimated costs of the Cole Arbitration, based on a projection of eligible claims, the amount of each eligible claim, the estimated legal fees incurred by the claimants and the results of settlement negotiations in this and other wage and hour litigation matters. But in view of the novelties of proceeding under the AAA Class Rules and the inherent uncertainties of litigation, there can be no assurance that the outcome of the arbitration will not result in losses in excess of those currently provided for.

On September 21, 2005, a collective action lawsuit against the Company and KFC Corporation, originally entitled Parler v. Yum Brands, Inc., d/b/a KFC, and KFC Corporation, was filed in the United States District Court for the District of

Minnesota. Plaintiff alleges that he and other current and former KFC Assistant Unit Managers (“AUM’s”) were improperly classified as exempt employees under FLSA. Plaintiff seeks overtime wages and liquidated damages. On January 17, 2006, the District Court dismissed the claims against the Company with prejudice, leaving KFC Corporation as the sole defendant. Notice will be mailed to current and former KFC AUM’s advising them of the litigation and providing an opportunity to join the case if they choose to do so.

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

Customers

The Company’s restaurants serve a large and diverse cross-section of the public and in the course of serving so many people, disputes arise regarding products, service, accidents and other matters typical of large restaurant systems such as those of the Company.

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the United States District Court for the Northern District of California entitled Moeller, et al. v. Taco Bell Corp. On August 4, 2003, plaintiffs filed an amended complaint that alleges, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its approximately 220 company-owned restaurants in California (the “California Restaurants”) accessible to the class. Plaintiffs contend that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the path of travel and use of the facilities by persons with mobility-related disabilities (including parking spaces, ramps, counters, restroom facilities and seating) do not comply with the U.S. Americans with Disabilities Act (the “ADA”), the Unruh Civil Rights Act (the “Unruh Act”), and the California Disabled Persons Act (the “CDPA”). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either \$4,000 under the Unruh Act or \$1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class. For themselves, the four named plaintiffs have claimed aggregate minimum statutory damages of no less than \$16,000, but are expected to claim greater amounts based on the number of Taco Bell outlets they visited at which they claim to have suffered discrimination.

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

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

Taco Bell has denied liability and intends to vigorously defend against all claims in this lawsuit. Although this lawsuit is at a relatively early stage in the proceedings, it is likely that certain of the California Restaurants will be determined to be not fully compliant with accessibility laws and that Taco Bell will be required to take certain steps to make those restaurants fully compliant. However, at this time, it is not possible to estimate with reasonable certainty the potential

costs to bring any non compliant California Restaurants into compliance with applicable state and federal disability access laws. Nor is it possible at this time to reasonably estimate the probability or amount of liability for monetary damages on a class wide basis to Taco Bell.

Intellectual Property

The Company has registered trademarks and service marks, many of which are of material importance to the Company's business. From time to time, the Company may become involved in litigation to defend and protect its use of its registered marks.

Other Litigation

On January 16, 1998, a lawsuit against Taco Bell Corp., entitled Wrench LLC, Joseph Shields and Thomas Rinks v. Taco Bell Corp. ("Wrench") was filed in the United States District Court for the Western District of Michigan. The lawsuit alleged that Taco Bell Corp. misappropriated certain ideas and concepts used in its advertising featuring a Chihuahua. The plaintiffs sought to recover monetary damages under several theories, including breach of implied-in-fact contract, idea misappropriation, conversion and unfair competition. On June 10, 1999, the District Court granted summary judgment in favor of Taco Bell Corp. Plaintiffs filed an appeal with the U.S. Court of Appeals for the Sixth Circuit and oral arguments were held on September 20, 2000. On July 6, 2001, the Sixth Circuit Court of Appeals reversed the District Court's judgment in favor of Taco Bell Corp. and remanded the case to the District Court. Taco Bell Corp. unsuccessfully petitioned the Sixth Circuit Court of Appeals for rehearing en banc, and its petition for writ of certiorari to the United States Supreme Court was denied on January 21, 2002. The case was returned to District Court for trial which began on May 14, 2003 and on June 4, 2003 the jury awarded \$30 million to the plaintiffs. Subsequently, the plaintiffs moved to amend the judgment to include pre-judgment interest and post-judgment interest and Taco Bell filed its post-trial motion for judgment as a matter of law or a new trial. On September 9, 2003, the District Court denied Taco Bells' motion and granted the plaintiffs' motion to amend the judgment.

In view of the jury verdict and subsequent District Court ruling, we recorded a charge of \$42 million in 2003. We appealed the verdict to the Sixth Circuit Court of Appeals and interest continued to accrue during the appeal process. Prior to a ruling from the Sixth Circuit Court of Appeals, we settled this matter with the Wrench plaintiffs on January 15, 2005. Concurrent with the settlement with the plaintiffs, we also settled the matter with certain of our insurance carriers. As a result of these settlements, reversals of previously recorded expense of \$14 million were recorded in the year ended December 25, 2004. We paid the settlement amount to the plaintiffs and received the insurance recovery during the first quarter of 2005. During the third quarter of 2005, we entered into a settlement agreement with another insurance carrier and as a result income of \$2 million was recorded in the quarter.

We intend to seek additional recoveries from our other insurance carriers during the periods in question. We have also filed suit against Taco Bell's former advertising agency in the United States District Court for the Central District of California seeking reimbursement for the settlement amount as well as any costs that we have incurred in defending this matter. The District Court has issued a minute order granting defendant's motion for summary judgment but has requested submissions from the defendant for its review before issuing a final order. We believe that a grant by the District Court of this summary judgment motion would be erroneous under the law. We will evaluate our options once a final order has been issued. Any additional recoveries will be recorded as they are realized.

Item 4. Submission of Matters to a Vote of Security Holders .

No matters were submitted to a vote of shareholders during the fourth quarter of 2005.

Executive Officers of the Registrant

The executive officers of the Company as of February 24, 2006, and their ages and current positions as of that date are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>
David C. Novak	53	Chairman of the Board, Chief Executive Officer and President
Richard T. Carucci	48	Chief Financial Officer
Greg Creed	48	Chief Operating Officer
Christian L. Campbell	55	Senior Vice President, General Counsel, Secretary and Chief Franchise Policy Officer
Jonathan D. Blum	47	Senior Vice President – Public Affairs
Charles E. Rawley, III	55	Chief Development Officer
Anne P. Byerlein	47	Chief People Officer
Ted F. Knopf	54	Senior Vice President Finance and Corporate Controller
Gregg R. Dedrick	46	President and Chief Concept Officer, KFC
Peter R. Hearl	54	President and Chief Concept Officer, Pizza Hut
Emil J. Brolick	58	President and Chief Concept Officer, Taco Bell
Graham D. Allan	50	President, YUM! Restaurants International
Samuel Su	53	President, YUM! Restaurants China

David C. Novak is Chairman of the Board, Chief Executive Officer and President of YUM. He has served in this position since January 2001. From December 1999 to January 2001, Mr. Novak served as Vice Chairman of the Board, Chief Executive Officer and President of YUM. From October 1997 to December 1999, he served as Vice Chairman and President of YUM. Mr. Novak previously served as Group President and Chief Executive Officer, KFC and Pizza Hut from August 1996 to July 1997. Mr. Novak joined Pizza Hut in 1986 as Senior Vice President, Marketing. In 1990, he became Executive Vice President, Marketing and National Sales, for Pepsi-Cola Company. In 1992, he became Chief Operating Officer, Pepsi-Cola North America, and in 1994 he became President and Chief Executive Officer of KFC North America. Mr. Novak is also a director of J.P. Morgan Chase.

Richard T. Carucci is Chief Financial Officer of YUM. He has served in this position since March 2005. From October 2004 to February 2005, he served as Senior Vice President, Finance and Chief Financial Officer – Designate of YUM. From May 2003 to October 2004, he served as Executive Vice President and Chief Development Officer of YRI. From November 2002 to May 2003, he served as Senior Vice President for YRI and also assisted Pizza Hut in asset strategy development. From November 1999 to July 2002, he was Chief Financial Officer of YRI.

Greg Creed is Chief Operating Officer of YUM. He has served in this position since December 2005. Mr. Creed served as Chief Marketing Officer of Taco Bell since 2001. From 1997 to 2001, Mr. Creed served as Chief Marketing Officer and Interim General Manager of the KFC and Pizza Hut businesses in Australia.

Christian L. Campbell is Senior Vice President, General Counsel, Secretary and Chief Franchise Policy Officer of YUM. He has served as Senior Vice President, General Counsel and Secretary since September 1997. In January 2003, his title and job responsibilities were expanded to include Chief Franchise Policy Officer. From 1995 to September 1997, Mr. Campbell served as Senior Vice President, General Counsel and Secretary of Owens Corning, a building products company. Before joining Owens Corning, Mr. Campbell served as Vice President, General Counsel and Secretary of Nalco Chemical Company in Naperville, Illinois, from 1990 through 1994.

Jonathan D. Blum is Senior Vice President – Public Affairs for YUM. He has served in this position since July 1997. Mr. Blum previously served as Vice President of Public Affairs for Taco Bell, a position that he held since joining Taco Bell in 1993.

Charles E. Rawley, III is Chief Development Officer of YUM. He has served in this position since January of 2001. Prior to that, he served as President and Chief Operating Officer of KFC. Mr. Rawley assumed his position of Chief Operating Officer in 1995 and President in 1998. Mr. Rawley joined KFC in 1985 as a Director of Operations. He served as Vice President of Operations for the Southwest, West, Northeast, and Mid-Atlantic Divisions from 1988 to 1994, when he became Senior Vice President, Concept Development for KFC.

Anne P. Byerlein is Chief People Officer of YUM. She has served in this position since December 2002. From October 1997 to December 2002, she was Vice President of Human Resources of YUM. From October 2000 to December 2002, she also served as KFC's Chief People Officer. Ms. Byerlein has also served as Vice President of Corporate Human Resources of PepsiCo. From 1988 to 1996, Ms. Byerlein served in a variety of human resources positions within the restaurant divisions of PepsiCo.

Ted F. Knopf is Senior Vice President Finance and Corporate Controller of YUM. He has served in this position since April 2005. From September 2001 to April 2005, Mr. Knopf served as Vice President of Corporate Planning and Strategy. From July 2000 until August 2001, he served as Chief Financial Officer for Yum Restaurant Services, Group, Inc. ("YRSG"), a subsidiary of the Company. From October 1997 until June 2000, Mr. Knopf served as Controller of YRSG.

Gregg R. Dedrick is President and Chief Concept Officer of KFC. He has served in this position since September 2003. From January 2002 to September 2003, Mr. Dedrick acted as a Strategic Advisor to YUM while serving as Chief Administrative Officer of his church, which is one of the ten largest churches in the United States. From July 1997 to January 2002, he served as Chief People Officer of YUM. Mr. Dedrick also served as Senior Vice President, Human Resources for Pizza Hut and KFC, a position he assumed in 1996. He served as Senior Vice President, Human Resources of KFC in 1995 and Vice President, Human Resources of Pizza Hut in 1994. Mr. Dedrick joined the Pepsi-Cola Company in 1981 and held various positions from 1981 to 1994.

Peter R. Hearl is President and Chief Concept Officer of Pizza Hut. He has served in this position since November 2002. Prior to this position, he was Chief People Officer and Executive Vice President of YUM, a position he held from January 2002 until November 2002. From December 1998 to January 2002, he served as Executive Vice President of YRI. Prior to that, he was Regional Vice President for YRI in Asia Pacific, a position he assumed in October 1997. From March 1996 to September 1997, Mr. Hearl was Regional Vice President for YRI with responsibility for Australia, New Zealand and South Africa. Prior to that, he was Regional Vice President for KFC with responsibility for the United Kingdom, Ireland and South Africa, a position he assumed in January 1995. From September 1993 to December 1994, Mr. Hearl was Regional Vice President for KFC Europe.

Emil J. Brolick is President and Chief Concept Officer of Taco Bell. He has served in this position since July 2000. Prior to joining Taco Bell, Mr. Brolick served as Senior Vice President of New Product Marketing, Research & Strategic Planning for Wendy's International, Inc. from August 1995 to July 2000. From March 1988 to August 1995, he held various positions at Wendy's including Manager, Planning and Evaluation and Vice President, Strategic Planning and Research.

Graham D. Allan is the President of YRI. He has served in this position since November 2003. Immediately prior to this position he served as Executive Vice President of YRI. From December 2000 to January 2003, Mr. Allan was the Managing Director of YRI. Prior to that, he was Managing Director of KFC in the United Kingdom from 1996 until November 2000.

Samuel Su is the President of YUM! Restaurants China. He has served in this position since 1997. Prior to this, he was the Vice President of North Asia for both KFC and Pizza Hut. Mr. Su started his career with YUM in 1989 as KFC International's Director of Marketing for the North Pacific area.

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.

2005				
Quarter	High	Low	Dividends Declared	Dividends Paid
First	\$ 51.65	\$ 45.12	\$ 0.10	\$ 0.10
Second	53.09	46.96	0.115	0.10
Third	53.29	46.86	—	0.115
Fourth	52.17	46.70	0.23	0.115

2004				
Quarter	High	Low	Dividends Declared	Dividends Paid
First	\$ 38.28	\$ 32.56	\$ —	\$ —
Second	39.50	35.72	0.10	—
Third	40.13	35.88	—	0.10
Fourth	46.95	39.33	0.20	0.10

The Company initiated quarterly dividends payments to its stockholders in 2004. In 2004, the Company declared three cash dividends of \$0.10 per share of common stock. In 2005, the Company declared one cash dividend of \$0.10 per share of common stock and three cash dividends of \$0.115 per share of common stock. The last dividend declared in 2005 had a distribution date of February 3, 2006. Going forward, the Company is targeting dividend payments equating to a payout ratio of 15% to 20% of net income.

As of February 24, 2006, there were approximately 94,798 registered holders of record of the Company's common stock.

The Company had no sales of unregistered securities during 2005, 2004 or 2003.

Issuer Purchases of Equity Securities

The following table provides information as of December 31, 2005 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

<u>Fiscal Periods</u>	<u>Total number of shares purchased</u>	<u>Average price paid per share</u>	<u>Total number of shares purchased as part of publicly announced plans or programs</u>	<u>Approximate dollar value of shares that may yet be purchased under the plans or programs</u>
Period 10 9/4/05 – 10/1/05	917,900	\$ 49.38	917,900	\$ 302,272,280
Period 11 10/2/05 – 10/29/05	2,187,300	\$ 49.92	2,187,300	\$ 193,077,104
Period 12 10/30/05 – 11/26/05	1,867,000	\$ 48.44	1,867,000	\$ 602,642,024
Period 13 11/27/05 – 12/31/05	2,755,900	\$ 48.47	2,755,900	\$ 469,075,032
Total	7,728,100	\$ 48.98	7,728,100	\$ 469,075,032

In May 2005, our Board of Directors authorized a share repurchase program to repurchase, through May 2006, up to \$500 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended December 31, 2005, approximately 7.1 million shares were repurchased under this program. This program was completed during the quarter.

In November 2005, our Board of Directors authorized a share repurchase program to repurchase, through November 2006, up to \$500 million (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended December 31, 2005, approximately 644,000 shares were repurchased under this program.

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

	Fiscal Year				
	2005	2004	2003	2002	2001
Summary of Operations					
Revenues					
Company sales	\$ 8,225	\$ 7,992	\$ 7,441	\$ 6,891	\$ 6,138
Franchise and license fees	1,124	1,019	939	866	815
Total	9,349	9,011	8,380	7,757	6,953
Facility actions ^(a)	(19)	(26)	(36)	(32)	(1)
Wrench litigation income (expense) ^(b)	2	14	(42)	—	—
AmeriServe and other (charges) credits ^(c)	2	16	26	27	3
Operating profit	1,153	1,155	1,059	1,030	891
Interest expense, net	127	129	173	172	158
Income before income taxes and cumulative effect of accounting change	1,026	1,026	886	858	733
Income before cumulative effect of accounting change	762	740	618	583	492
Cumulative effect of accounting change, net of tax ^(d)	—	—	(1)	—	—
Net income	762	740	617	583	492
Basic earnings per common share ^(e)	2.66	2.54	2.10	1.97	1.68
Diluted earnings per common share ^(e)	2.55	2.42	2.02	1.88	1.62
Cash Flow Data					
Provided by operating activities ^(f)	\$ 1,238	\$ 1,186	\$ 1,099	\$ 1,112	\$ 851
Capital spending, excluding acquisitions	609	645	663	760	636
Proceeds from refranchising of restaurants	145	140	92	81	111
Repurchase shares of common stock	1,056	569	278	228	100
Dividends paid on common shares	123	58	—	—	—
Balance Sheet					
Total assets	\$ 5,698	\$ 5,696	\$ 5,620	\$ 5,400	\$ 4,425
Long-term debt	1,649	1,731	2,056	2,299	1,552
Total debt	1,860	1,742	2,066	2,445	2,248
Other Data					
Number of stores at year end					
Company	7,587	7,743	7,854	7,526	6,435
Unconsolidated Affiliates	1,648	1,662	1,512	2,148	2,000
Franchisees	22,666	21,858	21,471	20,724	19,263
Licensees	2,376	2,345	2,362	2,526	2,791
System	34,277	33,608	33,199	32,924	30,489
U.S. Company blended same store sales growth ^(g)					
	4%	3%	—	2%	1%
International Division system sales growth ^(h)					
Reported	9%	14%	13%	6%	—
Local currency ⁽ⁱ⁾	6%	6%	5%	7%	7%
China Division system sales growth ^(h)					
Reported	13%	23%	23%	25%	14%
Local currency ⁽ⁱ⁾	11%	23%	23%	25%	17%
Shares outstanding at year end ^(e)	278	290	292	294	293
Cash dividends declared per common share	\$ 0.445	\$ 0.30	—	—	—
Market price per share at year end ^(e)	\$ 46.88	\$ 46.27	\$ 33.64	\$ 24.12	\$ 24.62

Fiscal year 2005 includes 53 weeks and fiscal years 2004, 2003, 2002 and 2001 include 52 weeks.

Fiscal year 2005 includes the impact of the adoption of Statement of Financial Accounting Standards (“SFAS”) No. 123R (Revised 2004), “Share Based Payment,” (“SFAS 123R”). This resulted in a \$38 million decrease in net income, or a decrease of \$0.13 to basic and diluted earnings per share for 2005. If SFAS 123R had been effective for prior years presented, reported basic and diluted earnings per share would have decreased \$0.12 and \$0.12, \$0.12 and \$0.12, \$0.14 and \$0.13, and \$0.13 and \$0.13 per share for 2004, 2003, 2002, and 2001, respectively, consistent with previously disclosed pro-forma information. See Note 2 to the Consolidated Financial Statements.

From May 7, 2002, results include Long John Silver’s (“LJS”) and A&W All-American Food Restaurants (“A&W”), which were added when we acquired Yorkshire Global Restaurants, Inc.

Fiscal year 2002 includes the impact of the adoption of SFAS No. 142, “Goodwill and Other Intangible Assets” (“SFAS 142”). As a result we ceased amortization of goodwill and indefinite-lived assets beginning December 30, 2001. If SFAS 142 had been effective for 2001, reported net income would have increased \$26 million and both basic and diluted earnings per share would have increased \$0.09.

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

- (a) See Note 4 to the Consolidated Financial Statements for a description of Facility actions in 2005, 2004, and 2003.
- (b) See Note 4 and Note 21 to the Consolidated Financial Statements for a description of Wrench litigation in 2005, 2004, and 2003.
- (c) See Note 4 to the Consolidated Financial Statements for a description of AmeriServe and other charges (credits) in 2005, 2004, and 2003.
- (d) Fiscal year 2003 includes the impact of the adoption of SFAS No. 143, “Accounting for Asset Retirement Obligations”. See Note 2 to the Consolidated Financial Statements for further discussion.
- (e) Per share and share amounts have been adjusted to reflect the two-for-one stock split distributed on June 17, 2002.
- (f) All prior years presented have been adjusted for the reclassification of distributions from unconsolidated affiliates from investing activities to operating activities in accordance with SFAS No. 95, “Statement of Cash Flows.” These reclassifications increased net cash provided by operating activities by \$55 million, \$46 million, \$24 million and \$19 million for 2004, 2003, 2002, and 2001, respectively.
- (g) U.S. Company blended same-store sales growth includes the results of Company owned KFC, Pizza Hut and Taco Bell restaurants that have been open one year or more. LJS and A&W are not included.
- (h) International Division and China Division system sales growth includes the results of all restaurants regardless of ownership, including Company owned, franchise, unconsolidated affiliate and license restaurants. Sales of franchise, unconsolidated affiliate and license restaurants generate franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license restaurant sales are not included in Company sales we present on the Consolidated Statements of Income; however, the fees are included in the Company’s revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all our revenue drivers, Company and franchise same store sales as well as net unit development. Additionally, as previously noted, we began reporting information for our international business in two separate operating segments (the International Division and the China Division) in 2005 as a result of changes in our management structure. Segment information for periods prior to 2005 has been restated to reflect this reporting.
- (i) 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.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

Introduction and Overview

YUM! Brands, Inc. and Subsidiaries (collectively referred to as “YUM” or the “Company”) comprises the worldwide operations of KFC, Pizza Hut, Taco Bell, Long John Silver’s (“LJS”) and A&W All-American Food Restaurants (“A&W”) (collectively “the Concepts”) and is the world’s largest quick service restaurant (“QSR”) company based on the number of system units. LJS and A&W were added when YUM acquired Yorkshire Global Restaurants, Inc. (“YGR”) on May 7, 2002. YUM is the second largest QSR company outside the U.S. with over 13,800 units. YUM became an independent, publicly-owned company on October 6, 1997 (the “Spin-off Date”) via a tax-free distribution of our Common Stock (the “Distribution” or “Spin-off”) to the shareholders of our former parent, PepsiCo, Inc. (“PepsiCo”).

Through its Concepts, YUM develops, operates, franchises and licenses a system of both traditional and non-traditional QSR restaurants. 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 and operate in non-traditional locations like malls, airports, gasoline service stations, convenience stores, stadiums, amusement parks and colleges, where a full-scale traditional outlet would not be practical or efficient.

The retail food industry, in which the Company competes, 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 compete 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.

Our business consists of three reporting segments: United States, the International Division and the China Division. The China Division includes mainland China (“China”), Thailand and KFC Taiwan and the International Division includes the remainder of our international operations.

The Company’s key strategies are:

- Building dominant restaurant brands in China
- Driving profitable international expansion
- Improving restaurant operations
- Multibranding category-leading brands

The Company is focused on five long-term measures identified as essential to our growth and progress. These five measures and related key performance indicators are as follows:

- China Division and International Division expansion
 - China Division and International Division system-sales growth (local currency)
 - Number of new China Division and International Division restaurant openings
 - Net China Division and International Division unit growth
- Multibrand innovation and expansion
 - Number of multibrand restaurant locations
 - Number of multibrand units added
 - Number of franchise multibrand units added

- Portfolio of category-leading U.S. brands
 - U.S. blended same store sales growth
 - U.S. system sales growth
- Global franchise fees
 - New restaurant openings by franchisees
 - Franchise fee growth
- Strong cash generation and returns
 - Cash generated from all sources
 - Cash generated from all sources after capital spending
 - Restaurant margins

Our progress against these measures is discussed throughout the Management's Discussion and Analysis ("MD&A").

Throughout the MD&A, the Company provides 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.

This MD&A should be read in conjunction with our Consolidated Financial Statements on pages 56 through 59 and the Cautionary Statements on page 52. All Note references herein refer to the Notes to the Consolidated Financial Statements on pages 60 through 96. Tabular amounts are displayed in millions except per share and unit count amounts, or as otherwise specifically identified.

Factors Affecting Comparability of 2005 Results to 2004 Results and 2004 Results to 2003 Results

International Reporting Changes

In 2005, we began reporting information for our international business in two separate operating segments as a result of changes to our management reporting structure. The China Division includes mainland China ("China"), Thailand and KFC Taiwan, and the International Division includes the remainder of our international operations. While this reporting change did not impact our consolidated results, segment information for previous periods has been restated to be consistent with the current period presentation.

Beginning in 2005, we also changed the China business reporting calendar to more closely align the timing of the reporting of its results of operations with our U.S. business. Previously our China business, like the rest of our international businesses, closed one month (or one period for certain of our international businesses) earlier than YUM's period end date to facilitate consolidated reporting. To maintain comparability of our consolidated results of operations, amounts related to our China business for December 2004 have not been reflected in our Consolidated Statements of Income and net income of the China business of \$6 million for the one month period ending December 31, 2004 was recognized as an adjustment directly to consolidated retained earnings in the year to date ended December 31, 2005. Our consolidated results of operations for the year to date ended December 31, 2005 include the results of operations of the China business for the months of January, 2005 through December, 2005. Our consolidated results of operations for the years to date ended December 25, 2004 and December 27, 2003 continue to include the results of operations of the China business for the months December, 2003 through November, 2004 and December, 2002 through November, 2003, respectively, as previously reported.

Adoption of Statement of Financial Accounting Standards No. 123R, “Share-Based Payment”

In the fourth quarter 2005, the Company adopted SFAS No. 123 (Revised 2004), “Share-Based Payment” (“SFAS 123R”), which replaces SFAS No. 123 “Accounting for Stock-Based Compensation” (“SFAS 123”), supersedes APB 25, “Accounting for Stock Issued to Employees” and related interpretations and amends SFAS No. 95, “Statement of Cash Flows.” The provisions of SFAS 123R are similar to those of SFAS 123, however, SFAS 123R requires all new, modified and unvested share-based payments to employees, including grants of employee stock options and restricted stock, be recognized in the financial statements as compensation cost over the service period based on their fair value on the date of grant. Compensation cost is recognized over the service period on a straight-line basis for the fair value of awards that actually vest.

We adopted SFAS 123R using the modified retrospective application transition method effective September 4, 2005, the beginning of our fourth quarter. As permitted by SFAS 123R, we applied the modified retrospective application transition method to the beginning of the fiscal year of adoption (our fiscal year 2005). As such, the first three fiscal quarters of 2005 are required to be adjusted to recognize the compensation cost previously reported in the pro forma footnote disclosures under the provisions of SFAS 123. However, years prior to 2005 have not been restated.

The adoption of SFAS 123R in 2005 resulted in the reduction of operating profit of \$58 million (\$10 million in payroll and employee benefits and \$48 million in general and administrative expense), a reduction of net income of \$38 million (net of tax benefits of \$20 million), a reduction of both basic and diluted earnings per share of \$0.13 per share, a reduction of \$87 million in cash flows from operating activities and an increase of \$87 million in cash flows from financing activities.

The following table shows the 2005 quarterly after-tax effect of adoption of SFAS 123R on the previously reported first three quarters of 2005.

	First Quarter		Second Quarter		Third Quarter	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported results prior to SFAS 123R adoption	\$ 161	\$ 0.53	\$ 187	\$ 0.62	\$ 214	\$ 0.72
Impact of SFAS 123R adoption	<u>(8)</u>	<u>(0.03)</u>	<u>(9)</u>	<u>(0.03)</u>	<u>(9)</u>	<u>(0.03)</u>
Results subsequent to SFAS 123R adoption	<u>\$ 153</u>	<u>\$ 0.50</u>	<u>\$ 178</u>	<u>\$ 0.59</u>	<u>\$ 205</u>	<u>\$ 0.69</u>

We also have included the following tables detailing the additional expense by quarter, by segment and by financial statement line item of the impact of adoption of SFAS 123R as well as the related decrease in operating profit, income tax benefit and decrease in net income. The numbers as presented have been rounded to accommodate our financial statement presentation conventions. However, unrounded expense by segment is relatively consistent throughout all quarters relative to actual number of days in the quarter.

	Quarter ended March 19, 2005				
	U.S.	International	China	Unallocated	Total
Payroll and employee benefits	\$ 2	\$ 1	\$ —	\$ —	\$ 3
General and administrative	3	2	1	4	10
Operating profit	<u>\$ 5</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 4</u>	13
Income tax benefit					(5)
Net income impact					<u>\$ 8</u>

	Quarter ended June 11, 2005				
	U.S.	International	China	Unallocated	Total
Payroll and employee benefits	\$ 2	\$ —	\$ —	\$ —	\$ 2
General and administrative	3	2	1	5	11
Operating profit	<u>\$ 5</u>	<u>\$ 2</u>	<u>\$ 1</u>	<u>\$ 5</u>	13
Income tax benefit					(4)
Net income impact					<u>\$ 9</u>

	Quarter ended September 4, 2005				
	U.S.	International	China	Unallocated	Total
Payroll and employee benefits	\$ 2	\$ —	\$ —	\$ —	\$ 2
General and administrative	4	3	1	4	12
Operating profit	<u>\$ 6</u>	<u>\$ 3</u>	<u>\$ 1</u>	<u>\$ 4</u>	14
Income tax benefit					(5)
Net income impact					<u>\$ 9</u>

	Quarter ended December 31, 2005				
	U.S.	International	China	Unallocated	Total
Payroll and employee benefits	\$ 2	\$ 1	\$ —	\$ —	\$ 3
General and administrative	4	4	1	6	15
Operating profit	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 1</u>	<u>\$ 6</u>	18
Income tax benefit					(6)
Net income impact					<u>\$ 12</u>

	Year ended December 31, 2005				
	U.S.	International	China	Unallocated	Total
Payroll and employee benefits	\$ 8	\$ 2	\$ —	\$ —	\$ 10
General and administrative	14	11	4	19	48
Operating profit	<u>\$ 22</u>	<u>\$ 13</u>	<u>\$ 4</u>	<u>\$ 19</u>	58
Income tax benefit					(20)
Net income impact					<u>\$ 38</u>

Prior to 2005, all stock options granted were accounted for under the recognition and measurement principles of APB 25 and its related Interpretations. Accordingly, no stock-based employee compensation expense was reflected in the Consolidated Statements of Income for stock options, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. Had the Company applied the fair value provisions of SFAS 123 to stock options in 2004 and 2003, net income of \$740 million and \$617 million, respectively, would have been reduced by \$37 million and \$38 million, respectively, to \$703 million and \$579 million, respectively. Additionally, both basic and diluted earnings per common share would have decreased \$0.12 per share for both 2004 and 2003.

Extra Week in 2005

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

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

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

Mainland China Issues

Our KFC business in mainland China was negatively impacted by the interruption of product offerings and negative publicity associated with a supplier ingredient issue experienced in late March, 2005 as well as consumer concerns related to Avian Flu in the fourth quarter of 2005. As a result of the aforementioned issues, the China Division experienced system sales growth in 2005 of 11% excluding foreign currency translation which is below our ongoing target of at least 22%. During the year to date ended December 31, 2005, we entered into an agreement for a partial recovery of our losses related to the supplier ingredient issue with the supplier. As a result of the agreement, we recognized approximately \$24 million in Other income (expense) in our Consolidated Statement of Income for the year ended December 31, 2005.

Sale of an Investment in Unconsolidated Affiliate

During the second quarter of 2005, we sold our fifty percent interest in the entity that operated almost all KFCs and Pizza Huts in Poland and the Czech Republic to our then partner in the entity, principally for cash. Concurrent with the sale, our former partner completed an initial public offering (“IPO”) of the majority of the stock it then owned in the entity. Prior to the sale, we accounted for our investment in this entity using the equity method. Subsequent to the IPO, the new publicly held entity, in which YUM has no ownership interest, is a franchisee as was the entity in which we previously held a fifty percent interest.

This transaction generated a one-time gain of approximately \$11 million for YUM as cash proceeds (net of expenses) of approximately \$25 million from the sale of our interest in the entity exceeded our recorded investment in this unconsolidated affiliate. As with our equity income from investments in unconsolidated affiliates, the approximate \$11 million gain was recorded in Other income (expense) in our Consolidated Statements of Income.

The sale did not have a significant impact on our subsequently reported results of operations in 2005 nor is it expected to have a significant impact on the Company’s results of operations going forward.

Hurricane Katrina

During the third quarter of 2005, Hurricane Katrina caused significant damage to several company and franchised stores. This storm resulted in approximately \$4 million of one-time costs being recorded in the full year from property damage and asset write-offs related to company restaurants. Additionally, during mid-September 2005, Hurricane Rita caused further damage to company and franchised stores, though to a lesser extent than Hurricane Katrina. We estimate that lost operating profits in 2005 as a result of stores being closed due to the effects of these hurricanes was approximately \$3 million. We do not expect insurance recoveries, if any, related to the hurricanes to be significant.

In the fourth quarter, we experienced utility costs in the U.S. that were approximately \$10 million higher than in the prior year, which we believe were at least partially attributable to these hurricanes. We expect this trend to continue into the first quarter of 2006 with year-over-year utility inflation of approximately 20 percent or approximately \$7 million.

Sale of Puerto Rico Business

Our Puerto Rico business was held for sale beginning the fourth quarter of 2002 and was sold on October 4, 2004 for an amount approximating its then carrying value. Company sales and restaurant profit decreased \$159 million and \$29 million, respectively, franchise fees increased \$10 million and general and administrative expenses decreased \$9 million for the year ended December 31, 2005 as compared to the year ended December 25, 2004. Company sales and restaurant profit decreased \$27 million and \$4 million, respectively, franchise fees increased \$1 million and general and administrative expenses decreased \$1 million for the year ended December 25, 2004 as compared to the year ended December 27, 2003.

Income Tax Impact of Repatriating Qualified Foreign Earnings

The American Jobs Creation Act of 2004 (the "Act"), which became law on October 22, 2004, allows a dividends received deduction of 85% of repatriated qualified foreign earnings in fiscal year 2005. We recorded \$6 million in income tax expense during the year ended December 25, 2004 as a result of our then determination to repatriate approximately \$110 million in 2005 which will be eligible for the Act's dividends received deduction. In accordance with FASB Staff Position 109-2, "Accounting and Disclosure Guidance for the Foreign Earnings Repatriation Provisions within the American Jobs Creation Act of 2004," we continued to evaluate in 2005 whether we would repatriate other undistributed earnings from foreign investments as a result of the Act. During the second quarter of 2005, we determined that we would repatriate additional qualified foreign earnings of approximately \$390 million in fiscal year 2005 which will be eligible for the Act's dividends received deduction (for a total repatriation of qualified earnings of approximately \$500 million). As a result of this determination, approximately \$20 million of additional tax expense was recognized in fiscal 2005. No additional amounts beyond the approximately \$500 million as discussed above are eligible for the Act's dividends received deduction.

Lease Accounting Adjustments

In the fourth quarter of 2004, we recorded an adjustment to correct instances where our leasehold improvements were not being depreciated over the shorter of their useful lives or the term of the lease, including options in some instances, over which we were recording rent expense, including escalations, on a straight-line basis.

The cumulative adjustment, primarily through increased U.S. depreciation expense, totaled \$11.5 million (\$7 million after tax). The portion of this adjustment that related to 2004 was approximately \$3 million. As the portion of our adjustment recorded that was a correction of errors of amounts reported in our prior period financial statements was not material to any of those prior period financial statements, the entire adjustment was recorded in the 2004 Consolidated Financial Statements and no adjustment was made to any prior period financial statements.

Amendment of Sale-Leaseback Agreements

On August 15, 2003 we amended two sale-leaseback agreements assumed in our 2002 acquisition of YGR such that the agreements now qualify for sale-leaseback accounting. Restaurant profit decreased by \$5 million in 2004 versus 2003 as a result of the two amended agreements being accounted for as operating leases subsequent to the amendment. The decrease in restaurant profit was largely offset by a similar decrease in interest expense.

Canada Unconsolidated Affiliate Dissolution

On November 10, 2003, we dissolved our unconsolidated affiliate that previously operated 733 restaurants in Canada. We owned 50% of this unconsolidated affiliate prior to its dissolution and accounted for our interest under the equity method. Of the restaurants previously operated by the unconsolidated affiliate, we now operate the vast majority of Pizza Huts and Taco Bells, while almost all KFCs are operated by franchisees. As a result of operating certain restaurants that were previously operated by the unconsolidated affiliate, our Company sales, restaurant profit and general and administrative expenses increased and our franchise fees decreased in 2004 versus 2003. Additionally, on a full year basis other income increased as we recorded a loss from our investment in the Canadian unconsolidated affiliate in 2003.

As a result of the dissolution of our Canadian unconsolidated affiliate, Company sales increased \$147 million, franchise fees decreased \$9 million, restaurant profit increased \$8 million, general and administrative expenses increased \$11 million and other income increased \$4 million for the year ended December 25, 2004 compared to the year ended December 27, 2003. The impact on 2004 net income was not significant.

Commodity Inflation

Higher commodity costs, particularly in cheese and meat prices, negatively impacted U.S. restaurant margins as a percentage of sales by approximately 160 basis points for the year ended 2004 versus the year ended 2003.

Wrench Litigation

We recorded income of \$2 million and \$14 million in 2005 and 2004, respectively, and expense of \$42 million in 2003. See Note 4 for a discussion of the Wrench litigation.

AmeriServe and Other Charges (Credits)

We recorded income of \$2 million, \$16 million and \$26 million in 2005, 2004 and 2003, respectively. See Note 4 for a detailed discussion of AmeriServe and other charges (credits).

Store Portfolio Strategy

From time to time we sell Company restaurants to existing and new franchisees where geographic synergies can be obtained or where their expertise can generally be leveraged to improve our overall operating performance, while retaining Company ownership of key U.S. and international markets. Such refranchisings reduce our reported revenues and restaurant profits and increase the importance of system sales growth as a key performance measure.

The following table summarizes our refranchising activities:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Number of units refranchised	382	317	228
Refranchising proceeds, pre-tax	\$ 145	\$ 140	\$ 92
Refranchising net gains, pre-tax	\$ 43	\$ 12	\$ 4

In addition to our refranchising program, from time to time we close restaurants that are poor performing, we relocate restaurants to a new site within the same trade area or we consolidate two or more of our existing units into a single unit (collectively “store closures”). Store closure costs (income) includes the net of gains or losses on sales of real estate on which we are not currently operating a Company restaurant, lease reserves established when we cease using a property under an operating lease and subsequent adjustments to those reserves, and other facility-related expenses from previously closed stores.

The following table summarizes Company store closure activities:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Number of units closed	246	319	287
Store closure costs (income)	\$ —	\$ (3)	\$ 6

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

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

	<u>2005</u>			
	<u>U.S.</u>	<u>International Division</u>	<u>China Division</u>	<u>Worldwide</u>
Decreased sales	\$ (240)	\$ (263)	\$ (15)	\$ (518)
Increased franchise fees	<u>8</u>	<u>13</u>	<u>—</u>	<u>21</u>
Decrease in total revenues	<u>\$ (232)</u>	<u>\$ (250)</u>	<u>\$ (15)</u>	<u>\$ (497)</u>
	<u>2004</u>			
	<u>U.S.</u>	<u>International Division</u>	<u>China Division</u>	<u>Worldwide</u>
Decreased sales	\$ (241)	\$ (111)	\$ (20)	\$ (372)
Increased franchise fees	<u>7</u>	<u>5</u>	<u>—</u>	<u>12</u>
Decrease in total revenues	<u>\$ (234)</u>	<u>\$ (106)</u>	<u>\$ (20)</u>	<u>\$ (360)</u>

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

	<u>2005</u>			
	<u>U.S.</u>	<u>International Division</u>	<u>China Division</u>	<u>Worldwide</u>
Decreased restaurant profit	\$ (22)	\$ (34)	\$ (1)	\$ (57)
Increased franchise fees	8	13	—	21
Decreased general and administrative expenses	<u>1</u>	<u>10</u>	<u>—</u>	<u>11</u>
Decrease in operating profit	<u>\$ (13)</u>	<u>\$ (11)</u>	<u>\$ (1)</u>	<u>\$ (25)</u>

2004

	U.S.	International Division	China Division	Worldwide
Decreased restaurant profit	\$ (18)	\$ (9)	\$ (2)	\$ (29)
Increased franchise fees	7	5	—	12
Decreased general and administrative expenses	—	6	—	6
Decrease in operating profit	<u>\$ (11)</u>	<u>\$ 2</u>	<u>\$ (2)</u>	<u>\$ (11)</u>

Results of Operations

	2005	% B/(W) vs. 2004	2004	% B/(W) vs. 2003
Company sales	\$ 8,225	3	\$ 7,992	7
Franchise and license fees	1,124	10	1,019	8
Revenues	<u>\$ 9,349</u>	4	<u>\$ 9,011</u>	8
Company restaurant profit	<u>\$ 1,155</u>	—	<u>\$ 1,159</u>	5
% of Company sales	<u>14.0%</u>	(0.5) ppts.	<u>14.5%</u>	(0.3) ppts.
Operating profit	1,153	—	1,155	9
Interest expense, net	127	2	129	25
Income tax provision	264	7	286	(7)
Net income	<u>\$ 762</u>	3	<u>\$ 740</u>	20
Diluted earnings per share ^(a)	<u>\$ 2.55</u>	5	<u>\$ 2.42</u>	20

(a) See Note 3 for the number of shares used in this calculation.

Restaurant Unit Activity

<u>Worldwide</u>	<u>Company</u>	<u>Unconsolidated Affiliates</u>	<u>Franchisees</u>	<u>Total Excluding Licensees</u>
Balance at end of 2003	7,854	1,512	21,471	30,837
New Builds	457	178	815	1,450
Acquisitions	72	11	(83)	—
Refranchising	(317)	—	316	(1)
Closures	(319)	(31)	(651)	(1,001)
Other	(4)	(8)	(10)	(22)
Balance at end of 2004	7,759	1,664	21,859	31,282
New Builds	470	160	924	1,554
Acquisitions	1	—	(1)	—
Refranchising	(382)	(142)	522	(2)
Closures	(246)	(35)	(664)	(945)
Other	(15)	1	26	12
Balance at end of 2005	<u>7,587</u>	<u>1,648</u>	<u>22,666</u>	<u>31,901</u>
% of Total	24%	5%	71%	100%

The above total excludes 2,376 and 2,345 licensed units at the end of 2005 and 2004, respectively. Balances at the end of 2004 for the Worldwide and China unit activity have been adjusted to include December activity in mainland China due to the change in its reporting calendar. The net change was an addition of 16, 2, 1 and 19 units for company, unconsolidated, franchisees and total, respectively.

United States

	<u>Company</u>	<u>Unconsolidated Affiliates</u>	<u>Franchisees</u>	<u>Total Excluding Licensees</u>
Balance at end of 2003	5,094	6	13,566	18,666
New Builds	146	—	227	373
Acquisitions	61	—	(61)	—
Refranchising	(113)	—	112	(1)
Closures	(199)	(6)	(365)	(570)
Other	—	—	3	3
Balance at end of 2004	4,989	—	13,482	18,471
New Builds	125	—	240	365
Acquisitions	—	—	—	—
Refranchising	(244)	—	242	(2)
Closures	(174)	—	(364)	(538)
Other	(10)	—	5	(5)
Balance at end of 2005	4,686	—	13,605	18,291
% of Total	26%	—	74%	100%

The above total excludes 2,181 and 2,139 licensed units at the end of 2005 and 2004, respectively.

International Division

	<u>Company</u>	<u>Unconsolidated Affiliates</u>	<u>Franchisees</u>	<u>Total Excluding Licensees</u>
Balance at end of 2003	1,700	1,152	7,704	10,556
New Builds	80	66	574	720
Acquisitions	11	11	(22)	—
Refranchising	(201)	—	201	—
Closures	(83)	(18)	(277)	(378)
Other	(3)	(7)	(1)	(11)
Balance at end of 2004	1,504	1,204	8,179	10,887
New Builds	53	61	666	780
Acquisitions	1	—	(1)	—
Refranchising	(137)	(142)	279	—
Closures	(41)	(28)	(292)	(361)
Other	(5)	1	17	13
Balance at end of 2005	1,375	1,096	8,848	11,319
% of Total	12%	10%	78%	100%

The above totals exclude 195 and 206 licensed units at the end of 2005 and 2004, respectively.

China Division

	Company	Unconsolidated Affiliates	Franchisees	Total Excluding Licensees
Balance at end of 2003	1,060	354	201	1,615
New Builds	231	112	14	357
Acquisitions	—	—	—	—
Refranchising	(3)	—	3	—
Closures	(37)	(7)	(9)	(53)
Other	(1)	(1)	(12)	(14)
Balance at end of 2004	1,266	460	198	1,924
New Builds	292	99	18	409
Acquisitions	—	—	—	—
Refranchising	(1)	—	1	—
Closures	(31)	(7)	(8)	(46)
Other	—	—	4	4
Balance at end of 2005	<u>1,526</u>	<u>552</u>	<u>213</u>	<u>2,291</u>
% of Total	67%	24%	9%	100%

There are no licensed units in the China Division.

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

<u>2005</u>	<u>Company</u>	<u>Franchise</u>	<u>Total</u>
United States	1,696	1,400	3,096
International Division	17	176	193
Worldwide	<u>1,713</u>	<u>1,576</u>	<u>3,289</u>
<u>2004</u>	<u>Company</u>	<u>Franchise</u>	<u>Total</u>
United States	1,391	1,250	2,641
International Division	28	155	183
Worldwide	<u>1,419</u>	<u>1,405</u>	<u>2,824</u>

For 2005 and 2004, Company multibrand unit gross additions were 373 and 384, respectively. For 2005 and 2004, franchise multibrand unit gross additions were 171 and 169, respectively. There are no multibrand units in the China Division.

System Sales Growth

	Increase		Increase excluding currency translation		Increase excluding currency translation and 53 rd week
	2005	2004	2005	2004	2005
United States	5%	3%	N/A	N/A	4%
International Division	9%	14%	6%	6%	5%
China Division	13%	23%	11%	23%	11%
Worldwide	7%	8%	6%	5%	5%

System sales growth includes the results of all restaurants regardless of ownership, including Company-owned, franchise, unconsolidated affiliate and license restaurants. Sales of franchise, unconsolidated affiliate and license restaurants generate franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license restaurants sales are not included in Company sales on the Consolidated Statements of Income; however, the franchise and license fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same store sales as well as net unit development.

The increase in Worldwide system sales in 2005 and 2004 was driven by new unit development and same store sales growth, partially offset by store closures.

The increase in U.S. system sales was driven by same store sales growth and new unit development, partially offset by store closures. In 2004, the increase in U.S. system sales was driven by new unit development and same store sales growth, partially offset by store closures.

The increase in International Division system sales in 2005 and 2004 was driven by new unit development and same store sales growth, partially offset by store closures.

In 2005, the increase in China Division system sales was driven by new unit development, partially offset by the impact of same store sales declines driven by the mainland China supplier ingredient issue and consumer concerns related to Avian Flu. In 2004, the increase in China Division system sales was primarily driven by new unit development and same store sales growth.

Revenues

	Amount		% Increase (Decrease)		% Increase (Decrease) excluding currency translation		% Increase (Decrease) excluding currency translation and 53 rd week
	2005	2004	2005	2004	2005	2004	2005
Company sales							
United States	\$ 5,294	\$ 5,163	3	2	N/A	N/A	1
International Division	1,676	1,747	(4)	17	(8)	11	(10)
China Division	<u>1,255</u>	<u>1,082</u>	16	24	14	23	14
Worldwide	<u>8,225</u>	<u>7,992</u>	3	7	2	6	1
Franchise and license fees							
United States	635	600	6	4	N/A	N/A	5
International Division	448	381	17	14	15	7	14
China Division	<u>41</u>	<u>38</u>	8	25	7	25	7
Worldwide	<u>1,124</u>	<u>1,019</u>	10	8	9	6	8
Total revenues							
United States	5,929	5,763	3	2	N/A	N/A	2
International Division	2,124	2,128	—	17	(4)	10	(5)
China Division	<u>1,296</u>	<u>1,120</u>	16	24	14	24	14
Worldwide	<u>\$ 9,349</u>	<u>\$ 9,011</u>	4	8	3	6	2

In 2005, the increase in Worldwide Company sales was driven by new unit development and same store sales growth, partially offset by refranchising and store closures. In 2004, the increase in Worldwide Company sales was driven by new unit development, acquisitions of franchisee restaurants and same store sales growth, partially offset by refranchising and store closures.

In 2005, the increase in Worldwide franchise and license fees was driven by new unit development, same store sales growth and refranchising, partially offset by store closures. In 2004, the increase in Worldwide franchise and license fees was driven by new unit development, same store sales growth, and refranchising, partially offset by store closures and acquisitions of franchisee restaurants.

In 2005, the increase in U.S. Company sales was driven by same store sales growth and new unit development, partially offset by refranchising and store closures. In 2004, the increase in U.S. Company sales was driven by new unit development and same store sales growth, partially offset by refranchising and store closures.

U.S. same store sales includes only Company restaurants that have been open one year or more. U.S. blended same store sales includes KFC, Pizza Hut and Taco Bell Company-owned restaurants only. U.S. same store sales for Long John Silver's and A&W restaurants are not included. Following are the same store sales growth results by brand:

	2005		
	Same Store Sales	Transactions	Average Guest Check
KFC	6%	5 %	1%
Pizza Hut	—%	(5)%	5%
Taco Bell	7%	3 %	4%
	2004		
	Same Store Sales	Transactions	Average Guest Check
KFC	(2)%	(4)%	2%
Pizza Hut	5 %	2 %	3%
Taco Bell	5 %	3 %	2%

In 2005 and 2004, blended Company same store sales increased 4% and 3%, respectively, due to increases in average guest check and transactions.

In 2005 and 2004, the increase in U.S. franchise and license fees was driven by new unit development, same store sales growth and refranchising, partially offset by store closures.

In 2005, the decrease in International Division Company sales was driven by refranchising (primarily our Puerto Rico business) and store closures, partially offset by new unit development. In 2004, the increase in International Division Company sales was driven by acquisitions of franchisee restaurants (primarily certain units in Canada we now operate), new unit development and same store sales growth, partially offset by refranchising and store closures.

In 2005, the increase in International Division franchise and license fees was driven by new unit development, refranchising (primarily our Puerto Rico business), and royalty rate increases. In 2004, the increase in International Division franchise and license fees was driven by new unit development, same store sales growth and refranchising, partially offset by store closures and our acquisitions of franchisee restaurants (primarily certain units in Canada which we now operate).

In 2005, the increase in China Division Company sales was driven by new unit development, partially offset by the impact of same store sales declines driven by the mainland China supplier ingredient issue and consumer concerns related to Avian Flu. In 2004, the increase in China Division Company sales was driven by new unit development and same store sales growth.

In 2005, the increase in China Division franchise and license fees was driven by new unit development, partially offset by the impact of same store sales declines driven by the mainland China supplier ingredient issue and consumer concerns related to Avian Flu. In 2004, the increase in China Division franchise and license fees was primarily driven by new unit development.

Company Restaurant Margins

2005

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

2004

	U.S.	International Division	China Division	Worldwide
Company sales	100.0%	100.0%	100.0%	100.0%
Food and paper	29.9	33.8	37.1	31.8
Payroll and employee benefits	30.5	23.8	11.5	26.4
Occupancy and other operating expenses	25.8	29.4	31.1	27.3
Company restaurant margin	<u>13.8%</u>	<u>13.0%</u>	<u>20.3%</u>	<u>14.5%</u>

2003

	U.S.	International Division	China Division	Worldwide
Company sales	100.0%	100.0%	100.0%	100.0%
Food and paper	28.8	34.1	38.0	30.9
Payroll and employee benefits	31.0	23.8	10.7	27.2
Occupancy and other operating expenses	25.6	29.1	31.5	27.1
Company restaurant margin	<u>14.6%</u>	<u>13.0%</u>	<u>19.8%</u>	<u>14.8%</u>

In 2005, U.S. restaurant margins as a percentage of sales were flat compared to 2004. The impact of same store sales growth on restaurant margin was offset by higher occupancy and other costs. Higher occupancy and other costs were driven by increases in utility costs and advertising costs. A favorable impact from the 53rd week (13 basis points) was offset by the unfavorable impact of the adoption of SFAS 123R (17 basis points).

In 2004, the decrease in U.S. restaurant margins as a percentage of sales was driven by higher food and paper costs and higher occupancy and other costs, partially offset by the impact of same store sales growth on restaurant margin. Higher food and paper costs were primarily driven by increased commodity costs (principally cheese and meats) and higher occupancy and other costs were primarily driven by increased expense resulting from the adjustment related to our accounting for leases and the depreciation of leasehold improvements.

In 2005, the decrease in the International Division restaurant margins as a percentage of sales included a 51 basis point unfavorable impact of franchising our restaurants in Puerto Rico. Also contributing to the decrease were higher occupancy and other costs and higher labor costs. The decrease was partially offset by the impact of same store sales growth on restaurant margin. The unfavorable impact of the adoption of SFAS 123R (10 basis points) was largely offset by the favorable impact of the 53rd week (8 basis points).

In 2004, International Division restaurant margins as a percentage of sales were flat compared to 2003. The favorable impact of same store sales growth on restaurant margin was offset by a 68 basis point unfavorable impact of operating certain restaurants in Canada, which is a market with below average margins, that were previously operated by our unconsolidated affiliate.

In 2005, China Division restaurant margins as a percentage of sales decreased. The decrease was driven by the impact on

restaurant margin of same store sales declines related to the mainland China supplier ingredient issue and consumer concerns related to Avian Flu and lower margins associated with new units during the initial periods of operation. Also contributing to the decrease was higher labor costs. The decrease was partially offset by the impact on restaurant margin of lower food and paper costs (principally due to supply chain savings initiatives).

In 2004, the increase in China Division restaurant margins as a percentage of sales was driven by the impact of lower food and paper costs (principally due to supply chain savings initiatives) and same store sales growth on restaurant margin. The increase was partially offset by higher labor costs and lower margins associated with new units during the initial periods of operation.

Worldwide General and Administrative Expenses

General and administrative expenses increased \$102 million or 10% in 2005, including a 4% unfavorable impact of the adoption of SFAS 123R, a 1% unfavorable impact from the 53rd week and a 1% unfavorable impact from foreign currency translation. Excluding the unfavorable impact of these factors, general and administrative expenses increased \$38 million or 4%. The increase was driven by higher compensation related costs, including amounts associated with investments in strategic initiatives in China and other international growth markets and higher litigation related costs including charges of \$16 million for the potential resolution of certain legal matters. Higher charitable contributions and expense associated with discontinuing certain corporate software development projects also contributed to the increase. Such increases were partially offset by reductions associated with operating restaurants which were refranchised in 2004 (primarily the Puerto Rico business) and the effect of lapping certain prior year reserve increases related to potential development sites and surplus facilities.

General and administrative expenses increased \$111 million or 12% in 2004, including a 2% unfavorable impact from foreign currency translation. The increase was driven by higher compensation related costs, including incentive compensation, amounts associated with investments in strategic initiatives in China and other international growth markets and pension costs. Also contributing to the increase were higher professional fees and increased reserves related to potential development sites and surplus facilities. The increase was also partially attributable to expenses of \$11 million associated with operating the restaurants we now own in Canada that were previously operated by our unconsolidated affiliate. These increases were partially offset by decreases in expenses due to the favorable impact of refranchising certain restaurants.

Worldwide Franchise and License Expenses

Franchise and license expenses increased \$7 million or 24% in 2005. The increase was driven by higher franchisee support costs and higher provisions for doubtful franchise and license fee receivables.

Franchise and license expenses decreased \$2 million or 8% in 2004. The decrease was primarily driven by the favorable impact of lapping the biennial International franchise convention held in 2003.

Worldwide Other (Income) Expense

	2005	2004	2003
Equity income from investments in unconsolidated affiliates	\$ (51)	\$ (54)	\$ (39)
Gain upon sale of investment in unconsolidated affiliate	(11)	—	—
Recovery from supplier	(20)	—	—
Foreign exchange net (gain) loss	2	(1)	(2)
Other (income) expense	<u>\$ (80)</u>	<u>\$ (55)</u>	<u>\$ (41)</u>

Other income increased \$25 million or 44% in 2005, including a 1% favorable impact from foreign currency translation. The increase was driven by a \$24 million partial financial recovery (\$4 million of which was recognized through equity income from investments in unconsolidated affiliates) from a supplier related to an ingredient issue in mainland China (see Note 7). Other income was also positively impacted in 2005 by a \$11 million gain associated with the sale of our investment in our Poland/Czech Republic unconsolidated affiliate.

Other income increased \$14 million or 34% in 2004, including a 7% favorable impact from foreign currency translation. The increase was driven by an increase in equity income from our unconsolidated affiliates, principally in China, and the dissolution of our unconsolidated affiliate in Canada which recorded a loss for the year ended December 27, 2003.

Worldwide Facility Actions

We recorded a net loss from facility actions of \$19 million, \$26 million and \$36 million in 2005, 2004 and 2003, respectively. See the Store Portfolio Strategy section for more detail of our refranchising and closure activities and Note 4 for a summary of the components of facility actions by reportable operating segment.

Operating Profit

	2005	2004	% Increase/(Decrease)	
			2005	2004
United States	\$ 760	\$ 777	(2)	(4)
International Division	372	337	11	21
China Division	211	205	3	27
Unallocated and corporate expenses	(246)	(204)	(21)	(14)
Unallocated other income (expense)	9	(2)	NM	NM
Unallocated facility actions	43	12	NM	NM
Wrench litigation income (expense)	2	14	NM	NM
AmeriServe and other (charges) credits	2	16	NM	NM
Operating profit	<u>\$ 1,153</u>	<u>\$ 1,155</u>	—	9

Unallocated and corporate expenses comprise general and administrative expenses and unallocated facility actions comprise refranchising gains (losses), neither of which are allocated to the U.S., International Division, or China Division segments for performance reporting purposes. Unallocated other income (expense) in 2005 primarily comprises the \$11 million gain on the sale of our investment in our Poland/Czech Republic unconsolidated affiliate which we did not allocate to the International Division for performance reporting purposes.

U.S. operating profit decreased \$17 million or 2% in 2005. The decrease was driven by higher facility actions expense and higher general and administrative expense. These decreases were partially offset by the impact of same store sales growth on restaurant profit and franchise and license fees. The impact of same store sales growth on restaurant profit was partially offset by higher occupancy and other costs. A 3% unfavorable impact from the adoption of SFAS 123R was offset by a 3% favorable impact from the 53rd week.

In 2004, the decrease in U.S. operating profit was driven by the impact on restaurant profit of higher commodity costs (primarily cheese and meat) and the adjustment recorded related to our accounting for leases and the depreciation of leasehold improvements, as well as higher general and administrative expenses. The decrease was partially offset by the impact of same store sales growth on restaurant profit and franchise and license fees.

International Division operating profit increased \$35 million or 11% in 2005, including a 4% favorable impact from foreign currency translation, a 2% favorable impact from the 53rd week, and a 4% unfavorable impact from the adoption of SFAS 123R. Excluding the net favorable impact from these factors, International Division operating profit increased \$31 million or 9% in 2005. The increase was driven by the impact of same store sales growth on restaurant profit and

franchise and license fees, the impact of new unit development on franchise and license fees and restaurant profit, and lower facility actions expense. These increases were partially offset by higher occupancy and other costs, higher labor costs and the impact on operating profit of refranchising our restaurants in Puerto Rico.

Excluding the favorable impact from foreign currency translation, International Division operating profit increased 12% in 2004. The increase was driven by the impact of same store sales growth on restaurant profit and franchise and license fees, new unit development and higher income from our investments in unconsolidated affiliates, partially offset by higher general and administrative costs.

China Division operating profit increased \$6 million or 3% in 2005. The increase was driven by the impact on restaurant profit of new unit development and a financial recovery from a supplier. These increases were partially offset by the impact on restaurant profit of same store sales declines, a decrease in equity income from unconsolidated affiliates, and increased general and administrative expense. A 2% favorable impact from foreign currency translation was offset by a 2% unfavorable impact of the adoption of SFAS 123R.

In 2004, the increase in China Division operating profit was driven by new unit development, the impact of same store sales growth on restaurant profit and higher income from our investments in unconsolidated affiliates, partially offset by higher general and administrative costs.

Interest Expense, Net

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Interest expense	\$ 147	\$ 145	\$ 185
Interest income	(20)	(16)	(12)
Interest expense, net	<u>\$ 127</u>	<u>\$ 129</u>	<u>\$ 173</u>

Interest expense increased \$2 million or 2% in 2005. An increase in our average interest rates was largely offset by a decrease in our bank fees attributable to the upgrade in our credit rating.

Interest expense decreased \$40 million or 22% in 2004. The decrease was primarily driven by a decrease in our average interest rates primarily attributable to pay-variable interest rate swaps entered into during 2004. Also contributing to the decrease was a reduction in our average debt outstanding primarily as a result of the amended YGR sale leaseback agreement and lower International short term borrowings.

Income Taxes

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Reported			
Income taxes	\$ 264	\$ 286	\$ 268
Effective tax rate	25.8%	27.9%	30.2%

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	1.6	1.3	1.8
Foreign and U.S. tax effects attributable to foreign operations	(6.7)	(6.3)	(3.6)
Adjustments to reserves and prior years	(1.3)	(6.7)	(1.7)
Repatriation of foreign earnings	2.0	0.5	—
Non-recurring foreign tax credit adjustment	(2.9)	—	(4.1)
Valuation allowance additions (reversals)	(1.4)	4.2	2.8
Other, net	(0.5)	(0.1)	—
Effective income tax rate	<u>25.8%</u>	<u>27.9%</u>	<u>30.2%</u>

Income taxes and the effective tax rate as shown above reflect tax on all amounts included in our results of operations except for the income tax benefit of approximately \$1 million on the \$2 million cumulative effect adjustment recorded in the year ended December 27, 2003 due to the adoption of SFAS 143.

The 2005 effective tax rate decreased 2.1 percentage points to 25.8%. The decrease in the effective tax rate was driven by a number of factors, including the impact of year over year valuation allowances adjustments as well as the recognition of certain foreign tax credits that we were able to substantiate in 2005. The decrease was partially offset by the impact of year over year adjustments to reserves and prior years and tax provided on foreign earnings which were repatriated to the U.S. in 2005.

The 2004 effective tax rate decreased 2.3 percentage points to 27.9%. The decrease in the effective tax rate was driven by a number of factors, including the reversal of reserves in the current year associated with audits that were settled as well as the effects of certain international tax planning strategies implemented in 2004. The decrease was partially offset by the impact of lapping the benefit in 2003 of amending certain prior U.S. income tax returns to claim credit for foreign taxes paid in prior years as well as the recognition in 2004 of valuation allowances for certain deferred tax assets whose realization is no longer considered more likely than not.

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

Consolidated Cash Flows

Net cash provided by operating activities was \$1,238 million compared to \$1,186 million in 2004. The increase was driven primarily by an increase in net income, including the non-cash impact of the adoption of SFAS 123R, and lower income tax payments in 2005, partially offset by the impact of excess tax benefits classified in financing activities in 2005 pursuant to the adoption of SFAS 123R.

In 2004, net cash provided by operating activities was \$1,186 million compared to \$1,099 million in 2003. The increase was primarily driven by an increase in net income and a decrease in the amount of voluntary contributions to our funded pension plan compared to 2003, partially offset by higher income tax payments in 2004.

Net cash used in investing activities was \$345 million versus \$541 million in 2004. The decrease was driven primarily by lower acquisitions of restaurants from franchisees and capital spending, the impact of the timing of purchases and sales

of short-term investments, higher proceeds from the sale of property, plant and equipment versus 2004 and the proceeds from the sale of our Poland/Czech Republic unconsolidated affiliate.

In 2004, net cash used in investing activities was \$541 million versus \$565 million in 2003. The decrease was primarily driven by higher proceeds from refranchising of restaurants and lower capital spending compared to 2003, partially offset by the impact of the timing of purchases and sales of short-term investments.

Net cash used in financing activities was \$832 million versus \$779 million in 2004. The increase was driven primarily by higher share repurchases, partially offset by net debt borrowings in 2005 versus net debt repayments in 2004 and the impact of excess tax benefits classified in financing activities in 2005 pursuant to the adoption of SFAS 123R.

In 2004, net cash used in financing activities was \$779 million versus \$475 million in 2003. The increase in 2004 was primarily driven by higher share repurchases, higher net debt repayments and the payment of two quarterly dividends, partially offset by higher proceeds from stock option exercises.

Liquidity and Capital Resources

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our franchise operations, which require a limited YUM investment. In each of the last four fiscal years, net cash provided by operating activities has exceeded \$1 billion. These cash flows have allowed us to fund our discretionary spending, while at the same time reducing our long-term debt balances. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. Our discretionary spending includes capital spending for new restaurants, acquisitions of restaurants from franchisees, repurchases of shares of our common stock and dividends paid to our shareholders. Though a decline in revenues could adversely impact our cash flows from operations, we believe our operating cash flows, our ability to reduce discretionary spending, and our borrowing capacity will allow us to meet our cash requirements in 2006 and beyond.

During the year ended December 31, 2005, we paid cash dividends of \$123 million. Additionally, on November 18, 2005, our Board of Directors approved a cash dividend of \$0.115 per share of common stock to be distributed on February 3, 2006 to shareholders of record at the close of business on January 13, 2006. On an annual basis, the Company is targeting an annual payout ratio of 15% to 20% of net income.

Our primary bank credit agreement comprises a \$1.0 billion senior unsecured Revolving Credit Facility (the "Credit Facility") which matures in September 2009. The Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains financial covenants relating to maintenance of leverage and fixed charge coverage ratios. The Credit Facility also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, level of cash dividends, aggregate non-U.S. investment and certain other transactions specified in the agreement. We were in compliance with all debt covenants at December 31, 2005.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit, less outstanding letters of credit. At December 31, 2005, our unused Credit Facility totaled \$809 million, net of outstanding letters of credit of \$191 million. There were no borrowings outstanding under the Credit Facility at December 31, 2005. The interest rate for borrowings under the Credit Facility ranges from 0.35% to 1.625% over the London Interbank Offered Rate ("LIBOR") or 0.00% to 0.20% over an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Effective Rate plus 0.50%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, depends on our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

Additionally, on November 8, 2005, we executed a five-year revolving credit facility (the "International Credit Facility" or "ICF") on behalf of three of our wholly owned international subsidiaries. The total facility amount is \$350 million, with separate sublimits for each of the three subsidiaries. The ICF is unconditionally guaranteed by YUM and by YUM's principal domestic subsidiaries and contains covenants substantially identical to those of the Credit Facility. We were in compliance with all debt covenants at December 31, 2005.

There were borrowings of \$180 million and available credit of \$170 million outstanding under the ICF at the end of 2005. The interest rate for borrowings under the ICF ranges from 0.20% to 1.20% over LIBOR or 0.00% to 0.20% over a Canadian Alternate Base Rate, which is the greater of the Citibank, N.A., Canadian Branch's publicly announced reference rate or the "Canadian Dollar Offered Rate" plus 0.50%. The exact spread over LIBOR or the Canadian Alternate Base Rate, as applicable, depends upon YUM's performance under specified financial criteria. Interest on any outstanding borrowings under the ICF is payable at least quarterly.

The remainder of our long-term debt primarily comprises Senior Unsecured Notes. Amounts outstanding under Senior Unsecured Notes were \$1.5 billion at December 31, 2005. Included in short-term borrowings at December 31, 2005 are \$200 million in Senior Unsecured Notes with an April 2006 maturity date. The remaining \$1.3 billion in Senior Unsecured Notes comprise the majority of our long-term debt.

We estimate that in 2006 capital spending, including acquisitions of our restaurants from franchisees, will be approximately \$675 million. We also estimate that in 2006 refranchising proceeds, prior to taxes, will be approximately

\$150 million, employee stock options proceeds, prior to taxes, will be approximately \$150 million and sales of property, plant and equipment will be approximately \$50 million.

In November 2005, the Board of Directors authorized a new share repurchase program for up to \$500 million of the Company's outstanding common stock (excluding applicable transaction fees) to be purchased through November 2006. At December 31, 2005, we had remaining capacity to repurchase up to \$469 million of our outstanding common stock (excluding applicable transaction fees) under the November program.

In addition to any discretionary spending we may choose to make, significant contractual obligations and payments as of December 31, 2005 included:

	<u>Total</u>	<u>Less than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More than 5 Years</u>
Long-term debt ^(a)	\$ 1,757	\$ 202	\$ 254	\$ 186	\$ 1,115
Capital leases ^(b)	163	16	29	27	91
Operating leases ^(b)	2,680	362	612	488	1,218
Purchase obligations ^(c)	171	123	34	8	6
Other long-term liabilities reflected on our Consolidated Balance Sheet under GAAP	17	—	7	4	6
Total contractual obligations	<u>\$ 4,788</u>	<u>\$ 703</u>	<u>\$ 936</u>	<u>\$ 713</u>	<u>\$ 2,436</u>

(a) Excludes a fair value adjustment of \$6 million deducted from debt related to interest rate swaps that hedge the fair value of a portion of our debt. See Note 11.

(b) These obligations, which are shown on a nominal basis, relate to approximately 5,500 restaurants. See Note 12.

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

We have not included obligations under our pension and postretirement medical benefit plans in the contractual obligations table. Our funding policy regarding our funded pension plan is to contribute amounts necessary to satisfy minimum pension funding requirements plus such additional amounts from time to time as are determined to be appropriate to improve the plan's funded status. The pension plan's funded status is affected by many factors including discount rates and the performance of plan assets. Based on current funding rules, we are not required to make minimum pension funding payments in 2006, but we may make discretionary contributions during the year based on our estimate of the plan's expected September 30, 2006 funded status. During 2005, we made a \$65 million discretionary contribution to our funded plan, none of which represented minimum funding requirements. Our postretirement plan is not required to be funded in advance, but is pay as you go. We made postretirement benefit payments of \$4 million in 2005.

Also excluded from the contractual obligations table are payments we may make for workers' compensation, employment practices liability, general liability, automobile liability and property losses (collectively "property and casualty losses") as well as employee healthcare and long-term disability claims for which we are self-insured. The majority of our recorded liability for self-insured employee health, long-term disability and property and casualty losses represents estimated reserves for incurred claims that have yet to be filed or settled.

Off-Balance Sheet Arrangements

We had provided approximately \$16 million of partial guarantees of two franchisee loan pools related primarily to the Company's historical franchising programs and, to a lesser extent, franchisee development of new restaurants at December 31, 2005. In support of these guarantees, we posted letters of credit of \$4 million. We also provided a standby letter of credit of \$18 million, under which we could potentially be required to fund a portion of one of the franchisee loan pools. The total loans outstanding under these loan pools were approximately \$77 million at December 31, 2005.

Any funding under the guarantees or letters of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to net franchising loss (gain). New loans added to the loan pools in 2005 were not significant.

Critical Accounting Policies and Estimates

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

Impairment or Disposal of Long-Lived Assets

We evaluate our long-lived assets for impairment at the individual restaurant level except when there is an expectation that we will rebrand restaurants as a group. Restaurants held and used are evaluated for impairment on a semi-annual basis or whenever events or circumstances indicate that the carrying amount of a restaurant may not be recoverable (including a decision to close a restaurant or an offer to rebrand a restaurant or group of restaurants for less than the carrying value).

Our semi-annual impairment test includes those restaurants that have experienced two consecutive years of operating losses. Our semi-annual impairment evaluations require an estimation of cash flows over the remaining useful life of the primary asset of the restaurant, which can be for a period of over 20 years, and any terminal value. We limit assumptions about important factors such as sales growth and margin improvement to those that are supportable based upon our plans for the unit and actual results at comparable restaurants.

If the long-lived assets of a restaurant subject to our semi-annual test are not recoverable based upon forecasted, undiscounted cash flows, we write the assets down to their fair value. This fair value is determined by discounting the forecasted cash flows, including terminal value, of the restaurant at an appropriate rate. The discount rate used is our cost of capital, adjusted upward when a higher risk is believed to exist.

We often rebrand restaurants in groups and, therefore, perform such impairment evaluations at the group level. Forecasted cash flows in such instances consist of estimated holding period cash flows and the expected sales proceeds less applicable transaction costs. Expected sales proceeds are based on the most relevant of historical sales multiples or bids from buyers, and have historically been reasonably accurate estimations of the proceeds ultimately received.

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

Impairment of 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 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. Our impairment measurement test for an investment in an unconsolidated affiliate is similar to our semi-

annual test for impairment of our restaurants except that we use discounted cash flows after interest and taxes instead of discounted cash flows before interest and taxes as used for our restaurants. The fair values of our investments in each of our unconsolidated affiliates are currently significantly in excess of their carrying values.

See Note 2 for a further discussion of our policy regarding the impairment of investments in unconsolidated affiliates.

Impairment of Goodwill and Indefinite-Lived Intangible Assets

We evaluate goodwill and indefinite-lived intangible assets for impairment on an annual basis or more often if an event occurs or circumstances change that indicates impairment might exist. Goodwill is evaluated for impairment through the comparison of fair value of our reporting units to their carrying values. Our reporting units are our operating segments in the U.S. and our business management units internationally (typically individual countries). Fair value is the price a willing buyer would pay for the reporting unit, and is generally estimated by discounting expected future cash flows from the reporting unit over twenty years plus an expected terminal value.

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

In determining the fair value of our reporting units and the KFC trademark/brand, we limit assumptions about important factors such as sales growth, margin and other factors impacting the fair value calculation to those that are supportable based upon our plans. For 2005, there was no impairment of goodwill or the KFC trademark/brand.

We have certain intangible assets, such as the LJS and A&W trademark/brand intangible assets, franchise contract rights and favorable operating leases, which are amortized over their expected useful lives. We base the expected useful lives of our trademark/brand intangible assets on a number of factors including the competitive environment, our future development plans for the applicable Concept and the level of franchisee commitment to the Concept. We generally base the expected useful lives of our franchise contract rights on their respective contractual terms including renewals when appropriate. We base the expected useful lives of our favorable operating leases on the remaining lease term.

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

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

Allowances for Franchise and License Receivables/Lease Guarantees

We reserve a franchisee's or licensee's entire receivable balance based upon pre-defined aging criteria and upon the occurrence of other events that indicate that we may not collect the balance due. As a result of reserving using this methodology, we have an immaterial amount of receivables that are past due that have not been reserved for at December 31, 2005.

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

value of a guarantee is the estimated amount at which the liability could be settled in a current transaction between willing parties.

If payment on the guarantee ever becomes probable and estimable, we record a liability for our exposure under these lease assignments and guarantees. At December 31, 2005, we have recorded an immaterial liability for our exposure which we consider to be probable and estimable. The potential total exposure under such leases is significant, with \$316 million representing the present value, discounted at our pre-tax cost of debt, of the minimum payments of the assigned leases at December 31, 2005. Current franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases and, historically, we have not been required to make such payments in significant amounts.

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

See Note 21 for a further discussion of our lease guarantees.

Self-Insured Property and Casualty Losses

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

See Note 21 for a further discussion of our insurance programs.

Pension Plans

Certain of our employees are covered under noncontributory defined benefit pension plans. The most significant of these plans was amended in 2001 such that employees hired after September 30, 2001 are not eligible to participate. As of our September 30, 2005 measurement date, these plans had a projected benefit obligation ("PBO") of \$815 million, an accumulated benefit obligation ("ABO") of \$736 million and a fair value of plan assets of \$610 million. As a result of the \$126 million underfunded status of the plans relative to the ABO at September 30, 2005 and an additional \$10 million contribution to the plans made subsequent to the measurement date but prior to December 31, 2005, we have recorded a cumulative \$110 million charge to accumulated other comprehensive loss (net of tax of \$66 million) as of December 31, 2005.

The PBO and ABO reflect the actuarial present value of all benefits earned to date by employees. The PBO incorporates assumptions as to future compensation levels while the ABO reflects only current compensation levels. Due to the relatively long time frame over which benefits earned to date are expected to be paid, our PBO and ABO are highly sensitive to changes in discount rates. We measured our PBO and ABO using a discount rate of 5.75% at September 30, 2005. This discount rate was determined with the assistance of our independent actuary. The basis for our discount rate determination is a model that consists of a hypothetical portfolio of ten or more high-quality corporate debt instruments with cash flows that mirror our expected benefit payment cash flows under the plans. In considering possible bond portfolios, the model allows the bond cash flows for a particular year to exceed the benefit cash flows for that year. Such excesses are assumed to be reinvested at appropriate one-year forward rates and used to meet the benefit cash flows in a future year. The weighted average yield of this hypothetical portfolio was used to arrive at an appropriate discount rate. We also insure that changes in the discount rate as compared to the prior year are consistent with the overall change in prevailing market rates. A 50 basis point increase in this discount rate would have decreased our PBO by approximately \$69 million at September 30, 2005. Conversely, a 50 basis point decrease in this discount rate would have increased our PBO by approximately \$77 million at September 30, 2005.

The pension expense we will record in 2006 is also impacted by the discount rate we selected at September 30, 2005. In total, we expect pension expense to increase approximately \$10 million to \$66 million in 2006. The increase is primarily driven by an increase in recognized actuarial loss of \$8 million in 2006. A 50 basis point change in our discount rate assumption of 5.75% at September 30, 2005 would impact our 2006 pension expense by approximately \$13 million.

The assumption we make regarding our expected long-term rate of return on plan assets also impacts our pension expense. Our estimated long-term rate of return on plan assets represents the weighted-average of historical returns for each asset category, adjusted for an assessment of current market conditions. Our expected long-term rate of return was lowered to 8.0% from 8.5% in connection with our September 30, 2005 valuation. We believe this revision was appropriate given the composition of our plan assets and historical market returns thereon, including those experienced in calendar year 2005. This change did not impact our reported pension expense for 2005 but will increase our 2006 expense by approximately \$3 million.

The losses our plan assets have experienced, along with the decrease in discount rates, have largely contributed to an unrecognized actuarial loss of \$256 million in our plans as of September 30, 2005. For purposes of determining 2005 expense, our funded status was such that we recognized \$22 million of unrecognized actuarial loss. We will recognize approximately \$30 million of unrecognized actuarial loss in 2006. Given no change to the assumptions at our September 30, 2005 measurement date, actuarial loss recognition will remain at an amount near that to be recognized in 2006 over the next few years before it begins to gradually decline.

See Note 14 for further discussion of our pension and post-retirement plans.

Income Tax Valuation Allowances and Tax Reserves

At December 31, 2005, we have a valuation allowance of \$233 million primarily to reduce our net operating loss and tax credit carryforwards of \$223 million and our other deferred tax assets to amounts that will more likely than not be realized. The net operating loss and tax credit carryforwards exist in many state and foreign jurisdictions and have varying carryforward periods and restrictions on usage. The estimation of future taxable income in these state and foreign jurisdictions and our resulting ability to utilize net operating loss and tax credit carryforwards can significantly change based on future events, including our determinations as to the feasibility of certain tax planning strategies. Thus, recorded valuation allowances may be subject to material future changes.

As a matter of course, we are regularly audited by federal, state and foreign tax authorities. We provide reserves for potential exposures when we consider it probable that a taxing authority may take a sustainable position on a matter contrary to our position. We evaluate these reserves, including interest thereon, on a quarterly basis to insure that they have been appropriately adjusted for events, including audit settlements, that may impact our ultimate payment for such exposures.

See Note 19 for a further discussion of our income taxes.

Stock Option Expense

Compensation expense for stock options is estimated on the grant date using a Black-Scholes option pricing model. Our specific weighted-average assumptions for the risk-free interest rate, expected term, expected volatility and expected dividend yield are documented in Note 15. Additionally, under SFAS 123R we are required to estimate pre-vesting forfeitures for purposes of determining compensation expense to be recognized. Future expense amounts for any particular quarterly or annual period could be affected by changes in our assumptions or changes in market conditions.

In connection with our adoption of SFAS 123R, we determined that it was appropriate to group our stock option grants into two homogeneous groups when estimating expected life and pre-vesting forfeitures. These groups consist of grants made primarily to restaurant-level employees under our Restaurant General Manager Stock Option Plan (the "RGM

Plan”) and grants made to executives under our other stock option plans. Historically, approximately 20% of total options granted have been made under the RGM Plan.

We have traditionally used six years as the expected term of all stock option grants. In connection with our adoption of SFAS 123R and the increasing amount of historical data we now possess with regard to stock option exercise activity, we reevaluated our expected term assumptions. Based on historical exercise and post-vesting employment termination behavior, we determined that the expected life for options granted under the RGM Plan was five years. For options granted to our above-store executives, we determined that an expected life of six years was appropriate.

Prior to the adoption of SFAS 123R we have traditionally based expected volatility on Company specific historical stock data over the expected term of the option. We are in the process of reevaluating expected volatility, including consideration of both historical volatility of our stock as well as implied volatility associated with our traded options. Options granted subsequent to the adoption of SFAS 123R in the fourth quarter of 2005 were not significant.

Prior to our adoption of SFAS 123R we recorded reductions in expense due to pre-vesting forfeitures as they occurred. In connection with the adoption of SFAS 123R we have estimated forfeitures based on historical data. Based on such data, we believe that approximately 45% of all options granted under the RGM Plan, which typically vest on a cliff-basis after four years, will be forfeited while approximately 19% of options granted to above-store executives, which typically vest 25% per year over four years, will be forfeited. An insignificant transition adjustment was recorded upon the adoption of SFAS 123R for the difference between actual and estimated forfeitures for the first three quarters of 2005 which we restated under the modified retrospective transition method.

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 derivative financial and commodity instruments to hedge our underlying exposures. Our policies prohibit the use of derivative instruments for trading purposes, and we have procedures in place to monitor and control their use.

Interest Rate Risk

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

At December 31, 2005 and December 25, 2004, a hypothetical 100 basis point increase in short-term interest rates would result, over the following twelve-month period, in a reduction of approximately \$7 million and \$6 million, respectively, in income before income taxes. The estimated reductions are based upon the level of variable rate debt and assume no changes in the volume or composition of debt. In addition, the fair value of our derivative financial instruments at December 31, 2005 and December 25, 2004 would decrease approximately \$39 million and \$51 million, respectively. The fair value of our Senior Unsecured Notes at December 31, 2005 and December 25, 2004 would decrease approximately \$59 million and \$76 million, respectively. Fair value was determined by discounting the projected cash flows.

Foreign Currency Exchange Rate Risk

The combined International Division and China Division operating profits constitute approximately 43% of our operating profit in 2005, excluding unallocated income (expenses). In addition, the Company’s net asset exposure (defined as foreign currency assets less foreign currency liabilities) totaled approximately \$1.3 billion as of December 31, 2005. Operating in international markets exposes the Company to movements in foreign currency exchange rates. The Company’s primary exposures result from our operations in Asia-Pacific, the Americas and Europe. Changes in foreign

currency exchange rates would impact the translation of our investments in foreign operations, the fair value of our foreign currency denominated financial instruments and our reported foreign currency denominated earnings and cash flows. For the fiscal year ended December 31, 2005, operating profit would have decreased \$70 million if all foreign currencies had uniformly weakened 10% relative to the U.S. dollar. The estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

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

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 as well as, on a limited basis, commodity future and option contracts. Commodity future and option contracts entered into for the fiscal years ended December 31, 2005, and December 25, 2004, did not significantly impact our financial position, results of operations or cash flows.

Cautionary Statements

From time to time, in both written reports and oral statements, we present “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The statements include those identified by such words as “may,” “will,” “expect,” “project,” “anticipate,” “believe,” “plan” and other similar terminology. These “forward-looking statements” reflect our current expectations regarding future events and operating and financial performance and are based upon data available at the time of the statements. Actual results involve risks and uncertainties, including both those specific to the Company and those specific to the industry, and could differ materially from expectations. Accordingly, you are cautioned not to place undue reliance on forward-looking statements.

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

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

Item 8. Financial Statements and Supplementary Data.

INDEX TO FINANCIAL INFORMATION

	<u>Page Reference</u>
Consolidated Financial Statements	
Reports of Independent Registered Public Accounting Firm	54
Consolidated Statements of Income for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003	56
Consolidated Statements of Cash Flows for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003	57
Consolidated Balance Sheets at December 31, 2005 and December 25, 2004	58
Consolidated Statements of Shareholders' Equity and Comprehensive Income for the fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003	59
Notes to Consolidated Financial Statements	60
Management's Responsibility for Financial Statements	97

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 31, 2005 and December 25, 2004, and the related consolidated statements of income, cash flows and shareholders’ equity and comprehensive income for each of the years in the three-year period ended December 31, 2005. These consolidated financial statements are the responsibility of YUM’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of YUM as of December 31, 2005 and December 25, 2004, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of YUM’s internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 2, 2006 expressed an unqualified opinion on management’s assessment of, and the effective operation of, internal control over financial reporting.

As discussed in Notes 2 and 15 to the consolidated financial statements, YUM adopted the provisions of the Financial Accounting Standards Board’s Statement of Financial Accounting Standards No. 123R (Revised 2004), “Share-Based Payment,” and changed its method for accounting for share-based payments.

/s/ KPMG LLP
Louisville, Kentucky
March 2, 2006

Report of Independent Registered Public Accounting Firm

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

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, appearing under Item 9A, that YUM! Brands, Inc. and Subsidiaries ("YUM") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). YUM's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, management's assessment that YUM maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Also, in our opinion, YUM maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of YUM as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, cash flows and shareholders' equity and comprehensive income for each of the years in the three-year period ended December 31, 2005, and our report dated March 2, 2006, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP
Louisville, Kentucky
March 2, 2006

Consolidated Statements of Income
YUM! Brands, Inc. and Subsidiaries
Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003
(in millions, except per share data)

	2005	2004	2003
Revenues			
Company sales	\$ 8,225	\$ 7,992	\$ 7,441
Franchise and license fees	1,124	1,019	939
	<u>9,349</u>	<u>9,011</u>	<u>8,380</u>
Costs and Expenses, net			
Company restaurants			
Food and paper	2,584	2,538	2,300
Payroll and employee benefits	2,171	2,112	2,024
Occupancy and other operating expenses	2,315	2,183	2,013
	<u>7,070</u>	<u>6,833</u>	<u>6,337</u>
General and administrative expenses	1,158	1,056	945
Franchise and license expenses	33	26	28
Facility actions	19	26	36
Other (income) expense	(80)	(55)	(41)
Wrench litigation (income) expense	(2)	(14)	42
AmeriServe and other charges (credits)	(2)	(16)	(26)
Total costs and expenses, net	<u>8,196</u>	<u>7,856</u>	<u>7,321</u>
Operating Profit	1,153	1,155	1,059
Interest expense, net	127	129	173
Income before Income Taxes and Cumulative Effect of Accounting Change	1,026	1,026	886
Income tax provision	264	286	268
Income before Cumulative Effect of Accounting Change	762	740	618
Cumulative effect of accounting change, net of tax	—	—	(1)
Net Income	<u>\$ 762</u>	<u>\$ 740</u>	<u>\$ 617</u>
Basic Earnings Per Common Share	<u>\$ 2.66</u>	<u>\$ 2.54</u>	<u>\$ 2.10</u>
Diluted Earnings Per Common Share	<u>\$ 2.55</u>	<u>\$ 2.42</u>	<u>\$ 2.02</u>
Dividends Declared Per Common Share	<u>\$ 0.445</u>	<u>\$ 0.30</u>	<u>\$ —</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2005, December 27, 2004 and December 27, 2003

(in millions)

	2005	2004	2003
Cash Flows – Operating Activities			
Net income	\$ 762	\$ 740	\$ 617
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change, net of tax	—	—	1
Depreciation and amortization	469	448	401
Facility actions	19	26	36
Contributions to defined benefit pension plans	(74)	(55)	(132)
Other liabilities and deferred credits	34	21	17
Deferred income taxes	(101)	142	(23)
Equity income from investments in unconsolidated affiliates	(51)	(54)	(39)
Distributions of income received from unconsolidated affiliates	44	55	46
Excess tax benefits from share-based compensation	(87)	—	—
Share-based compensation expense	62	3	3
Other non-cash charges and credits, net	40	62	107
Changes in operating working capital, excluding effects of acquisitions and dispositions:			
Accounts and notes receivable	(1)	(39)	2
Inventories	(4)	(7)	(1)
Prepaid expenses and other current assets	78	(5)	—
Accounts payable and other current liabilities	(6)	(20)	(32)
Income taxes payable	54	(131)	96
Net change in operating working capital	121	(202)	65
Net Cash Provided by Operating Activities	<u>1,238</u>	<u>1,186</u>	<u>1,099</u>
Cash Flows – Investing Activities			
Capital spending	(609)	(645)	(663)
Proceeds from franchising of restaurants	145	140	92
Acquisition of restaurants from franchisees	(2)	(38)	(41)
Short-term investments	12	(36)	13
Sales of property, plant and equipment	81	52	46
Other, net	28	(14)	(12)
Net Cash Used in Investing Activities	<u>(345)</u>	<u>(541)</u>	<u>(565)</u>
Cash Flows – Financing Activities			
Revolving Credit Facility activity			
three months or less, net	160	19	(153)
Repayments of long-term debt	(14)	(371)	(17)
Short-term borrowings-three months or less, net	(34)	—	(137)
Repurchase shares of common stock	(1,056)	(569)	(278)
Excess tax benefit from share-based compensation	87	—	—
Employee stock option proceeds	148	200	110
Dividends paid on common shares	(123)	(58)	—
Net Cash Used in Financing Activities	<u>(832)</u>	<u>(779)</u>	<u>(475)</u>
Effect of Exchange Rate on Cash and Cash Equivalents	<u>1</u>	<u>4</u>	<u>3</u>
Net (Decrease) Increase in Cash and Cash Equivalents	62	(130)	62
Net Increase in Cash and Cash Equivalents of Mainland China for December 2004	34	—	—
Cash and Cash Equivalents – Beginning of Year	62	192	130
Cash and Cash Equivalents – End of Year	<u>\$ 158</u>	<u>\$ 62</u>	<u>\$ 192</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Balance Sheets

YUM! Brands, Inc. and Subsidiaries

December 31, 2005 and December 25, 2004

(in millions)

	<u>2005</u>	<u>2004</u>
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 158	\$ 62
Short-term investments	43	54
Accounts and notes receivable, less allowance: \$23 in 2005 and \$22 in 2004	236	192
Inventories	85	76
Prepaid expenses and other current assets	75	142
Deferred income taxes	163	156
Advertising cooperative assets, restricted	77	65
Total Current Assets	<u>837</u>	<u>747</u>
Property, plant and equipment, net	3,356	3,439
Goodwill	538	553
Intangible assets, net	330	347
Investments in unconsolidated affiliates	173	194
Other assets	464	416
Total Assets	<u>\$ 5,698</u>	<u>\$ 5,696</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$ 1,238	\$ 1,189
Income taxes payable	79	111
Short-term borrowings	211	11
Advertising cooperative liabilities	77	65
Total Current Liabilities	<u>1,605</u>	<u>1,376</u>
Long-term debt	1,649	1,731
Other liabilities and deferred credits	995	994
Total Liabilities	<u>4,249</u>	<u>4,101</u>
Shareholders' Equity		
Preferred stock, no par value, 250 shares authorized; no shares issued	—	—
Common stock, no par value, 750 shares authorized; 278 shares and 290 shares issued in 2005 and 2004, respectively	—	659
Retained earnings	1,619	1,067
Accumulated other comprehensive loss	(170)	(131)
Total Shareholders' Equity	<u>1,449</u>	<u>1,595</u>
Total Liabilities and Shareholders' Equity	<u>\$ 5,698</u>	<u>\$ 5,696</u>

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Shareholders' Equity and Comprehensive Income

YUM! Brands, Inc. and Subsidiaries

Fiscal years ended December 31, 2005, December 25, 2004 and December 27, 2003

(in millions)

	Issued Common Stock		Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
Balance at December 28, 2002	294	\$ 1,046	\$ (203)	\$ (249)	\$ 594
Net income			617		617
Foreign currency translation adjustment arising during the period				67	67
Foreign currency translation adjustment included in net income				2	2
Minimum pension liability adjustment (net of tax impact of \$18 million)				(30)	(30)
Comprehensive Income					656
Repurchase of shares of common stock	(9)	(278)			(278)
Employee stock option exercises (includes tax impact of \$26 million)	7	136			136
Compensation-related events		12			12
Balance at December 27, 2003	292	\$ 916	\$ 414	\$ (210)	\$ 1,120
Net income			740		740
Foreign currency translation adjustment arising during the period				73	73
Minimum pension liability adjustment (net of tax impact of \$3 million)				6	6
Comprehensive Income					819
Dividends declared on common shares (\$0.30 per common share)			(87)		(87)
Repurchase of shares of common stock	(14)	(569)			(569)
Employee stock option exercises (includes tax impact of \$102 million)	12	302			302
Compensation-related events		10			10
Balance at December 25, 2004	290	\$ 659	\$ 1,067	\$ (131)	\$ 1,595
Net income			762		762
Foreign currency translation adjustment arising during the period				(31)	(31)
Foreign currency translation adjustment included in net income				6	6
Minimum pension liability adjustment (net of tax impact of \$8 million)				(15)	(15)
Net unrealized loss on derivative instruments (includes tax impact of \$1 million)				1	1
Comprehensive Income					723
Dividends declared on common shares (\$0.445 per common share)			(129)		(129)
China December 2004 net income			6		6
Repurchase of shares of common stock	(21)	(969)	(87)		(1,056)
Employee stock option exercises (includes tax impact of \$94 million)	9	242			242
Compensation-related events		68			68
Balance at December 31, 2005	278	\$ —	\$ 1,619	\$ (170)	\$ 1,449

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 as “YUM” or the “Company”) comprises the worldwide operations of KFC, Pizza Hut, Taco Bell and since May 7, 2002, Long John Silver’s (“LJS”) and A&W All-American Food Restaurants (“A&W”) (collectively the “Concepts”), which were added when we acquired Yorkshire Global Restaurants, Inc. (“YGR”). YUM is the world’s largest quick service restaurant company based on the number of system units, with over 34,000 units of which approximately 40% are located outside the U.S. in more than 100 countries and territories. YUM was created as an independent, publicly-owned company on October 6, 1997 (the “Spin-off Date”) via a tax-free distribution by our former parent, PepsiCo, Inc. (“PepsiCo”), of our Common Stock (the “Distribution” or “Spin-off”) to its shareholders. References to YUM throughout these Consolidated Financial Statements are made using the first person notations of “we,” “us” or “our.”

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

In 2005, we began reporting information for our international business in two separate operating segments as a result of changes to our management reporting structure. The China Division includes mainland China (“China”), Thailand and KFC Taiwan, and the International Division includes the remainder of our international operations. While this reporting change did not impact our consolidated results, segment information for previous periods has been restated to be consistent with the current period presentation.

Beginning in 2005, we also changed the China business reporting calendar to more closely align the timing of the reporting of its results of operations with our U.S. business. Previously our China business, like the rest of our international businesses, closed one month (or one period for certain of our international businesses) earlier than YUM’s period end date to facilitate consolidated reporting. To maintain comparability of our consolidated results of operations, amounts related to our China business for December 2004 have not been reflected in our Consolidated Statements of Income and net income for the China business for the one month period ended December 31, 2004 was recognized as an adjustment directly to consolidated retained earnings in the year to date ended December 31, 2005. Our consolidated results of operations for the year to date ended December 31, 2005 include the results of operations of the China business for the months of January, 2005 through December, 2005. Our consolidated results of operations for the years to date ended December 25, 2004 and December 27, 2003 continue to include the results of operations of the China business for the months of December, 2003 through November, 2004, and December, 2002 through November, 2003, respectively, as previously reported.

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

31, 2005. The \$34 million net increase in cash was primarily attributable to short-term borrowings for working capital purposes, a majority of which were repaid prior to the end of the China business' first quarter.

Note 2 - Summary of Significant Accounting Policies

Our preparation of the accompanying Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States of America requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Principles of Consolidation and Basis of Preparation. Intercompany accounts and transactions have been eliminated. Certain investments in businesses that operate our Concepts are accounted for by the equity method. Generally, we possess 50% ownership of and 50% voting rights over these affiliates. Our lack of majority voting rights precludes us from controlling these affiliates, and thus we do not consolidate these affiliates. Our share of the net income or loss of those unconsolidated affiliates is included in other (income) expense.

We participate in various advertising cooperatives with our franchisees and licensees. In certain of these cooperatives we possess majority voting rights, and thus control the cooperatives. We report all assets and liabilities of these advertising cooperatives that we consolidate as advertising cooperative assets, restricted and advertising cooperative liabilities in the Consolidated Balance Sheet. As the contributions to these cooperatives are designated and segregated for advertising, we act as an agent for the franchisees and licensees with regard to these contributions. Thus, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 45, "Accounting for Franchise Fee Revenue," we do not reflect, and have not reflected in the past, franchisee and licensee contributions to these cooperatives in our Consolidated Statements of Income.

In 2004, we adopted Financial Accounting Standards Board ("FASB") Interpretation No. 46 (revised December 2003), "Consolidation of Variable Interest Entities, an interpretation of ARB No. 51" ("FIN 46R"). FIN 46R addresses the consolidation of an entity whose equity holders either (a) have not provided sufficient equity at risk to allow the entity to finance its own activities or (b) do not possess certain characteristics of a controlling financial interest. FIN 46R requires the consolidation of such an entity, known as a variable interest entity ("VIE"), by the primary beneficiary of the entity. The primary beneficiary is the entity, if any, that is obligated to absorb a majority of the risk of loss from the VIE's activities, entitled to receive a majority of the VIE's residual returns, or both. FIN 46R excludes from its scope businesses (as defined by FIN 46R) unless certain conditions exist.

The principal entities in which we possess a variable interest include franchise entities, including our unconsolidated affiliates described above. We do not possess any ownership interests in franchise entities except for our investments in various unconsolidated affiliates accounted for under the equity method. Additionally, we generally do not provide financial support to franchise entities in a typical franchise relationship.

We also possess variable interests in certain purchasing cooperatives we have formed along with representatives of the franchisee groups of each of our Concepts. These purchasing cooperatives were formed for the purpose of purchasing certain restaurant products and equipment in the U.S. Our equity ownership in each cooperative is generally proportional to our percentage ownership of the U.S. system units for the Concept. We account for our investments in these purchasing cooperatives using the cost method, under which our recorded balances were not significant at December 31, 2005 or December 25, 2004.

As a result of the adoption of FIN 46R, we have not consolidated any franchise entities, purchasing cooperatives or other entities.

Fiscal Year . Our fiscal year ends on the last Saturday in December and, as a result, a 53rd week is added every five or six years. Fiscal year 2005 included 53 weeks. The first three quarters of each fiscal year consist of 12 weeks and the fourth quarter consists of 16 weeks in fiscal years with 52 weeks and 17 weeks in fiscal years with 53 weeks. In fiscal

year 2005, the 53rd week added \$96 million to total revenues and \$23 million to total operating profit in our Consolidated Statement of Income. Our subsidiaries operate on similar fiscal calendars with period or month end dates suited to their businesses. The subsidiaries' period end dates are within one week of YUM's period end date with the exception of all of our international businesses except China. The international businesses except China close one period or one month earlier to facilitate consolidated reporting.

Reclassifications. We have reclassified certain items in the accompanying Consolidated Financial Statements and Notes thereto for prior periods to be comparable with the classification for the fiscal year ended December 31, 2005. These reclassifications had no effect on previously reported net income.

Specifically, we have reclassified distributions from unconsolidated affiliates from investing activities to operating activities on the Consolidated Statements of Cash Flows for 2004 and 2003. These distributions represent returns on equity investments, and therefore have been reclassified in accordance with the provisions of SFAS No. 95, "Statement of Cash Flows." There was no impact on the previously reported Consolidated Statements of Income or Consolidated Balance Sheets as a result of the reclassifications. The reclassifications increased net cash provided by operating activities in the Consolidated Statements of Cash Flows by \$55 million and \$46 million for the years ended 2004 and 2003, respectively.

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

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

We monitor the financial condition of our franchisees and licensees and record provisions for estimated losses on receivables when we believe that our franchisees or licensees are unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Net provisions for uncollectible franchise and license receivables of \$3 million and \$1 million were included in franchise and license expense in 2005 and 2004, respectively. Included in franchise and license expense in 2003 was a net benefit for uncollectible franchise and license receivables of \$3 million, as we were able to recover previously reserved receivables in excess of current provisions.

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

Direct Marketing Costs. We charge direct marketing costs to expense ratably in relation to revenues over the year in which incurred and, in the case of advertising production costs, in the year the advertisement is first shown. Deferred direct marketing costs, which are classified as prepaid expenses, consist of media and related advertising production costs which will generally be used for the first time in the next fiscal year and have historically not been significant. To the extent we participate in advertising cooperatives, we expense our contributions as incurred. Our advertising expenses

were \$497 million, \$458 million and \$419 million in 2005, 2004 and 2003, 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 \$33 million in 2005 and \$26 million in both 2004 and 2003.

Impairment or Disposal of Long-Lived Assets. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS 144"), we review our long-lived assets related to each restaurant to be held and used in the business, including any allocated intangible assets subject to amortization, semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant may not be recoverable. We evaluate restaurants using a "two-year history of operating losses" as our primary indicator of potential impairment. Based on the best information available, we write down an impaired restaurant to its estimated fair market value, which becomes its new cost basis. We generally measure estimated fair market value by discounting estimated future cash flows. In addition, when we decide to close a restaurant it is reviewed for impairment and depreciable lives are adjusted based on the expected disposal date. The impairment evaluation is based on the estimated cash flows from continuing use through the expected disposal date plus the expected terminal value.

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

Refranchising gains (losses) includes the gains or losses from the sales of our restaurants to new and existing franchisees and the related initial franchise fees, reduced by transaction costs. In executing our refranchising initiatives, we most often offer groups of restaurants. We classify restaurants as held for sale and suspend depreciation and amortization when (a) we make a decision to refranchise; (b) the stores can be immediately removed from operations; (c) we have begun an active program to locate a buyer; (d) significant changes to the plan of sale are not likely; and (e) the sale is probable within one year. We recognize estimated losses on refranchisings when the restaurants are classified as held for sale. We also recognize as refranchising losses impairment associated with stores we have offered to refranchise for a price less than their carrying value, but do not believe have met the criteria to be classified as held for sale. We recognize gains on restaurant refranchisings when the sale transaction closes, the franchisee has a minimum amount of the purchase price in at-risk equity, and we are satisfied that the franchisee can meet its financial obligations. If the criteria for gain recognition are not met, we defer the gain to the extent we have a remaining financial exposure in connection with the sales transaction. Deferred gains are recognized when the gain recognition criteria are met or as our financial exposure is reduced. When we make a decision to retain a store previously held for sale, we revalue the store at the lower of its (a) net book value at our original sale decision date less normal depreciation and amortization that would have been recorded during the period held for sale or (b) its current fair market value. This value becomes the store's new cost basis. We record any difference between the store's carrying amount and its new cost basis to refranchising gains (losses). Refranchising gains (losses) also include charges for estimated exposures related to those partial guarantees of franchisee loan pools and contingent lease liabilities which arose from refranchising activities. These exposures are more fully discussed in Note 21.

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 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. Our impairment measurement test for an investment in an unconsolidated affiliate is similar to that for our restaurants except that we use discounted cash flows after interest and taxes instead of discounted cash flows before interest and taxes as used for our restaurants. We recorded no impairment associated with our investments in unconsolidated affiliates during the years ended December 31, 2005, December 25, 2004 and December 27, 2003.

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

Asset Retirement Obligations . Effective December 29, 2002, we adopted SFAS No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses the financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. As a result of obligations under certain leases as of December 29, 2002 that were within the scope of SFAS 143, we recorded a cumulative effect adjustment of \$2 million (\$1 million after tax) which did not have a material effect on diluted earnings per common share. The adoption of SFAS 143 also did not have a material impact on our Consolidated Financial Statements for the years ended December 31, 2005, December 25, 2004 or December 27, 2003.

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

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

Cash and Cash Equivalents. Cash equivalents represent funds we have temporarily invested (with original maturities not exceeding three months) as part of managing our day-to-day operating cash receipts and disbursements.

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

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

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

In 2004, we recorded an adjustment to correct instances where our leasehold improvements were not being depreciated over the shorter of their useful lives or the term of the lease, including options in some instances, over which we were

recording rent expense, including escalations, on a straight line basis. The cumulative adjustment, primarily through increased U.S. depreciation expense, totaled \$11.5 million (\$7 million after tax). The portion of this adjustment that related to 2004 was approximately \$3 million. As the portion of the adjustment recorded that was a correction of errors of amounts reported in our prior period financial statements was not material to any of those prior period financial statements, the entire adjustment was recorded in the 2004 Consolidated Financial Statements and no adjustment was made to any prior period financial statements.

We record rent expense for leases that contain scheduled rent increases on a straight-line basis over the lease term, including any option periods considered in the determination of that lease term. Contingent rentals are generally based on sales levels in excess of stipulated amounts, and thus are not considered minimum lease payments and are included in rent expense as they accrue. We generally do not receive leasehold improvement incentives upon opening a store that is subject to a lease. We capitalize rent associated with leased land or buildings while we are constructing a restaurant even if such construction period is subject to a rent holiday. Such capitalized rent is then expensed on a straight-line basis over the remaining term of the lease upon opening of the restaurant. We will begin expensing rent for construction periods beginning January 1, 2006 and thereafter, whether paid or subject to a rent holiday, in accordance with the FASB Staff Position No. 13-1, "Accounting for Rental Costs Incurred during a Construction Period" ("FSP 13-1"). We do not anticipate that the adoption of FSP 13-1 will significantly impact our results of operations.

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

Goodwill and Intangible Assets. The Company accounts for acquisitions of restaurants from franchisees and other acquisitions of business that may occur from time to time in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). Goodwill in such acquisitions represents the excess of the cost of a business acquired over the net of the amounts assigned to assets acquired, including identifiable intangible assets, and liabilities assumed. SFAS 141 specifies criteria to be used in determining whether intangible assets acquired in a business combination must be recognized and reported separately from goodwill. We base amounts assigned to goodwill and other identifiable intangible assets on independent appraisals or internal estimates.

The Company accounts for recorded goodwill and other intangible assets in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). In accordance with SFAS 142, we do not amortize goodwill and indefinite-lived intangible assets. We evaluate the remaining useful life of an intangible asset that is not being amortized each reporting period to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, we amortize the intangible asset prospectively over its estimated remaining useful life. Amortizable intangible assets are amortized on a straight-line basis. The weighted average useful life of our amortizable franchise contract rights and our amortizable trademarks/brands is 33 years and 30 years, respectively. As discussed above, we suspend amortization on those intangible assets with a defined life that are allocated to restaurants that are held for sale.

In accordance with the requirements of SFAS 142, goodwill has been assigned to reporting units for purposes of impairment testing. Our reporting units are our operating segments in the U.S. (see Note 20) and our business management units internationally (typically individual countries). Goodwill impairment tests consist of a comparison of each reporting unit's fair value with its carrying value. The fair value of a reporting unit is an estimate of the amount for which the unit as a whole could be sold in a current transaction between willing parties. We generally estimate fair value based on discounted cash flows. If the carrying value of a reporting unit exceeds its fair value, goodwill is written down to its implied fair value. We have selected the beginning of our fourth quarter as the date on which to perform our ongoing annual impairment test for goodwill. For 2005, 2004 and 2003, there was no impairment of goodwill identified during our annual impairment testing.

For indefinite-lived intangible assets, our impairment test consists of a comparison of the fair value of an intangible asset with its carrying amount. Fair value is an estimate of the price a willing buyer would pay for the intangible asset and is generally estimated by discounting the expected future cash flows associated with the intangible asset. We also perform our annual test for impairment of our indefinite-lived intangible assets at the beginning of our fourth quarter. As discussed in Note 9, we recorded a \$5 million charge in 2003 as a result of the impairment of an indefinite-lived intangible asset. This charge was recorded in facility actions. No impairment of indefinite-lived intangible assets was recorded in 2005 or 2004.

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

Share-Based Employee Compensation. In the fourth quarter 2005, the Company adopted SFAS No. 123 (Revised 2004), "Share-Based Payment" ("SFAS 123R"), which replaces SFAS No. 123 "Accounting for Stock-Based Compensation" ("SFAS 123"), supersedes APB 25, "Accounting for Stock Issued to Employees" and related interpretations and amends SFAS No. 95, "Statement of Cash Flows." The provisions of SFAS 123R are similar to those of SFAS 123, however, SFAS 123R requires all new, modified and unvested share-based payments to employees, including grants of employee stock options and restricted stock, be recognized in the financial statements as compensation cost over the service period based on their fair value on the date of grant. Compensation cost is recognized over the service period on a straight-line basis for the fair value of awards that actually vest.

We adopted SFAS 123R using the modified retrospective application transition method effective September 4, 2005, the beginning of our fourth quarter. As permitted by SFAS 123R, we applied the modified retrospective application transition method to the beginning of the fiscal year of adoption (our fiscal year 2005). As such, the first three fiscal quarters of 2005 are required to be adjusted to recognize the compensation cost previously reported in the pro forma footnote disclosures (modified subject to certain corrections noted during the fourth quarter of 2005 that impacted net income by approximately \$0.5 million in each quarter) under the provisions of SFAS 123. However, years prior to 2005 have not been restated.

The adoption of SFAS 123R in 2005 resulted in the reduction of operating profit of \$58 million (\$10 million in payroll and employee benefits and \$48 million in G&A expense), a reduction of net income of \$38 million (net of tax benefits of \$20 million), a reduction of both basic and diluted earnings per share of \$0.13 per share, a reduction of \$87 million in cash flows from operating activities and an increase of \$87 million in cash flows from financing activities. The adoption of SFAS 123R resulted in the reduction of fourth quarter operating profit of \$18 million (\$3 million in payroll and employee benefits and \$15 million in G&A expense), a reduction of net income of \$12 million (net of tax benefits of \$6 million) and a reduction of both basic and diluted earnings per share of \$0.04 per share.

The following table shows the 2005 quarterly after-tax effect of adoption of SFAS 123R on the first three quarters of 2005 as previously reported.

	First Quarter		Second Quarter		Third Quarter	
	Net Income	Diluted EPS	Net Income	Diluted EPS	Net Income	Diluted EPS
Reported results prior to SFAS 123R adoption	\$ 161	\$ 0.53	\$ 187	\$ 0.62	\$ 214	\$ 0.72
Impact of SFAS 123R adoption	(8)	(0.03)	(9)	(0.03)	(9)	(0.03)
Results subsequent to SFAS 123R adoption	<u>\$ 153</u>	<u>\$ 0.50</u>	<u>\$ 178</u>	<u>\$ 0.59</u>	<u>\$ 205</u>	<u>\$ 0.69</u>

Prior to 2005, all share-based payments were accounted for under the recognition and measurement principles of APB 25 and its related Interpretations. Accordingly, no expense was reflected in the Consolidated Statements of Income for stock options, as all stock options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. The following table illustrates the pro forma effect on net income and earnings per share if the Company had applied the fair value recognition provisions of SFAS 123 to all share-based payments for those years.

	<u>2004</u>	<u>2003</u>
Net Income, as reported	\$ 740	\$ 617
Add: Compensation expense included in reported net income, net of related tax	3	3
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	<u>(40)</u>	<u>(41)</u>
Net income, pro forma	703	579
Basic Earnings per Common Share		
As reported	\$ 2.54	\$ 2.10
Pro forma	2.42	1.98
Diluted Earnings per Common Share		
As reported	\$ 2.42	\$ 2.02
Pro forma	2.30	1.90

Derivative Financial Instruments. We do not use derivative instruments for trading purposes and we have procedures in place to monitor and control their use. Our use of derivative instruments has included interest rate swaps and collars, treasury locks and foreign currency forward contracts. In addition, on a limited basis we utilize commodity futures and options contracts. Our interest rate and foreign currency derivative contracts are entered into with financial institutions while our commodity derivative contracts are exchange traded.

We account for these derivative financial instruments in accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133") as amended by SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities" ("SFAS 149"). SFAS 133 requires that all derivative instruments be recorded on the Consolidated Balance Sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument is dependent upon whether the derivative has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For derivative instruments that are designated and qualify as a fair value hedge, the gain or loss on the derivative instrument as well as the offsetting gain or loss on the hedged item attributable to the hedged risk are recognized in the results of operations. For derivative instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income (loss) and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any ineffective portion of the gain or loss on the derivative instrument is recorded in the results of operations immediately. For derivative instruments not designated as hedging instruments, the gain or loss is recognized in the results of operations immediately. See Note 13 for a discussion of our use of derivative instruments, management of credit risk inherent in derivative instruments and fair value information.

Common Stock Share Repurchases. From time to time, we repurchase shares of our Common Stock under share repurchase programs authorized by our Board of Directors. Shares repurchased constitute authorized, but unissued shares under the North Carolina laws under which we are incorporated. Additionally, our Common Stock has no par or stated value. Accordingly, we record the full value of share repurchases against Common Stock except when to do so would result in a negative balance in our Common Stock account. In such instances, on a period basis, we record the cost of any further share repurchases as a reduction in retained earnings. Due to the large number of share repurchases and the increase in our Common Stock value over the past several years, our Common Stock balance reached zero

during the fourth quarter of 2005. Accordingly, in the fourth quarter of 2005, \$87 million in share repurchases were recorded as a reduction in retained earnings. We have no legal restrictions on the payment of dividends provided total shareholders' equity is positive. See Note 18 for additional information.

Note 3 - Earnings Per Common Share ("EPS")

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Net income	<u>\$ 762</u>	<u>\$ 740</u>	<u>\$ 617</u>
Basic EPS:			
Weighted-average common shares outstanding	<u>286</u>	<u>291</u>	<u>293</u>
Basic EPS	<u>\$ 2.66</u>	<u>\$ 2.54</u>	<u>\$ 2.10</u>
Diluted EPS:			
Weighted-average common shares outstanding	286	291	293
Shares assumed issued on exercise of dilutive share equivalents	38	47	52
Shares assumed purchased with proceeds of dilutive share equivalents	<u>(26)</u>	<u>(33)</u>	<u>(39)</u>
Shares applicable to diluted earnings	<u>298</u>	<u>305</u>	<u>306</u>
Diluted EPS	<u>\$ 2.55</u>	<u>\$ 2.42</u>	<u>\$ 2.02</u>

Unexercised employee stock options to purchase approximately 0.5 million, 0.4 million and 4 million shares of our Common Stock for the years ended December 31, 2005, December 25, 2004 and December 27, 2003, respectively, were not included in the computation of diluted EPS because their exercise prices were greater than the average market price of our Common Stock during the year.

Note 4 – Items Affecting Comparability of Net Income

Facility Actions

Facility actions consists of the following components:

- Refranchising net (gains) losses;
- Store closure costs;
- Impairment of long-lived assets for stores we intend to close and stores we intend to continue to use in the business;
- Impairment of goodwill and indefinite-lived intangible assets.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S.			
Refranchising net (gains) losses ^{(a)(d)}	\$ (40)	\$ (14)	\$ (20)
Store closure costs	2	(3)	1
Store impairment charges	44	17	10
SFAS 142 impairment charges ^(c)	—	—	5
Facility actions	<u>6</u>	<u>—</u>	<u>(4)</u>
International Division			
Refranchising net (gains) losses ^{(a)(b)(d)}	(3)	3	20
Store closure costs	(1)	1	5
Store impairment charges	10	19	13
Facility actions	<u>6</u>	<u>23</u>	<u>38</u>
China Division			
Refranchising net (gains) losses ^{(a)(d)}	—	(1)	(4)
Store closure costs	(1)	(1)	—
Store impairment charges	8	5	6
Facility actions	<u>7</u>	<u>3</u>	<u>2</u>
Worldwide			
Refranchising net (gains) losses ^{(a) (b)}	(43)	(12)	(4)
Store closure costs	—	(3)	6
Store impairment charges	62	41	29
SFAS 142 impairment charges ^(c)	—	—	5
Facility actions	<u>\$ 19</u>	<u>\$ 26</u>	<u>\$ 36</u>

(a) Includes initial franchise fees in the U.S. of \$7 million in 2005, \$2 million in 2004 and \$3 million in 2003, and in International Division of \$3 million in 2005, \$8 million in 2004 and \$1 million in 2003 and China Division of \$1 million in 2003. See Note 6.

(b) International Division includes write downs of \$6 million and \$16 million for the years ended December 25, 2004 and December 27, 2003, respectively, related to our Puerto Rico business, which was sold on October 4, 2004.

(c) In 2003, we recorded a \$5 million charge in the U.S. related to the impairment of the A&W trademark/brand (see further discussion at Note 9).

(d) Refranchising (gains) losses are not allocated to segments for performance reporting purposes.

The following table summarizes the 2005 and 2004 activity related to reserves for remaining lease obligations for closed stores.

	<u>Beginning Balance</u>	<u>Amounts Used</u>	<u>New Decisions</u>	<u>Estimate/Decision Changes</u>	<u>Other ^(a)</u>	<u>Ending Balance</u>
2004 Activity	\$ 40	(17)	8	(1)	13	\$ 43
2005 Activity	\$ 43	(13)	14	—	—	\$ 44

(a) Primarily reserves established upon acquisitions of franchisee restaurants.

Assets held for sale at December 31, 2005 and December 25, 2004 total \$11 million and \$7 million, respectively, of U.S. property, plant and equipment, primarily land, on which we previously operated restaurants and are included in prepaid expenses and other current assets on our Consolidated Balance Sheets.

Wrench Litigation

We recorded income of \$2 million in 2005 from a settlement with an insurance carrier related to the Wrench litigation. Income of \$14 million was recorded for 2004 reflecting settlements associated with the Wrench litigation for amounts less than previously accrued as well as related insurance recoveries. Expense of \$42 million was recorded as Wrench litigation for 2003 reflecting the amounts awarded to the plaintiff and interest thereon. See Note 21 for a discussion of Wrench litigation.

AmeriServe and Other Charges (Credits)

AmeriServe Food Distribution Inc. (“AmeriServe”) was the primary distributor of food and paper supplies to our U.S. stores when it filed for protection under Chapter 11 of the U.S. Bankruptcy Code on January 31, 2000. A plan of reorganization for AmeriServe (the “POR”) was approved on November 28, 2000, which resulted in, among other things, the assumption of our distribution agreement, subject to certain amendments, by McLane Company, Inc. During the AmeriServe bankruptcy reorganization process, we took a number of actions to ensure continued supply to our system. Those actions resulted in significant expense for the Company, primarily recorded in 2000. Under the POR, we are entitled to proceeds from certain residual assets, preference claims and other legal recoveries of the estate.

Income of \$2 million, \$16 million and \$26 million was recorded as AmeriServe and other charges (credits) for 2005, 2004 and 2003, respectively. These amounts primarily resulted from cash recoveries related to the AmeriServe bankruptcy reorganization process.

Note 5 – Supplemental Cash Flow Data

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash Paid for:			
Interest	\$ 132	\$ 146	\$ 178
Income taxes	232	276	196
Significant Non-Cash Investing and Financing Activities:			
Assumption of capital leases related to the acquisition of restaurants from franchisees	—	8	—
Capital lease obligations incurred to acquire assets	7	13	9
Debt reduction due to amendment of sale-leaseback agreements	—	—	88

Note 6 – Franchise and License Fees

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Initial fees, including renewal fees	\$ 51	\$ 43	\$ 36
Initial franchise fees included in refranchising gains	(10)	(10)	(5)
	41	33	31
Continuing fees	1,083	986	908
	<u>\$ 1,124</u>	<u>\$ 1,019</u>	<u>\$ 939</u>

Note 7 – Other (Income) Expense

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Equity income from investments in unconsolidated affiliates	\$ (51)	\$ (54)	\$ (39)
Gain upon sale of investment in unconsolidated affiliate ^(a)	(11)	—	—
Recovery from supplier ^(b)	(20)	—	—
Foreign exchange net (gain) loss	2	(1)	(2)
Other (income) expense	<u>\$ (80)</u>	<u>\$ (55)</u>	<u>\$ (41)</u>

(a) Reflects a gain related to the 2005 sale of our fifty percent interest in the entity that operated almost all KFCs and Pizza Huts in Poland and the Czech Republic to our then partner in the entity, principally for cash. This transaction generated a one-time net gain of approximately \$11 million for YUM as cash proceeds (net of expenses) of approximately \$25 million from the sale of our interest in the entity exceeded our recorded investment in this unconsolidated affiliate.

(b) Relates to a financial recovery from a supplier ingredient issue in mainland China totaling \$24 million for the year ended December 31, 2005, \$4 million of which was recognized through equity income from investments in unconsolidated affiliates. Our KFC business in mainland China was negatively impacted by the interruption of product offerings and negative publicity associated with a supplier ingredient issue experienced in late March, 2005. During the year ended December 31, 2005, we entered into an agreement with the supplier for a partial recovery of our losses.

Note 8 - Property, Plant and Equipment, net

	2005	2004
Land	\$ 567	\$ 617
Buildings and improvements	3,094	2,957
Capital leases, primarily buildings	126	146
Machinery and equipment	2,399	2,337
	6,186	6,057
Accumulated depreciation and amortization	(2,830)	(2,618)
	<u>\$ 3,356</u>	<u>\$ 3,439</u>

Depreciation and amortization expense related to property, plant and equipment was \$459 million, \$434 million and \$388 million in 2005, 2004 and 2003, respectively.

Note 9 – Goodwill and Intangible Assets

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

	U.S.	International Division	China Division	Worldwide
Balance as of December 27, 2003	\$ 386	\$ 79	\$ 56	\$ 521
Acquisitions	19	14	—	33
Disposals and other, net ^(a)	(10)	7	2	(1)
Balance as of December 25, 2004	\$ 395	\$ 100	\$ 58	\$ 553
Acquisitions	—	1	—	1
Disposals and other, net ^(a)	(11)	(5)	—	(16)
Balance as of December 31, 2005	<u>\$ 384</u>	<u>\$ 96</u>	<u>\$ 58</u>	<u>\$ 538</u>

(a) Disposals and other, net for International Division and China Division, primarily reflects the impact of foreign currency translation on existing balances.

Intangible assets, net for the years ended 2005 and 2004 are as follows:

	2005		2004	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Franchise contract rights	\$ 144	\$ (59)	\$ 146	\$ (55)
Trademarks/brands	208	(9)	67	(3)
Favorable operating leases	18	(14)	22	(16)
Pension-related intangible	7	—	11	—
Other	5	(1)	5	(1)
	<u>\$ 382</u>	<u>\$ (83)</u>	<u>\$ 251</u>	<u>\$ (75)</u>
Unamortized intangible assets				
Trademarks/brands	<u>\$ 31</u>		<u>\$ 171</u>	

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

When we acquired YGR in 2002 we assigned \$140 million to the LJS trademark/brand and \$72 million to the A&W trademark/brand. At the date of the acquisition, we determined that both of these intangible assets had indefinite lives. However, based on business decisions we made in 2005 and 2003 with regard to these Concepts, we reconsidered the expected useful lives of these brand intangibles and at December 31, 2005 both of these assets are being amortized over their expected useful lives.

In 2005, we decided to adjust development of certain multibrand combinations with LJS. While we and our franchisees continue to build new LJS stand alone units as well as multibrand units that include LJS, our decision to reallocate certain capital spending in the near term to other investment alternatives was considered an economic factor that may limit the useful life of the LJS trademark/brand. Accordingly, in the first quarter of 2005 we began to amortize the LJS trademark/brand over thirty years, the typical term of our multibrand franchise agreements including one renewal. We reviewed the LJS trademark/brand for impairment prior to beginning amortization in 2005 and determined no impairment existed. Amortization expense of the LJS trademark/brand approximated \$4 million in 2005. When the LJS trademark/brand was considered to be an indefinite-life intangible asset in 2004 and 2003 and was therefore subject to annual impairment tests, we determined that the fair value of the LJS trademark/brand was in excess of its carrying value.

In 2003, we decided to close or rebrand substantially all Company-owned A&W restaurants that we had acquired. These restaurants were low-volume, mall-based units that were inconsistent with the remainder of our Company-owned portfolio. Also, at that time we decided to focus more on short-term development opportunities at LJS. These decisions negatively impacted the fair value of the A&W trademark/brand because we assumed less development of A&W in the near term than forecasted at the date of acquisition. Accordingly, we recorded a \$5 million charge in 2003 to facility actions to write the value of the A&W trademark/brand down to its fair value. Our decision to no longer operate the acquired stand-alone Company-owned A&W restaurants was considered a factor that limited the A&W trademark/brand expected useful life. Subsequent to the recording of the impairment in 2003, we began amortizing the A&W trademark/brand remaining balance over a period of thirty years, the typical term of our multibrand franchise agreements including one renewal. Amortization expense of the A&W trademark/brand approximated \$2 million in 2005 and 2004 and \$1 million in 2003.

Amortization expense for all definite-lived intangible assets was \$13 million in 2005, \$8 million in 2004 and \$7 million in 2003. Amortization expense for definite-lived intangible assets will approximate \$12 million in 2006 through 2010.

Note 10 – Accounts Payable and Other Current Liabilities

	<u>2005</u>	<u>2004</u>
Accounts payable	\$ 398	\$ 414
Accrued compensation and benefits	274	263
Other current liabilities	<u>566</u>	<u>512</u>
	<u>\$ 1,238</u>	<u>\$ 1,189</u>

Note 11 – Short-term Borrowings and Long-term Debt

	<u>2005</u>	<u>2004</u>
Short-term Borrowings		
Current maturities of long-term debt	\$ 211	\$ 11
Long-term Debt		
Unsecured International Revolving Credit Facility, expires November 2010	180	—
Unsecured Revolving Credit Facility, expires September 2009	—	19
Senior, Unsecured Notes, due April 2006	200	200
Senior, Unsecured Notes, due May 2008	251	251
Senior, Unsecured Notes, due April 2011	646	646
Senior, Unsecured Notes, due July 2012	398	398
Capital lease obligations (See Note 12)	114	128
Other, due through 2019 (6% - 12%)	77	79
	<u>1,866</u>	<u>1,721</u>
Less current maturities of long-term debt	(211)	(11)
Long-term debt excluding SFAS 133 adjustment	1,655	1,710
Derivative instrument adjustment under SFAS 133 (See Note 13)	(6)	21
Long-term debt including SFAS 133 adjustment	<u>\$ 1,649</u>	<u>\$ 1,731</u>

Our primary bank credit agreement comprises a \$1.0 billion senior unsecured Revolving Credit Facility (the “Credit Facility”), which matures in September 2009. The Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries and contains financial covenants relating to maintenance of leverage and fixed charge coverage ratios. The Credit Facility also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness, guarantees of indebtedness, level of cash dividends, aggregate non-U.S. investment and certain other transactions as specified in the agreement. We were in compliance with all debt covenants at December 31, 2005.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit less outstanding letters of credit. At December 31, 2005, our unused Credit Facility totaled \$809 million, net of outstanding letters of credit of \$191 million. There were no borrowings under the Credit Facility at the end of 2005 while outstanding borrowings at December 25, 2004 were \$19 million. The interest rate for borrowings under the Credit Facility ranges from 0.35% to 1.625% over the London Interbank Offered Rate (“LIBOR”) or 0.00% to 0.20% over an Alternate Base Rate, which is the greater of the Prime Rate or the Federal Funds Effective Rate plus 0.50%. The exact spread over LIBOR or the Alternate Base Rate, as applicable, will depend upon our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly. In 2005, 2004 and 2003, we expensed facility fees of approximately \$2 million, \$4 million and \$6 million, respectively.

Additionally, on November 8, 2005, we executed a five-year revolving credit facility (the “International Credit Facility” or “ICF”) on behalf of three of our wholly owned international subsidiaries. The total facility amount is \$350 million, with separate sublimits for each of the three subsidiaries. The ICF is unconditionally guaranteed by YUM and by YUM’s principal domestic subsidiaries and contains covenants substantially identical to those of the Credit Facility. We were in compliance with all debt covenants at the end of 2005.

There were borrowings of \$180 million and available credit of \$170 million outstanding under the ICF at the end of 2005. The interest rate for borrowings under the Credit Facility ranges from 0.20% to 1.20% over the LIBOR or 0.00% to 0.20% over a Canadian Alternate Base Rate, which is the greater of the Citibank, N.A., Canadian Branch’s publicly announced reference rate or the “Canadian Dollar Offered Rate” plus 0.50%. The exact spread over LIBOR or the Canadian Alternate Base Rate, as applicable, depends upon YUM’s performance under specified financial criteria. Interest on any outstanding borrowings under the ICF is payable at least quarterly.

On November 15, 2004, we voluntarily redeemed all of our 7.45% Senior Unsecured Notes that were due in May 2005 (the “2005 Notes”) in accordance with their original terms. The 2005 Notes, which had a total face value of \$350 million, were redeemed for approximately \$358 million using primarily cash on hand as well as some borrowings under our Credit Facility. The redemption amount approximated the carrying value of the 2005 Notes, including a derivative instrument adjustment under SFAS 133, resulting in no significant impact on net income upon redemption.

In 1997, we filed a shelf registration statement with the Securities and Exchange Commission for offerings of up to \$2 billion of senior unsecured debt, of which \$150 million is available for issuance at December 31, 2005. The following table summarizes all Senior Unsecured Notes issued under this shelf registration that remain outstanding at December 31, 2005:

Issuance Date ^(a)	Maturity Date	Principal Amount	Interest Rate	
			Stated	Effective ^(b)
May 1998	May 2008	250	7.65%	7.81%
April 2001	April 2006	200	8.50%	9.04%
April 2001	April 2011	650	8.88%	9.20%
June 2002	July 2012	400	7.70%	8.04%

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

(b) Includes the effects of the amortization of any (1) premium or discount; (2) debt issuance costs; and (3) gain or loss upon settlement of related treasury locks. Excludes the effect of any interest rate swaps as described in Note 13.

The annual maturities of long-term debt as of December 31, 2005, excluding capital lease obligations of \$114 million and derivative instrument adjustments of \$6 million, are as follows:

Year ended:	
2006	\$ 202
2007	2
2008	252
2009	3
2010	183
Thereafter	1,115
Total	<u>\$ 1,757</u>

Interest expense on short-term borrowings and long-term debt was \$147 million, \$145 million and \$185 million in 2005, 2004 and 2003, respectively.

Note 12 – Leases

At December 31, 2005 we operated over 7,500 restaurants, leasing the underlying land and/or building in over 5,500 of those restaurants with our commitments expiring at various dates through 2087. 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
2006	\$ 16	\$ 362	\$ 4	\$ 21
2007	15	326	4	18
2008	14	286	4	14
2009	14	258	5	13
2010	13	230	5	12
Thereafter	91	1,218	45	49
	<u>\$ 163</u>	<u>\$ 2,680</u>	<u>\$ 67</u>	<u>\$ 127</u>

At December 31, 2005 and December 25, 2004, the present value of minimum payments under capital leases was \$114 million and \$128 million, respectively. At December 31, 2005 and December 25, 2004, unearned income associated with direct financing lease receivables was \$38 million and \$48 million, respectively.

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

	2005	2004	2003
Rental expense			
Minimum	\$ 380	\$ 376	\$ 329
Contingent	51	49	44
	<u>\$ 431</u>	<u>\$ 425</u>	<u>\$ 373</u>
Minimum rental income	<u>\$ 11</u>	<u>\$ 13</u>	<u>\$ 14</u>

Note 13 - Financial Instruments

Interest Rate Derivative Instruments - We enter into interest rate swaps with the objective of reducing our exposure to interest rate risk and lowering interest expense for a portion of our debt. Under the contracts, we agree with other parties to exchange, at specified intervals, the difference between variable rate and fixed rate amounts calculated on a notional principal amount. At both December 31, 2005 and December 31, 2004, interest rate derivative instruments outstanding had notional amounts of \$850 million. These swaps have reset dates and floating rate indices which match those of our underlying fixed-rate debt and have been designated as fair value hedges of a portion of that debt. As the swaps qualify for the short-cut method under SFAS 133, no ineffectiveness has been recorded. The net fair value of these swaps as of December 31, 2005 was a net liability of approximately \$5 million, of which \$4 million and \$9 million have been included in other assets and other liabilities and deferred credits, respectively. The net fair value of these swaps as of December 25, 2004 was a net asset of approximately \$29 million, of which \$30 million and \$1 million have been included in other assets and other liabilities and deferred credits, respectively. The portion of this fair value which has not yet been recognized as an addition/reduction to interest expense at December 31, 2005 and December 25, 2004 has been included as a reduction/addition to long-term debt (a \$6 million reduction and a \$21 million addition, respectively).

Additionally, due to early redemption of the underlying 7.45% Senior Unsecured Notes on November 15, 2004 (see Note 11), pay-variable interest rate swaps with notional amounts of \$350 million no longer qualified for hedge accounting at December 25, 2004. As we elected to hold these swaps until their May 2005 maturity, we entered into new pay-fixed interest rate swaps with offsetting notional amounts and terms. Gains or losses due to changes in the fair value of the pay-variable swaps were recognized in the results of operations through May 2005 but these gains or losses were almost entirely offset by changes in fair value of the pay-fixed swaps. These swaps were settled upon their maturities.

The fair value of both of these swaps were in an asset position as of December 25, 2004 with a fair value totaling approximately \$9 million. This fair value was included in prepaid expenses and other current assets.

Foreign Exchange Derivative Instruments - We enter into foreign currency forward contracts with the objective of reducing our exposure to cash flow volatility arising from foreign currency fluctuations associated with certain foreign currency denominated financial instruments, the majority of which are intercompany short-term receivables and payables. The notional amount, maturity date, and currency of these contracts match those of the underlying receivables or payables. For those foreign currency exchange forward contracts that we have designated as cash flow hedges, we measure ineffectiveness by comparing the cumulative change in the forward contract with the cumulative change in the hedged item. No ineffectiveness was recognized in 2005, 2004 or 2003 for those foreign currency forward contracts designated as cash flow hedges.

Equity Derivative Instruments - On December 3, 2004, we entered into an accelerated share repurchase program (the "Program"). In connection with the Program, a third-party investment bank borrowed approximately 5.4 million shares of our Common Stock from shareholders. We then repurchased those shares at their then market value of \$46.58 per share from the investment bank for approximately \$250 million. The repurchase was made pursuant to the share repurchase program authorized by our Board of Directors in May 2004.

Simultaneously, we entered into a forward contract with the investment bank that was indexed to the number of shares repurchased. Under the terms of the forward contract, we were required to pay or entitled to receive a price adjustment based on the difference between the weighted average price of our Common Stock during the duration of the Program and the initial purchase price of \$46.58 per share. At our election, any payments we were obligated to make were either to be in cash or in shares of our Common Stock (not to exceed 15 million shares as specified in the forward contract). The Program was completed during the quarter ended March 19, 2005 and we made a cash payment of approximately \$3 million to the investment bank to settle the forward contract in full. This payment representing the change in fair value of the forward contract was recognized in accordance with EITF 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled In, a Company's Own Stock" as an adjustment to Common Stock and is included in share repurchases in Note 18.

Commodity Derivative Instruments - We also utilize, on a limited basis, commodity futures and options contracts to mitigate our exposure to commodity price fluctuations over the next twelve months. Those contracts have not been designated as hedges under SFAS 133. Commodity future and options contracts did not significantly impact the Consolidated Financial Statements in 2005, 2004 or 2003.

Deferred Amounts in Accumulated Other Comprehensive Income (Loss) - As of December 31, 2005, we had a net deferred loss associated with cash flow hedges of approximately \$1 million, net of tax. The loss, which primarily arose from the settlement of treasury locks entered into prior to the issuance of certain amounts of our fixed-rate debt, will be reclassified into earnings from January 1, 2006 through 2012 as an increase to interest expense on this debt.

Credit Risks

Credit risk from interest rate swaps and foreign exchange contracts is dependent both on movement in interest and currency rates and the possibility of non-payment by counterparties. We mitigate credit risk by entering into these agreements with high-quality counterparties, and settle swap and forward rate payments on a net basis.

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

Fair Value

At December 31, 2005 and December 25, 2004, the fair values of cash and cash equivalents, short-term investments, accounts receivable and accounts payable approximated the carrying values because of the short-term nature of these instruments. The fair value of notes receivable approximates the carrying value after consideration of recorded allowances.

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

	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Debt				
Short-term borrowings and long-term debt, excluding capital leases and the derivative instrument adjustments	\$ 1,752	\$ 1,931	\$ 1,593	\$ 1,900
Debt-related derivative instruments:				
Open contracts in a net asset (liability) position	(5)	(5)	38	38
Foreign currency-related derivative instruments:				
Open contracts in a net asset (liability) position	—	—	(2)	(2)
Lease guarantees	16	27	13	29
Guarantees supporting financial arrangements of certain franchisees, unconsolidated affiliates and other third parties	7	7	7	8
Letters of credit	—	1	—	2

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

Note 14 – Pension and Postretirement Medical Benefits

Pension Benefits -We sponsor noncontributory defined benefit pension plans covering substantially all full-time U.S. salaried employees, certain U.S. hourly employees and certain international employees. The most significant of these plans, the YUM Retirement Plan (the “Plan”), is funded while benefits from the other plans are paid by the Company as incurred. During 2001, the plans covering our U.S. salaried employees were amended such that any salaried employee hired or rehired by YUM after September 30, 2001 is not eligible to participate in those plans. Benefits are based on years of service and earnings or stated amounts for each year of service.

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

Obligation and Funded Status at September 30:

The following chart summarizes the balance sheet impact, as well as benefit obligations, assets, and funded status associated with the pension and postretirement medical benefits plans based on actuarial valuations prepared as of September 30, 2005 and 2004 (the Plan Measurement Date).

	Pension Benefits		Postretirement Medical Benefits	
	2005	2004	2005	2004
Change in benefit obligation				
Benefit obligation at beginning of year	\$ 700	\$ 629	\$ 81	\$ 81
Service cost	33	32	2	2
Interest cost	43	39	5	5
Plan amendments	—	1	—	—
Curtailement gain	(2)	(2)	—	—
Settlement loss	1	—	—	—
Benefits and expenses paid	(33)	(26)	(4)	(4)
Actuarial (gain) loss	73	27	(15)	(3)
Benefit obligation at end of year	<u>\$ 815</u>	<u>\$ 700</u>	<u>\$ 69</u>	<u>\$ 81</u>
Change in plan assets				
Fair value of plan assets at beginning of year	\$ 518	\$ 438		
Actual return on plan assets	63	53		
Employer contributions	64	54		
Benefits paid	(33)	(26)		
Administrative expenses	(2)	(1)		
Fair value of plan assets at end of year	<u>\$ 610</u>	<u>\$ 518</u>		
Funded status	\$ (205)	\$ (182)	\$ (69)	\$ (81)
Employer contributions ^(a)	10	1	—	—
Unrecognized actuarial loss	256	225	7	23
Unrecognized prior service cost	6	9	—	—
Net amount recognized at year-end	<u>\$ 67</u>	<u>\$ 53</u>	<u>\$ (62)</u>	<u>\$ (58)</u>

(a) Reflects contributions made between the September 30 measurement date and December 31 for both 2005 and 2004.

Amounts recognized in the statement of financial position consist of:

Accrued benefit liability	\$ (116)	\$ (111)	\$ (62)	\$ (58)
Intangible asset	7	11	—	—
Accumulated other comprehensive loss	176	153	—	—
	<u>\$ 67</u>	<u>\$ 53</u>	<u>\$ (62)</u>	<u>\$ (58)</u>

Additional information:

Other comprehensive (income) loss attributable to change in additional minimum liability recognition	\$ 23	\$ (9)
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Additional year-end information for pension plans with accumulated benefit obligations in excess of plan assets:

Projected benefit obligation	\$ 815	\$ 700
Accumulated benefit obligation	736	629
Fair value of plan assets	610	518

Based on current funding rules, we are not required to make contributions to the Plan in 2006, but we may make discretionary contributions during the year based on our estimate of the Plan's expected September 30, 2006 funded status.

Components of Net Periodic Benefit Cost

The components of net periodic benefit cost are as follow:

	Pension Benefits			Postretirement Medical Benefits		
	2005	2004	2003	2005	2004	2003
Service cost	\$ 33	\$ 32	\$ 26	\$ 2	\$ 2	\$ 2
Interest cost	43	39	34	5	5	5
Amortization of prior service cost ^(a)	3	3	4	—	—	—
Expected return on plan assets	(45)	(40)	(30)	—	—	—
Recognized actuarial loss	22	19	6	1	1	1
Net periodic benefit cost	<u>\$ 56</u>	<u>\$ 53</u>	<u>\$ 40</u>	<u>\$ 8</u>	<u>\$ 8</u>	<u>\$ 8</u>
Additional loss recognized due to:						
Curtailement ^(b)	\$ 1	—	—	n/a	n/a	n/a
Settlement ^(c)	\$ 3	—	—	n/a	n/a	n/a

(a) Prior service costs are amortized on a straight-line basis over the average remaining service period of employees expected to receive benefits.

(b) Curtailement losses have been recognized in facility actions as they have resulted primarily from refranchising activities.

(c) Settlement loss results from benefit payments from a non-funded plan exceeding the sum of the service cost and interest cost for that plan during the year.

Weighted-average assumptions used to determine benefit obligations at September 30:

	Pension Benefits		Postretirement Medical Benefits	
	2005	2004	2005	2004
Discount rate	5.75%	6.15%	5.75%	6.15%
Rate of compensation increase	3.75%	3.75%	3.75%	3.75%

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

	Pension Benefits			Postretirement Medical Benefits		
	2005	2004	2003	2005	2004	2003
Discount rate	6.15%	6.25%	6.85%	6.15%	6.25%	6.85%
Long-term rate of return on plan assets	8.50%	8.50%	8.50%	—	—	—
Rate of compensation increase	3.75%	3.75%	3.85%	3.75%	3.75%	3.85%

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

Assumed health care cost trend rates at September 30:

	Postretirement Medical Benefits	
	2005	2004
Health care cost trend rate assumed for next year	10%	11%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.5%	5.5%
Year that the rate reaches the ultimate trend rate	2012	2012

There is a cap on our medical liability for certain retirees. The cap for Medicare eligible retirees was reached in 2000 and the cap for non-Medicare eligible retirees is expected to be reached in 2009; once the cap is reached, our annual cost per retiree will not increase. A one-percentage-point increase or decrease in assumed health care cost trend rates would have less than a \$1 million impact on total service and interest cost and on the post retirement benefit obligation.

Plan Assets

Our pension plan weighted-average asset allocations at September 30, by asset category are set forth below:

Asset Category	2005	2004
Equity securities	71%	70%
Debt securities	29%	28%
Cash	—	2%
Total	100%	100%

Our primary objectives regarding the pension assets are to optimize return on assets subject to acceptable risk and to maintain liquidity, meet minimum funding requirements and minimize plan expenses. To achieve these objectives, we have adopted a passive investment strategy in which the asset performance is driven primarily by the investment allocation. Our target investment allocation is 70% equity securities and 30% debt securities, consisting primarily of low cost index mutual funds that track several sub-categories of equity and debt security performance. The investment

strategy is primarily driven by our Plan's participants' ages and reflects a long-term investment horizon favoring a higher equity component in the investment allocation.

A mutual fund held as an investment by the Plan includes YUM stock in the amount of \$0.3 million and \$0.2 million at September 30, 2005 and 2004, respectively (less than 1% of total plan assets in each instance).

Benefit Payments

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

Year ended:	Pension Benefits	Postretirement Medical Benefits
2006	\$ 20	\$ 4
2007	22	5
2008	26	5
2009	30	5
2010	33	6
2011 - 2015	260	30

Expected benefits are estimated based on the same assumptions used to measure our benefit obligation on our measurement date of September 30, 2005 and include benefits attributable to estimated further employee service.

Note 15 –Stock Options

At year-end 2005, we had four stock option plans in effect: the YUM! Brands, Inc. Long-Term Incentive Plan ("1999 LTIP"), the 1997 Long-Term Incentive Plan ("1997 LTIP"), the YUM! Brands, Inc. Restaurant General Manager Stock Option Plan ("RGM Plan") and the YUM! Brands, Inc. SharePower Plan ("SharePower"). During 2003, the 1999 LTIP was amended, subsequent to shareholder approval, to increase the total number of shares available for issuance and to make certain other technical and clarifying changes.

We may grant awards of up to 29.8 million shares and 45.0 million shares of stock under the 1999 LTIP, as amended, and 1997 LTIP, respectively. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, stock appreciation rights, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include stock appreciation rights, restricted stock and performance restricted stock units. Prior to January 1, 2002, we also could grant stock options and incentive stock options under the 1997 LTIP. Through December 31, 2005, we have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options under the 1999 LTIP.

We may grant stock options under the 1999 LTIP to purchase shares at a price equal to or greater than the average market price of the stock on the date of grant. New option grants under the 1999 LTIP can have varying vesting provisions and exercise periods. Previously granted options under the 1997 LTIP and 1999 LTIP vest in periods ranging from immediate to 2009 and expire ten to fifteen years after grant.

We may grant options to purchase up to 15.0 million shares of stock under the RGM Plan at a price equal to or greater than the average market price of the stock on the date of grant. RGM Plan options granted have a four year vesting period and expire ten years after grant. Certain RGM Plan options are granted upon attainment of performance conditions in the previous year. Expense for such options is recognized over a period that includes the time which the performance condition is met.

We may grant awards of up to 14.0 million shares of stock under SharePower. Potential awards to employees under SharePower include stock options, stock appreciation rights, restricted stock and restricted stock units. Awards granted shall have an exercise price equal to the average market price of the stock on the date of grant under SharePower. SharePower awards granted subsequent to the Spin-off Date consist only of stock options to date, which vest over a period ranging from one to four years and expire no longer than ten years after grant. Previously granted SharePower options have expirations through 2015.

At the Spin-off Date, we converted certain of the unvested options to purchase PepsiCo stock that were held by our employees to YUM stock options under either the 1997 LTIP or SharePower. We converted the options at amounts and exercise prices that maintained the amount of unrealized stock appreciation that existed immediately prior to the Spin-off. The vesting dates and exercise periods of the options were not affected by the conversion. Based on their original PepsiCo grant date, these converted options vest in periods ranging from one to ten years and expire ten to fifteen years after grant.

We estimated the fair value of each option grant made during 2005, 2004 and 2003 as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Risk-free interest rate	3.8%	3.2%	3.0%
Expected term (years)	6.0	6.0	6.0
Expected volatility	36.6%	40.0%	33.6%
Expected dividend yield	0.9%	0.1%	0.0%

In connection with our adoption of SFAS 123R, we determined that it was appropriate to group our stock option grants into two homogeneous groups when estimating expected term. These groups consist of grants made primarily to restaurant-level employees under the RGM Plan and grants made to executives under our other stock option plans.

We have traditionally used six years as the expected term of all stock option grants. In connection with our adoption of SFAS 123R and the increasing amount of historical data we now possess with regard to stock option exercise activity, we revaluated our expected term assumptions. Based on historical exercise and post-vesting employment termination behavior, we determined that the expected life for options granted under the RGM Plan was five years. For options granted to our above-store executives, we determined that an expected life of six years was appropriate. Prior to the adoption of SFAS 123R we have traditionally based expected volatility on Company specific historical stock data over the expected term of the option. We are in the process of revaluating expected volatility, including consideration of both historical volatility of our stock as well as implied volatility associated with our traded options. Options granted subsequent to the adoption of SFAS 123R in the fourth quarter of 2005 were not significant.

A summary of option activity as of December 31, 2005, and changes during the year then ended is presented below.

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	37,108	\$ 21.53		
Granted	4,516	46.58		
Exercised	(8,442)	17.46		
Forfeited or expired	(1,463)	30.88		
Outstanding at the end of the year	<u>31,719</u>	<u>\$ 25.75</u>	<u>5.81</u>	<u>\$ 670</u>
Exercisable at the end of the year	<u>18,960</u>	<u>\$ 19.79</u>	<u>4.56</u>	<u>\$ 514</u>

The weighted-average grant-date fair value of options granted during 2005, 2004, and 2003 were \$17.78, \$15.11, and \$9.43, respectively. The total intrinsic value of options exercised during the years ended December 31, 2005, December 25, 2004, and December 27, 2003, was \$271 million, \$282 million and \$90 million, respectively.

As of December 31, 2005, there was \$119 million of unrecognized compensation cost, which will be reduced by any forfeitures that occur, related to unvested stock options that is expected to be recognized over a weighted-average period of 2.7 years. The total fair value at grant date of stock options vested during 2005, 2004, and 2003 was \$57 million, \$103 million, and \$95million, respectively.

Cash received from options exercises for 2005, 2004 and 2003, was \$148 million, \$200 million and \$110 million, respectively. Tax benefits realized from tax deductions associated with options exercises for 2005, 2004 and 2003 totaled \$94 million, \$102 million and \$26 million, respectively.

The Company has a policy of repurchasing shares on the open market to satisfy share option exercises and expects to repurchase approximately 8.0 million shares during 2006 based on estimates of option exercises for that period.

Note 16 – Other Compensation and Benefit Programs

Executive Income Deferral Program (the “EID Plan”)

The EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. In 2004 and 2003, these investment options were limited to cash and phantom shares of our Common Stock. In 2005, we added two new phantom investment options to the plan, a Stock Index Fund and the Bond Index Fund. Additionally, the EID Plan allows participants to defer incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the “Discount Stock Account”). Deferrals to the Discount Stock Account are similar to a restricted stock unit award in that participants will forfeit both the discount and incentive compensation amounts deferred to the Discount Stock Account if they voluntarily separate from employment during the two year vesting period. We expense the intrinsic value of the discount over the vesting period. Investments in cash, the Stock Index fund and the Bond Index fund will be distributed in cash at a date as elected by the employee and therefore are classified as a liability on our Consolidated Balance Sheets. We recognize compensation expense for the appreciation or depreciation of these investments. As investments in the phantom shares of our Common Stock can only be settled in shares of our Common Stock, we do not recognize compensation expense for the appreciation or the depreciation, if any, of these investments. Deferrals into the phantom shares of our Common Stock are credited to the Common Stock Account.

As of December 31, 2005 total deferrals to phantom shares of our Common Stock within the EID Plan totaled approximately 3.3 million shares. We recognized compensation expense of \$4 million in 2005 and 2004 and \$3 million in 2003 for the EID Plan.

Restricted Stock

In November 1997, we granted performance restricted stock units of YUM's Common Stock in the amount of \$3.6 million to our Chief Executive Officer ("CEO"). The award was made under the 1997 LTIP and was to be paid in Common Stock or cash at the discretion of the Compensation Committee of the Board of Directors. Payment of the award was made in cash on February 6, 2006 on attainment of certain pre-established earnings thresholds. The annual expense related to this award included in earnings was \$0.4 million for 2005, 2004 and 2003.

Contributory 401(k) Plan

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the "401(k) Plan") for eligible U.S. salaried and hourly employees. Participants are able to elect to contribute up to 25% of eligible compensation on a pre-tax basis. Participants may allocate their contributions to one or any combination of 10 investment options within the 401(k) Plan. We match 100% of the participant's contribution to the 401(k) Plan up to 3% of eligible compensation and 50% of the participant's contribution on the next 2% of eligible compensation. All matching contributions are made to the YUM Common Stock Fund. We recognized as compensation expense our total matching contribution of \$12 million in 2005, \$11 million in 2004 and \$10 million in 2003.

Note 17 – Shareholders' Rights Plan

In July 1998, our Board of Directors declared a dividend distribution of one right for each share of Common Stock outstanding as of August 3, 1998 (the "Record Date"). As a result of the two for one stock split distributed on June 17, 2002, each holder of Common Stock is entitled to one right for every two shares of Common Stock (one half right per share). Each right initially entitles the registered holder to purchase a unit consisting of one one thousandth of a share (a "Unit") of Series A Junior Participating Preferred Stock, without par value, at a purchase price of \$130 per Unit, subject to adjustment. The rights, which do not have voting rights, will become exercisable for our Common Stock ten business days following a public announcement that a person or group has acquired, or has commenced or intends to commence a tender offer for, 15% or more, or 20% more if such person or group owned 10% or more on the adoption date of this plan, of our Common Stock. In the event the rights become exercisable for Common Stock, each right will entitle its holder (other than the Acquiring Person as defined in the Agreement) to purchase, at the right's then current exercise price, YUM Common Stock and thereafter we are acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right's then current exercise price, Common Stock of the acquiring company having a value of twice the exercise price of the right.

We can redeem the rights in their entirety, prior to becoming exercisable, at \$0.01 per right under certain specified conditions. The rights expire on July 21, 2008, unless we extend that date or we have earlier redeemed or exchanged the right as provided in the Agreement.

This description of the right is qualified in its entirety by reference to the original Rights Agreement, dated July 21, 1998, and the Agreement of Substitution and Amendment of Common Share Rights Agreement, dated August 28, 2003, between YUM and American Stock Transfer and Trust Company, the Right Agent (both including the exhibits thereto).

Note 18 – Shareholders' Equity

The Company initiated quarterly dividend payments to our stockholders in 2004. In 2004, the Company declared three cash dividends of \$0.10 per share of Common Stock. In 2005, the Company declared one cash dividend of \$0.10 per share of Common Stock and three cash dividends of \$0.115 per share of Common Stock. The Company had dividends payable of \$32 million and \$29 million as of December 31, 2005 and December 25, 2004, respectively.

Under the authority of our Board of Directors, we repurchased shares of our Common Stock in the following share repurchase programs during 2005, 2004 and 2003. All amounts exclude applicable transaction fees.

Program Authorization Date	Shares Repurchased (thousands)			Dollar Value of Shares Repurchased		
	2005	2004	2003	2005	2004	2003
November 2005	644	—	—	\$ 31	\$ —	\$ —
May 2005	10,140	—	—	500	—	—
January 2005	9,963	—	—	500	—	—
May 2004	534	5,953	—	25	275	—
November 2003	—	8,072	169	—	294	6
November 2002	—	—	9,153	—	—	272
Total	<u>21,281</u>	<u>14,025</u>	<u>9,322</u>	<u>\$ 1,056</u>	<u>\$ 569</u>	<u>\$ 278</u>

As of December 31, 2005, we have \$469 million available for future repurchases under our November 2005 share repurchase program. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company.

Accumulated Other Comprehensive Income (Loss) – Comprehensive income is net income plus certain other items that are recorded directly to shareholders' equity. Amounts included in other accumulated comprehensive loss for the Company's derivative instruments and minimum pension liability are recorded net of the related income tax effects. The following table gives further detail regarding the composition of other accumulated comprehensive loss at December 31, 2005 and December 25, 2004.

	2005	2004
Foreign currency translation adjustment	\$ (59)	\$ (34)
Minimum pension liability adjustment, net of tax	(110)	(95)
Unrealized losses on derivative instruments, net of tax	(1)	(2)
Total accumulated other comprehensive loss	<u>\$ (170)</u>	<u>\$ (131)</u>

Note 19- Income Taxes

The details of our income tax provision (benefit) are set forth below. Amounts do not include the income tax benefit of approximately \$1 million on the \$2 million cumulative effect adjustment recorded in the year ended December 27, 2003 due to the adoption of SFAS 143.

	2005	2004	2003
Current: Federal	\$ 241	\$ 78	\$ 181
Foreign	113	79	114
State	11	(13)	(4)
	<u>365</u>	<u>144</u>	<u>291</u>
Deferred: Federal	(66)	41	(23)
Foreign	(20)	67	(16)
State	(15)	34	16
	<u>(101)</u>	<u>142</u>	<u>(23)</u>
	<u>\$ 264</u>	<u>\$ 286</u>	<u>\$ 268</u>

Included in the federal tax provision above for 2005 and 2004 is approximately \$20 million current tax and \$6 million deferred tax, respectively, provided on \$500 million of earnings in our foreign investments which we repatriated to the U.S. in 2005. We made the determination to repatriate such earnings as the result of The American Jobs Creation Act of 2004 which became law on October 22, 2004 (the "Act"). The Act allowed a dividends received deduction of 85% of repatriated qualified foreign earnings in fiscal year 2005.

Taxes payable were reduced by \$94 million, \$102 million and \$26 million in 2005, 2004 and 2003, respectively, as a result of stock option exercises.

Valuation allowances related to deferred tax assets in foreign countries decreased by \$10 million in 2005 and increased by \$45 million and \$19 million in 2004 and 2003, respectively. Valuation allowances related to federal deferred tax assets decreased by \$13 million in 2005. Valuation allowances in certain states decreased by \$8 million in 2005 (\$5 million, net of federal tax) and increased by \$6 million (\$4 million, net of federal tax) in 2003. The fluctuations were a result of determinations regarding the likelihood of use of certain loss carryforwards and credits prior to expiration.

The 2005 state deferred tax provision includes \$8 million (\$5 million, net of federal tax) for the impact of changes in state statutory tax rates. In 2004, the deferred foreign tax provision included a \$1 million credit to reflect the impact of changes in statutory tax rates in various countries.

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S.	\$ 705	\$ 704	\$ 669
Foreign	<u>321</u>	<u>322</u>	<u>217</u>
	<u>\$ 1,026</u>	<u>\$ 1,026</u>	<u>\$ 886</u>

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

	<u>2005</u>	<u>2004</u>	<u>2003</u>
U.S. federal statutory rate	35.0%	35.0%	35.0%
State income tax, net of federal tax benefit	1.6	1.3	1.8
Foreign and U.S. tax effects attributable to foreign operations	(6.7)	(6.3)	(3.6)
Adjustments to reserves and prior years	(1.3)	(6.7)	(1.7)
Repatriation of foreign earnings	2.0	0.5	—
Non-recurring foreign tax credit adjustments	(2.9)	—	(4.1)
Valuation allowance additions (reversals)	(1.4)	4.2	2.8
Other, net	<u>(0.5)</u>	<u>(0.1)</u>	<u>—</u>
Effective income tax rate	<u>25.8%</u>	<u>27.9%</u>	<u>30.2%</u>

The 2005 tax rate was favorably impacted by the recognition of certain foreign tax credits that we were able to substantiate during 2005. In 2003, we amended certain prior year returns upon our determination that it was more beneficial to claim credit on our U.S. tax returns for foreign taxes paid than to deduct such taxes, as had been done when the returns were originally filed. Both benefits are non-recurring.

The adjustments to reserves and prior years in 2005 and 2004 were primarily driven by the reversal of reserves associated with audits that were settled.

See above for a discussion of the valuation allowance additions (reversals).

The details of 2005 and 2004 deferred tax liabilities (assets) are set forth below:

	<u>2005</u>	<u>2004</u>
Intangible assets and property, plant and equipment	\$ 169	\$ 151
Other	95	84
Gross deferred tax liabilities	<u>\$ 264</u>	<u>\$ 235</u>
Net operating loss and tax credit carryforwards	\$ (223)	\$ (193)
Employee benefits	(132)	(103)
Self-insured casualty claims	(84)	(66)
Lease related assets and liabilities	(50)	(45)
Various liabilities	(151)	(162)
Deferred income and other	<u>(111)</u>	<u>(114)</u>
Gross deferred tax assets	(751)	(683)
Deferred tax asset valuation allowances	233	269
Net deferred tax assets	<u>(518)</u>	<u>(414)</u>
Net deferred tax (assets) liabilities	<u>\$ (254)</u>	<u>\$ (179)</u>
Reported in Consolidated Balance Sheets as:		
Deferred income taxes	\$ (163)	\$ (156)
Other assets	(156)	(89)
Other liabilities and deferred credits	24	52
Accounts payable and other current liabilities	<u>41</u>	<u>14</u>
	<u>\$ (254)</u>	<u>\$ (179)</u>

Federal income tax receivables of \$59 million were included in prepaid expenses and other current assets at December 25, 2004.

We have not provided deferred tax on the undistributed earnings from our foreign investments as we believe they are permanent in nature, except for approximately \$2 million of both federal and foreign tax provided on undistributed earnings we intend to distribute. We estimate that our total net undistributed earnings upon which we have not provided deferred tax total approximately \$400 million at December 31, 2005. A determination of the deferred tax liability on such earnings is not practicable.

We have available net operating loss and tax credit carryforwards totaling approximately \$1.6 billion at December 31, 2005 to reduce future tax of YUM and certain subsidiaries. The carryforwards are related to a number of foreign and state jurisdictions. Of these carryforwards, \$21 million expire in 2006 and \$1.2 billion expire at various times between 2006 and 2024. The remaining carryforwards of approximately \$330 million do not expire.

Note 20 – Reportable Operating Segments

We are principally engaged in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut and Taco Bell concepts, and since May 7, 2002, the LJS and A&W concepts, which were added when we acquired YGR. KFC, Pizza Hut, Taco Bell, LJS and A&W operate throughout the U.S. and in 95, 90, 13, 5 and 10 countries and territories outside the U.S., respectively. Our five largest international markets based on operating profit in 2005 are China, United Kingdom, Australia, Asia Franchise and Mexico. At December 31, 2005, we had investments in 7 unconsolidated affiliates outside the U.S. which operate principally KFC and/or Pizza Hut restaurants. These unconsolidated affiliates operate in China, Japan and the United Kingdom.

We identify our operating segments based on management responsibility. As noted in Note 1, in 2005 we began reporting information for our international business in two separate operating segments as a result of changes in our management reporting structure. The China Division includes mainland China, Thailand, KFC Taiwan, and the International Division includes the remainder of our international operations. Segment information for previous periods has been restated to reflect this reporting. For purposes of applying SFAS No. 131, "Disclosure About Segments of An Enterprise and Related Information" ("SFAS 131") in the U.S., we consider LJS and A&W to be a single segment. We consider our KFC, Pizza Hut, Taco Bell and LJS/A&W operating segments in the U.S. to be similar and therefore have aggregated them into a single reportable operating segment.

	Revenues		
	2005	2004	2003
United States	\$ 5,929	\$ 5,763	\$ 5,655
International Division	2,124	2,128	1,824
China Division ^(a)	1,296	1,120	901
	<u>\$ 9,349</u>	<u>\$ 9,011</u>	<u>\$ 8,380</u>

	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2005	2004	2003
United States	\$ 760	\$ 777	\$ 812
International Division ^(b)	372	337	280
China Division ^(b)	211	205	161
Unallocated and corporate expenses	(246)	(204)	(179)
Unallocated other income (expense) ^(c)	9	(2)	(3)
Unallocated facility actions ^(d)	43	12	4
Wrench litigation income (expense) ^(e)	2	14	(42)
AmeriServe and other (charges) credits ^(e)	2	16	26
Total operating profit	1,153	1,155	1,059
Interest expense, net	(127)	(129)	(173)
Income before income taxes and cumulative effect of accounting change	<u>\$ 1,026</u>	<u>\$ 1,026</u>	<u>\$ 886</u>

	Depreciation and Amortization		
	2005	2004	2003
United States	\$ 266	\$ 267	\$ 240
International Division	107	99	86
China Division	82	69	60
Corporate	14	13	15
	<u>\$ 469</u>	<u>\$ 448</u>	<u>\$ 401</u>

	Capital Spending		
	2005	2004	2003
United States	\$ 333	\$ 365	\$ 395
International Division	96	121	135
China Division	159	118	111
Corporate	21	41	22
	<u>\$ 609</u>	<u>\$ 645</u>	<u>\$ 663</u>

	Identifiable Assets		
	2005	2004	2003
United States	\$ 3,118	\$ 3,316	\$ 3,279
International Division ^(f)	1,437	1,441	1,334
China Division ^(f)	746	613	546
Corporate ^(g)	397	326	461
	<u>\$ 5,698</u>	<u>\$ 5,696</u>	<u>\$ 5,620</u>

	Long-Lived Assets ^(h)		
	2005	2004	2003
United States	\$ 2,800	\$ 2,900	\$ 2,880
International Division	804	904	815
China Division ⁽ⁱ⁾	517	436	391
Corporate	103	99	72
	<u>\$ 4,224</u>	<u>\$ 4,339</u>	<u>\$ 4,158</u>

- (a) Includes revenues of \$1.0 billion, \$903 million and \$703 million in mainland China for 2005, 2004 and 2003, respectively.
- (b) Includes equity income of unconsolidated affiliates of \$21 million, \$25 million and \$11 million in 2005, 2004 and 2003, respectively, for the International Division. Includes equity income of unconsolidated affiliates of \$30 million, \$32 million, and \$33 million in 2005, 2004 and 2003, respectively, for the China Division.
- (c) Includes a one-time net gain of approximately \$11 million associated with the sale of our Poland/Czech Republic business. See Note 7.
- (d) Unallocated facility actions comprises refranchising gains (losses) which are not allocated to the U.S., International Division or China Division segments for performance reporting purposes.
- (e) See Note 4 for a discussion of AmeriServe and other (charges) credits and Note 4 and Note 21 for a discussion of Wrench litigation.
- (f) Includes investment in unconsolidated affiliates of \$117 million, \$143 million and \$136 million for 2005, 2004 and 2003, respectively, for the International Division. Includes investment in unconsolidated affiliates of \$56 million, \$51 million and \$45 million for 2005, 2004 and 2003, respectively, for the China Division.
- (g) Primarily includes deferred tax assets, property, plant and equipment, net, related to our office facilities, and cash.
- (h) Includes property, plant and equipment, net; goodwill; and intangible assets, net.
- (i) Includes long-lived assets of \$430 million, \$342 million and \$287 million in Mainland China for 2005, 2004, and 2003, respectively.

See Note 4 for additional operating segment disclosures related to impairment, store closure costs and the carrying amount of assets held for sale.

Note 21 – Guarantees, Commitments and Contingencies

Lease Guarantees and Contingencies

As a result of (a) assigning our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributing certain Company restaurants to unconsolidated affiliates; and (c)

guaranteeing certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2031. As of December 31, 2005 and December 25, 2004, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was \$374 million and \$365 million, respectively. The present value of these potential payments discounted at our pre-tax cost of debt at December 31, 2005 was \$316 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 31, 2005 and December 25, 2004 was not material.

Franchise Loan Pool Guarantees - We had provided approximately \$16 million of partial guarantees of two franchisee loan pools related primarily to the Company's historical franchising programs and, to a lesser extent, franchisee development of new restaurants, at December 31, 2005 and December 25, 2004. In support of these guarantees, we posted letters of credit of \$4 million. We also provide a standby letter of credit of \$18 million under which we could potentially be required to fund a portion of one of the franchisee loan pools. The total loans outstanding under these loan pools were approximately \$77 and \$90 million at December 31, 2005 and December 25, 2004, respectively.

Any funding under the guarantees or letters of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to net franchising loss (gain). New loans added to the loan pools in 2005 were not significant.

Unconsolidated Affiliates Guarantees - We have guaranteed certain lines of credit and loans of unconsolidated affiliates totaling zero and \$34 million at December 31, 2005 and December 25, 2004, respectively. Our unconsolidated affiliates had total revenues of over \$1.8 billion for the year ended December 31, 2005 and assets and debt of approximately \$775 million and \$32 million, respectively, at December 31, 2005.

Other Third Parties Guarantees - We have also guaranteed certain lines of credit, loans and letters of credit of third parties totaling \$1 million and \$9 million at December 31, 2005 and December 25, 2004, respectively. If all such lines of credit and letters of credit were fully drawn the maximum contingent liability under these arrangements would be approximately \$2 million as of December 31, 2005 and \$26 million as of December 25, 2004.

We have varying levels of recourse provisions and collateral that mitigate the risk of loss related to our guarantees of these financial arrangements of unconsolidated affiliates and other third parties. Accordingly, our recorded liability as of December 31, 2005 and December 25, 2004 is not significant.

Insurance Programs

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

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

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

Change of Control Severance Agreements

The Company has severance agreements with certain key executives (the “Agreements”) that are renewable on an annual basis. These Agreements are triggered by a termination, under certain conditions, of the executive’s employment following a change in control of the Company, as defined in the Agreements. If triggered, the affected executives would generally receive twice the amount of both their annual base salary and their annual incentive, at the higher of target or actual for the preceding year, a proportionate bonus at the higher of target or actual performance earned through the date of termination, outplacement services and a tax gross-up for any excise taxes. These Agreements have a three-year term and automatically renew each January 1 for another three-year term unless the Company elects not to renew the Agreements. If these Agreements had been triggered as of December 31, 2005, payments of approximately \$39 million would have been made. In the event of a change of control, rabbi trusts would be established and used to provide payouts under existing deferred and incentive compensation plans.

Litigation

We are subject to various claims and contingencies related to lawsuits, taxes, environmental and other matters arising out of the normal course of business. We provide reserves for such claims and contingencies when payment is probable and estimable in accordance with SFAS No. 5 “Accounting for Contingencies.”

On August 13, 2003, a class action lawsuit against Pizza Hut, Inc., entitled Coldiron v. Pizza Hut, Inc., was filed in the United States District Court, Central District of California. Plaintiff alleges that she and other current and former Pizza Hut Restaurant General Managers (“RGMs”) were improperly classified as exempt employees under the U.S. Fair Labor Standards Act (“FLSA”). There is also a pendent state law claim, alleging that current and former RGMs in California were misclassified under that state’s law. Plaintiff seeks unpaid overtime wages and penalties. On May 5, 2004, the District Court granted conditional certification of a nationwide class of RGMs under the FLSA claim, providing notice to prospective class members and an opportunity to join the class. Approximately 12 percent of the eligible class members have elected to join the litigation. However, on June 30, 2005, the District Court granted Pizza Hut’s motion to strike all FLSA class members who joined the litigation after July 15, 2004. The effect of this order is to reduce the number of FLSA class members to only approximately 88 (or approximately 2.5% of the eligible class members).

In November 2005, the parties agreed to a settlement. Pizza Hut believes that definitive settlement documents will be preliminarily and finally approved by the Court within sixty to ninety days following submission of the documents to the Court. We have provided for this settlement amount in our Consolidated Financial Statements.

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

LJS believed that Johnson’s claims, as well as the claims of all other similarly situated parties, should be resolved in individual arbitrations pursuant to LJS’s Dispute Resolution Program (“DRP”), and that a collective action to resolve

these claims in court was clearly inappropriate under the current state of the law. Accordingly, LJS moved to compel arbitration in the Johnson case. LJS and Johnson also agreed to stay the action effective December 17, 2001, pending mediation and entered into a tolling agreement for that purpose. After mediation did not resolve the case, and after limited discovery and a hearing, the Court determined on June 7, 2004, that Johnson's individual claims should be referred to arbitration. Johnson appealed, and the decision of the District Court was affirmed in all respects by the United States Court of Appeals for the Sixth Circuit on July 5, 2005.

On December 19, 2003, counsel for plaintiff in the above referenced Johnson lawsuit, filed a separate demand for arbitration with the American Arbitration Association ("AAA") on behalf of former LJS managers Erin Cole and Nick Kaufman, who reside in South Carolina (the "Cole Arbitration"). Claimants in the Cole Arbitration demand a class arbitration on behalf of the same putative class - and the same underlying FLSA claims - as were alleged in the Johnson lawsuit. The complaint in the Cole Arbitration subsequently was amended to allege a practice of deductions (distinct from the allegations as to the Policy) in violation of the FLSA salary basis test, and to add Victoria McWhorter, another LJS former manager, as an additional claimant. LJS has denied the claims and the putative class alleged in the Cole Arbitration, and it is LJS's position that the claims of Cole, Kaufman, and McWhorter should be individually arbitrated.

Arbitrations under LJS's DRP, including the Cole Arbitration, are governed by the rules of the AAA. In October 2003, the AAA adopted its Supplementary Rules for Class Arbitrations ("AAA Class Rules"). The AAA appointed an arbitrator for the Cole Arbitration. On June 15, 2004, the arbitrator issued a clause construction award, ruling that the DRP does not preclude class arbitration. LJS moved to vacate the clause construction award in the United States District Court for the District of South Carolina. On September 15, 2005, the federal court in South Carolina ruled that it did not have jurisdiction to hear LJS's motion to vacate. LJS has appealed the U.S. District Court's ruling to the United States Court of Appeals for the Fourth Circuit. While judicial review of the clause construction award was pending, the arbitrator permitted claimants to move for a class determination award, which was opposed by LJS. On September 19, 2005, the arbitrator issued a class determination award, certifying a class of LJS's RGMs and ARGMs employed between December 17, 1998, and August 22, 2004, on FLSA claims, to proceed on an opt-out basis under the AAA Class Rules. That class determination award was upheld on appeal by the United States District Court for the District of South Carolina on January 20, 2006. LJS has appealed the ruling of the U.S. District Court to the United States Court of Appeals for the Fourth Circuit.

LJS believes that the DRP provides for individual arbitrations. LJS also believes that if the Cole Arbitration must proceed on a class basis, (i) the proceedings should be governed by the opt-in collective action structure of the FLSA, (ii) a class should not be certified under the applicable provisions of the FLSA, and (iii) each individual should not be able to recover for more than two years (and a maximum three years) prior to the date they file a consent to join the arbitration. We have provided for the estimated costs of the Cole Arbitration, based on a projection of eligible claims, the amount of each eligible claim, the estimated legal fees incurred by the claimants and the results of settlement negotiations in this and other wage and hour litigation matters. But in view of the novelties of proceeding under the AAA Class Rules and the inherent uncertainties of litigation, there can be no assurance that the outcome of the arbitration will not result in losses in excess of those currently provided for.

On September 21, 2005, a collective action lawsuit against the Company and KFC Corporation, originally entitled Parler v. Yum Brands, Inc., d/b/a KFC, and KFC Corporation, was filed in the United States District Court for the District of Minnesota. Plaintiff alleges that he and other current and former KFC Assistant Unit Managers ("AUM's") were improperly classified as exempt employees under the FLSA. Plaintiff seeks overtime wages and liquidated damages. On January 17, 2006, the District Court dismissed the claims against the Company with prejudice, leaving KFC Corporation as the sole defendant. Notice will be mailed to current and former KFC AUM's advising them of the litigation and providing an opportunity to join the case if they choose to do so.

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

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the United States District Court for the Northern District of California entitled Moeller, et al. v. Taco Bell Corp. On August 4, 2003, plaintiffs filed an amended complaint that alleges, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its approximately 220 company-owned restaurants in California (the “California Restaurants”) accessible to the class. Plaintiffs contend that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the path of travel and use of the facilities by persons with mobility-related disabilities (including parking spaces, ramps, counters, restroom facilities and seating) do not comply with the U.S. Americans with Disabilities Act (the “ADA”), the Unruh Civil Rights Act (the “Unruh Act”), and the California Disabled Persons Act (the “CDPA”). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either \$4,000 under the Unruh Act or \$1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class. For themselves, the four named plaintiffs have claimed aggregate minimum statutory damages of no less than \$16,000, but are expected to claim greater amounts based on the number of Taco Bell outlets they visited at which they claim to have suffered discrimination.

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

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

Taco Bell has denied liability and intends to vigorously defend against all claims in this lawsuit. Although this lawsuit is at a relatively early stage in the proceedings, it is likely that certain of the California Restaurants will be determined to be not fully compliant with accessibility laws and that Taco Bell will be required to take certain steps to make those restaurants fully compliant. However, at this time, it is not possible to estimate with reasonable certainty the potential costs to bring any non compliant California Restaurants into compliance with applicable state and federal disability access laws. Nor is it possible at this time to reasonably estimate the probability or amount of liability for monetary damages on a class wide basis to Taco Bell.

On January 16, 1998, a lawsuit against Taco Bell Corp., entitled Wrench LLC, Joseph Shields and Thomas Rinks v. Taco Bell Corp. (“Wrench”) was filed in the United States District Court for the Western District of Michigan. The lawsuit alleged that Taco Bell Corp. misappropriated certain ideas and concepts used in its advertising featuring a Chihuahua. The plaintiffs sought to recover monetary damages under several theories, including breach of implied-in-fact contract, idea misappropriation, conversion and unfair competition. On June 10, 1999, the District Court granted summary judgment in favor of Taco Bell Corp. Plaintiffs filed an appeal with the U.S. Court of Appeals for the Sixth Circuit and oral arguments were held on September 20, 2000. On July 6, 2001, the Sixth Circuit Court of Appeals reversed the District Court's judgment in favor of Taco Bell Corp. and remanded the case to the District Court. Taco Bell Corp. unsuccessfully petitioned the Sixth Circuit Court of Appeals for rehearing en banc, and its petition for writ of certiorari to the United States Supreme Court was denied on January 21, 2002. The case was returned to District Court for trial which began on May 14, 2003 and on June 4, 2003 the jury awarded \$30 million to the plaintiffs. Subsequently, the plaintiffs moved to amend the judgment to include pre-judgment interest and post-judgment interest and Taco Bell filed its post-trial motion for judgment as a matter of law or a new trial. On September 9, 2003, the District Court denied Taco Bell's motion and granted the plaintiffs' motion to amend the judgment.

In view of the jury verdict and subsequent District Court ruling, we recorded a charge of \$42 million in 2003. We appealed the verdict to the Sixth Circuit Court of Appeals and interest continued to accrue during the appeal process. Prior to a ruling from the Sixth Circuit Court of Appeals, we settled this matter with the Wrench plaintiffs on January 15, 2005. Concurrent with the settlement with the plaintiffs, we also settled the matter with certain of our insurance carriers. As a result of these settlements, reversals of previously recorded expense of \$14 million were recorded in the year ended December 25, 2004. We paid the settlement amount to the plaintiffs and received the insurance recovery during the first quarter of 2005. During the third quarter of 2005, we entered into a settlement agreement with another insurance carrier and as a result income of \$2 million was recorded in the quarter.

We intend to seek additional recoveries from our other insurance carriers during the periods in question. We have also filed suit against Taco Bell's former advertising agency in the United States District Court for the Central District of California seeking reimbursement for the settlement amount as well as any costs that we have incurred in defending this matter. The District Court has issued a minute order granting defendant's motion for summary judgment but has requested submissions from the defendant for its review before issuing a final order. We believe that a grant by the District Court of this summary judgment motion would be erroneous under the law. We will evaluate our options once a final order has been issued. Any additional recoveries will be recorded as they are realized.

Obligations to PepsiCo, Inc. After Spin-off

In connection with the Spin-off, we entered into separation and other related agreements (the "Separation Agreements") governing the Spin-off and our subsequent relationship with PepsiCo. These agreements provide certain indemnities to PepsiCo.

Under terms of the agreement, we have indemnified PepsiCo for any costs or losses it incurs with respect to all letters of credit, guarantees and contingent liabilities relating to our businesses under which PepsiCo remains liable. As of December 31, 2005, PepsiCo remains liable for approximately \$28 million on a nominal basis related to these contingencies. This obligation ends at the time PepsiCo is released, terminated or replaced by a qualified letter of credit. We have not been required to make any payments under this indemnity.

Under the Separation Agreements, PepsiCo maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods through October 6, 1997. PepsiCo also maintains full control and absolute discretion regarding any common tax audit issues. Although PepsiCo has contractually agreed to, in good faith, use its best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice, there can be no assurance that determinations made by PepsiCo would be the same as we would reach, acting on our own behalf. Through December 31, 2005, there have not been any determinations made by PepsiCo where we would have reached a different determination.

Note 22 - Selected Quarterly Financial Data (Unaudited)

	2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$ 1,810	\$ 1,902	\$ 1,975	\$ 2,538	\$ 8,225
Franchise and license fees	244	251	268	361	1,124
Total revenues	2,054	2,153	2,243	2,899	9,349
Wrench litigation (income) expense	—	—	(2)	—	(2)
AmeriServe and other charges (credits)	—	—	—	(2)	(2)
Total costs and expenses, net	1,803	1,892	1,935	2,566	8,196
Operating profit	251	261	308	333	1,153
Net income	153	178	205	226	762
Diluted earnings per common share	0.50	0.59	0.69	0.77	2.55
Dividends declared per common share	0.10	0.115	—	0.23	0.445
2004					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	\$ 1,747	\$ 1,846	\$ 1,935	\$ 2,464	\$ 7,992
Franchise and license fees	223	231	244	321	1,019
Total revenues	1,970	2,077	2,179	2,785	9,011
Wrench litigation (income) expense	—	—	—	(14)	(14)
AmeriServe and other charges (credits)	—	(14)	—	(2)	(16)
Total costs and expenses, net	1,727	1,802	1,888	2,439	7,856
Operating profit	243	275	291	346	1,155
Net income	142	178	185	235	740
Diluted earnings per common share	0.47	0.58	0.61	0.77	2.42
Dividends declared per common share	—	0.10	—	0.20	0.30

The first three quarters of 2005 have been restated pursuant to the adoption of SFAS 123R. See Note 2.

In the fourth quarter of 2005, we recorded a \$6 million reduction to correct our previously recorded gain associated with the sale of our Poland/Czech Republic business. See Note 7.

In the fourth quarter of 2004, we recorded an \$11.5 million (\$7 million after tax) adjustment primarily through increased U.S. depreciation expense to correct instances where our leasehold improvements were not being depreciated over the shorter of their useful lives or the underlying term of the lease. See Note 2.

See Note 4 and Note 21 for details of Wrench litigation and Note 4 for details of AmeriServe other charges (credits).

Management's Responsibility for Financial Statements

To Our Shareholders:

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

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. We have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we concluded that our internal control over financial reporting was effective as of December 31, 2005. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

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

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

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 31, 2005 provide reasonable assurance that our assets are reasonably safeguarded.

Richard T. Carucci
Chief Financial Officer

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 Chairman, Chief Executive Officer and President (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 controls over financial reporting based on the framework in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control – Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2005. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control

There were no significant 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 31, 2005.

Item 9B. Other Information.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

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" and "Election of Directors" 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 31, 2005

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

Item 11. Executive Compensation.

Information regarding executive and director compensation 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 31, 2005.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

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 31, 2005.

Item 13. Certain Relationships and Related Transactions.

Information regarding certain relationships and related transactions 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 31, 2005.

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services and audit committee pre-approved 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 31, 2005.

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 financial statements or the related notes thereto filed as a part of this Form 10-K.
- (3) Exhibits: The exhibits listed in the accompanying Index to Exhibits 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: March 2, 2006

YUM! BRANDS, INC.

By: /s/ David C. Novak

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	Chairman of the Board, Chief Executive Officer and President (principal executive officer)	March 2, 2006
<u>/s/ Andrall E. Pearson</u> Andrall E. Pearson	Founding Chairman	March 2, 2006
<u>/s/ Richard T. Carucci</u> Richard T. Carucci	Chief Financial Officer (principal financial officer)	March 2, 2006
<u>/s/ Ted F. Knopf</u> Ted F. Knopf	Senior Vice President Finance and Corporate Controller (principal accounting officer)	March 2, 2006
<u>/s/ David W. Dorman</u> David W. Dorman	Director	March 2, 2006
<u>/s/ Massimo Ferragamo</u> Massimo Ferragamo	Director	March 2, 2006
<u>/s/ J. David Grissom</u> J. David Grissom	Director	March 2, 2006

<u>/s/ Bonnie G. Hill</u> Bonnie G. Hill	Director	March 2, 2006
<u>/s/ Robert Holland, Jr.</u> Robert Holland, Jr.	Director	March 2, 2006
<u>/s/ Kenneth G. Langone</u> Kenneth G. Langone	Director	March 2, 2006
<u>/s/ Jonathan S. Linen</u> Jonathan S. Linen	Director	March 2, 2006
<u>/s/ Thomas C. Nelson</u> Thomas C. Nelson	Director	March 2, 2006
<u>/s/ Thomas M. Ryan</u> Thomas M. Ryan	Director	March 2, 2006
<u>/s/ Jackie Trujillo</u> Jackie Trujillo	Director	March 2, 2006
<u>/s/ Robert J. Ulrich</u> Robert J. Ulrich	Director	March 2, 2006

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

<u>Exhibit Number</u>	<u>Description of Exhibits</u>
3.1	Restated Articles of Incorporation of YUM, which are incorporated herein by reference from Exhibit 3.1 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 3, 2005.
3.2	Amended and restated Bylaws of YUM, which are incorporated herein by reference from Exhibit 3.2 on Form 8-K filed on May 17, 2002.
4.1*	Indenture, dated as of May 1, 1998, between YUM and The First National Bank of Chicago, pertaining to 7.65% Senior Notes due May 15, 2008, 8.5% Senior Notes and 8.875% Senior Notes due April 15, 2006 and April 15, 2011, respectively, and 7.70% Senior Notes due July 1, 2012, which is incorporated herein by reference from Exhibit 4.1 to YUM's Report on Form 8-K filed with the Commission on May 13, 1998.
4.2	Rights Agreement, dated as of July 21, 1998, between YUM and BankBoston, N.A., which is incorporated herein by reference from Exhibit 4.01 to YUM's Quarterly Report on Form 10-Q for the quarter ended June 13, 1998.
4.3	Agreement of Substitution and Amendment of Common Share Rights Agreement, dated as of August 28, 2003, by and between YUM! Brands, Inc. (fka Tricon Global Restaurants, Inc.) and American Stock Transfer & Trust Company, which is incorporated herein by reference from Exhibit 4.03 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 6, 2003.
10.1	Separation Agreement between PepsiCo, Inc. and YUM effective as of August 26, 1997, and the First Amendment thereto dated as of October 6, 1997, which is incorporated herein by reference from Exhibit 10.1 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.2	Tax Separation Agreement between PepsiCo, Inc. and YUM effective as of August 26, 1997, which is incorporated herein by reference from Exhibit 10.2 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.5	Amended and Restated Sales and Distribution Agreement between AmeriServe Food Distribution, Inc., YUM, Pizza Hut, Taco Bell and KFC, effective as of November 1, 1998, which is incorporated herein by reference from Exhibit 10 to YUM's Annual Report on Form 10-K for the fiscal year ended December 26, 1998, as amended by the First Amendment thereto, which is incorporated herein by reference from Exhibit 10.5 to YUM's Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.6	Amended and Restated Credit Agreement, dated September 7, 2004 among YUM, the lenders party thereto, JP Morgan Chase Bank, as Administrative Agent, and Citicorp N.A., as Syndication Agent, which is incorporated herein by reference from Exhibit 10.6 to YUM's Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.7†	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.

- 10.8† 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.
- 10.9† YUM Executive Incentive Compensation Plan, 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 20, 2004.
- 10.10† YUM Executive Income Deferral Program, as effective October 7, 1997, and as amended through May 16, 2002 (as filed herewith).
- 10.13† YUM Pension Equalization Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.14 to YUM's Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
- 10.16 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.
- 10.17† Amended and restated form of Severance Agreement (in the event of a change in control), 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 30, 2000.
- 10.18† YUM Long Term Incentive Plan, as Amended through the First Amendment, as effective May 20, 1999, which is incorporated herein by reference from Exhibit B to YUM's Definitive Proxy Statement on Form DEF 14A for the Annual Meeting of Shareholders held on May 15, 2003.
- 10.19† Employment Agreement between YUM and Christian L. Campbell, dated as of September 3, 1997, which is incorporated herein by reference from Exhibit 10.19 to YUM's Annual Report on Form 10-K for fiscal year ended December 26, 1998.
- 10.20 Amended and Restated YUM Purchasing Co-op Agreement, dated as of August 26, 2002, between YUM and the Unified FoodService Purchasing Co-op, LLC, which is incorporated herein by reference from Exhibit 10.20 to YUM's Annual Report on Form 10-K for the fiscal year ended December 28, 2002.
- 10.22† YUM Restaurant General Manager Stock Option Plan, as effective April 1, 1999, and as amended through June 23, 2003 (as filed herewith).

- 10.23† YUM SharePower Plan, as effective October 7, 1997, and as amended through June 23, 2003 (as filed herewith).
- 10.24† Employment agreement between YUM and David C. Novak, dated as of September 24, 2004, which is incorporated herein by reference from Exhibit 10.24 on Form 8-K filed on September 24, 2004.
- 10.25† 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.
- 10.26† 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.
- 10.27† 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.
- 10.28† Letter of Understanding, dated July 13, 2004, by and between the Company and Samuel Su, 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.
- 10.29† Form of YUM 1999 Long Term Incentive Plan Award Agreement (Stock Appreciation Rights) which is incorporated by reference from Exhibit 99.1 on form 8-K as filed on January 30, 2006.
- 10.30† YUM Compensation Committee establishment of consolidated or relevant operating company and individual goals and objectives for purposes of exercising the Committee's negative discretion under the YUM Executive Incentive Compensation Plan which is incorporated herein by reference from Form 8-K as filed on January 30, 2006.
- 10.31 Revolving Credit Facility, dated November 8, 2005, among YUM, Citigroup Global Markets Ltd. and J.P. Morgan Securities Inc., as Joint Mandated Lead Arrangers and Joint Bookrunners, and Citigroup International Plc and Citibank, N.A., Canadian Branch, as Facility Agents (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 Chairman, Chief Executive Officer and President 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 Chairman, Chief Executive Officer and President 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.

* Neither YUM nor any of its subsidiaries is party to any other long-term debt instrument under which securities authorized exceed 10 percent of the total assets of YUM and its subsidiaries on a consolidated basis. Copies of instruments with respect to long-term debt of lesser amounts will be furnished to the Commission upon request.

† Indicates a management contract or compensatory plan.

YUM! BRANDS
EXECUTIVE INCOME DEFERRAL
PROGRAM

As Effective October 7, 1997, with Amendments Through May 16, 2002

WSHLIB01 176812.4

YUM! BRANDS
EXECUTIVE INCOME DEFERRAL PROGRAM

TABLE OF CONTENTS

ARTICLE I INTRODUCTION	1
ARTICLE II DEFINITIONS	2
2.1 Account	2
2.2 Base Compensation	2
2.3 Beneficiary	2
2.4 Bonus Compensation	2
2.5 Code	3
2.6 Company	3
2.7 Deferral Subaccount	3
2.8 Deferral Subaccount	3
2.9 Effective Date	3
2.10 Election Form	3
2.11 Employee	3
2.12 Employer	3
2.13 ERISA	3
2.14 Participant	4
2.15 Participant	4
2.16 Performance Unit Payout	4
2.17 Plan	4
2.18 Plan Administrator	4
2.19 Plan Year	4
2.20 Prior Plan	4
2.21 Prior Plan	4
2.22 Retirement	5
2.23 Risk of Forfeiture Account	5
2.25 Stock Option Gains	5
2.26 Termination of Employment	5
2.27 Valuation Date	6
ARTICLE III PARTICIPATION	7
3.1 Eligibility to Participate	7
3.2 Deferral Election	7
3.3 Time and Manner of Deferral Election	8
3.4 Period of Deferral	9
ARTICLE IV INTERESTS OF PARTICIPANTS	11

4.1 Accounting for Participants' Interests	11
4.2 Vesting of a Participant's Account	14
4.3 Risk of Forfeiture Accounts.	14
4.4 Distribution of a Participant's Account	17
4.5 Acceleration of Payment During Employment	19
ARTICLE V PLAN ADMINISTRATOR	21
5.1 Members	21
5.2 Action	21
5.3 Right and Duties	21
5.4 Compensation, Indemnity and Liability	22
5.5 Taxes	22
ARTICLE VI CLAIMS PROCEDURE	23
6.1 Claims for Benefits	23
6.2 Appeals	23
ARTICLE VII AMENDMENT AND TERMINATION	24
7.1 Amendments	24
7.2 Termination of Plan	24
ARTICLE VIII MISCELLANEOUS	25
8.1 Limitation on Participant's Rights	25
8.2 Benefits Unfunded	25
8.3 Other Plans	25
8.4 Receipt or Release	25
8.5 Governing Law	25
8.6 Adoption of Plan by Related Employers	26
8.7 Gender, Tense, and Headings	26
8.8 Successors and Assigns; Nonalienation of Benefits	26
8.9 Facility of Payment	26
8.10 Separate Plans	26
<u>APPENDIX</u>	i
ARTICLE A – SPINOFF FROM PEPSICO	1
ARTICLE B – ADDITIONAL AMOUNT CREDITED TO CERTAIN PARTICIPANTS' ACCOUNTS	5
ARTICLE C – NEW PAYMENT TIMING ELECTION	6
ARTICLE D – RDC CONVERSION	7

ARTICLE I

INTRODUCTION

YUM! Brands, Inc. (the "Company") has established the YUM! Brands Executive Income Deferral Program (the "Plan") to permit eligible executives to defer base pay, certain cash awards made under its executive incentive compensation programs, and Performance Unit Payouts and gains on options under the YUM! Brands, Inc. 1997 and 1999 Long Term Incentive Plans (formerly known as the Tricon Global Restaurants, Inc. 1997 and 1999 Long Term Incentive Plans). The Plan is a successor to the PepsiCo Executive Income Deferral Program.

Except as otherwise provided, this document sets forth the terms of the Plan as in effect on October 7, 1997. As of that date, it specifies the group of executives of the Company and certain affiliated employers eligible to make deferrals, the procedures for electing to defer compensation and the Plan's provisions for maintaining and paying out amounts that have been deferred. Additional provisions applicable to certain executives are set forth in the Appendix, which modifies and supplements the general provisions of the Plan.

Effective May 16, 2002, Tricon Global Restaurants, Inc. changed its name to YUM! Brands, Inc. Where appropriate, the Plan has been amended to reflect this name change.

The Plan is unfunded and unsecured. Amounts deferred by an executive are an obligation of that executive's individual employer. With respect to the Participant's employer, the executive has the rights of a general creditor.

ARTICLE II

DEFINITIONS

When used in this Plan, the following underlined terms shall have the meanings set forth below unless a different meaning is plainly required by the context:

2.1 Account : The account maintained for a Participant on the books of the Employer to determine, from time to time, the Participant's interest under this Plan. The balance in such Account shall be determined by the Plan Administrator. Each Participant's Account shall consist of at least one Deferral Subaccount for each separate deferral under Section 3.2. In accordance with Section 4.3, some or all of a separate deferral may be held in a Risk of Forfeiture Subaccount. The Plan Administrator may also establish such additional subaccounts as it deems necessary for the proper administration of the Plan. Where appropriate, a reference to a Participant's Account shall include a reference to each applicable subaccount that has been established thereunder.

2.2 Base Compensation : An eligible Employee's adjusted base salary, as determined by the Plan Administrator and to the extent paid in U.S. dollars from an Employer's U.S. payroll. For any applicable payroll period, an eligible Employee's adjusted base salary shall be determined after reductions for applicable tax withholdings, Employee authorized deductions (including deductions for the YUM! Brands 401(k) Plan ("401k"), welfare benefit plans and charitable donations), tax levies, garnishments and such other amounts as the Plan Administrator recognizes as reducing the amount of base salary available for deferral.

2.3 Beneficiary : The person or persons who a Participant properly designates, as determined by the Plan Administrator, to receive the amounts in one or more of the Participant's subaccounts in the event of the Participant's death. To be effective, any Beneficiary designation must be in writing, signed by the Participant, and filed with the Plan Administrator prior to the Participant's death, and it must meet such other standards as the Plan Administrator shall require from time to time. If no designation is in effect at the time of a Participant's death or if all designated Beneficiaries have predeceased the Participant, then the Participant's Beneficiary shall be the Participant's estate. A Beneficiary designation of an individual by name (or name and relationship) remains in effect regardless of any change in the designated individual's relationship to the Participant. A Beneficiary designation solely by relationship (for example, a designation of "spouse," that does not give the name of the spouse) shall designate whoever is the person in that relationship to the Participant at the Participant's death. An individual who is otherwise a Beneficiary with respect to a Participant's Account ceases to be a Beneficiary when all payments have been made from the Account.

2.4 Bonus Compensation : An eligible Employee's Adjusted Annual Incentive award under the Employer's annual incentive plan, as determined and adjusted by the Plan

Administrator and to the extent paid in U.S. dollars from an Employer's U.S. payroll. An eligible Employee's annual incentive awards shall be adjusted to reduce them for applicable tax withholdings, Employee authorized deductions (including deductions for 401k, welfare benefit plans and charitable donations), tax levies, garnishments and such other amounts as the Plan Administrator recognizes as reducing the amount of such awards available for deferral.

2.5 Code : The Internal Revenue Code, as amended.

2.6 Company : YUM! Brands, Inc., a North Carolina corporation, or its successor or successors.

2.7 Deferral Subaccount : A subaccount of a Participant's Account maintained to reflect the Participant's interest in the Plan attributable to each deferral of Base Compensation, Bonus Compensation, Performance Unit Payout and Stock Option Gains, respectively, and earnings or losses credited to such subaccount in accordance with Section 4.1(b). A separate Deferral Subaccount shall be maintained with respect to a Participant's interest in the Restaurant Deferred Compensation Plan that is transferred to the Plan as set forth in Article D of the Appendix to the Plan.

2.8 Discount Stock Subaccount : A Risk of Forfeiture Subaccount that permits an eligible Employee to defer Bonus Compensation for investment solely in discounted phantom YUM! Common Stock, in accordance with Section 4.3(a).

2.9 Effective Date : October 7, 1997, except where specifically provided otherwise.

2.10 Election Form : The form prescribed by the Plan Administrator on which a Participant specifies the amount of the Participant's Base Compensation, Bonus Compensation, Performance Unit Payout, or Stock Option Gains to be deferred pursuant to the provisions of Article III.

2.11 Employee : Any person in a salaried classification of an Employer who (i) is receiving remuneration for personal services rendered in the employment of the Employer, (ii) is either a United States citizen or a resident alien lawfully admitted for permanent residence in the United States, and (iii) is paid in U.S. dollars from the Employer's U.S. payroll.

2.12 Employer : The Company and each of the Company's subsidiaries and affiliates that is currently designated as an Employer by the Plan Administrator.

2.13 ERISA : The Employee Retirement Income Security Act of 1974, as amended.

2.14 Fair Market Value : For purposes of converting a Participant's deferrals to YUM! Common Stock as of any date, the Fair Market Value of YUM! Common Stock is determined as the average of the high and low price or, effective January 1, 2000, the closing price on such date for YUM! Common Stock as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places. For purposes of determining the value of a Plan distribution or for reallocating amounts between phantom investment options under the Plan, the Fair Market Value of YUM! Common Stock or PepsiCo Capital Stock is determined as the closing price on the applicable Valuation Date (identified based on the Plan Administrator's current procedures) for PepsiCo or YUM! stock, whichever is applicable, as reported on the composite tape for securities listed on the New York Stock Exchange, Inc., rounded to four decimal places.

2.15 Participant : Any Employee eligible pursuant to Section 3.1 who has satisfied the requirements for participation in this Plan and who has an Account. A Participant includes any individual who deferred compensation under the Prior Plan prior to the Effective Date and for whom any Employer maintains on its books an Account for such deferred compensation as of the Effective Date. An active Participant is one who is currently deferring under Section 3.2.

2.16 Performance Unit Payout : The adjusted performance unit award payable to an Employee under the Company's 1997 or 1999 Long Term Incentive Plan during a Plan Year, to the extent paid in U.S. dollars from an Employer's U.S. payroll. An eligible Employee's performance unit award shall be adjusted to reduce it for applicable tax withholdings, Employee authorized deductions, tax levies, garnishments and such other amounts as the Plan Administrator recognizes as reducing the amount of such awards available for deferral.

2.17 Plan : The YUM! Brands Executive Income Deferral Program, as it may be amended from time to time.

2.18 Plan Administrator : The Compensation Committee of the Board of Directors of the Company, or its delegate or delegates.

2.19 Plan Year : The 12-month period from January 1 to December 31, provided that the initial plan year shall be a short plan year that begins on the Effective Date and ends on December 31 of the same year.

2.20 Prior Plan : The PepsiCo Executive Income Deferral Program, as in effect for periods before the Effective Date.

2.21 Quarterly Date : Each March 31, June 30, September 30 and December 31.

2.22 Retirement : Termination of service with the Company and its affiliates after attaining eligibility for retirement. A Participant attains eligibility for retirement when the Participant attains at least age 55 with 10 or more years of service, at least age 65 with 5 or more years of service or at least age 70 with 3 or more years of service (whichever occurs earliest) while in the employment of the Company or its affiliates. A Participant's Service is determined under the terms of the YUM! Brands Retirement Plan. To the extent a Participant is not eligible to participate in the YUM! Brands Retirement Plan, the Participant's Service shall be determined under rules substantially similar to the rules of the YUM! Brands Retirement Plan.

2.23 Risk of Forfeiture Subaccount : The subaccount provided for by Section 4.3 to contain the portion of each separate deferral that is subject to forfeiture.

2.24 Stock Option Gains : The gains on an eligible Employee's 1997 and 1999 Long Term Incentive Plan Stock Options that are available for deferral under the Plan pursuant to Section 3.3(c). With respect to any options that are made subject to a Stock Option Gain deferral election, the gains on such options shall be determined through a sale of related shares by the Plan Administrator net of: (i) the exercise price of the options, (ii) any transaction costs incurred when such gains are captured through the sale of related shares, and (iii) any related taxes that the Plan Administrator determines will not otherwise be satisfied by the Participant. For purposes of such sales, the Plan Administrator may aggregate shares related to the options of different Participants, sell them over one or more days and divide the net proceeds from such aggregate sales between the Participants in a reasonable manner. The Plan Administrator shall have absolute discretion with respect to the timing and aggregation of such sales.

2.26 Termination of Employment : A Participant's cessation of employment with the Company, all Employers and all other Company subsidiaries and affiliates (as defined for this purpose by the Plan Administrator). For purposes of determining forfeitures under Section 4.3 and distributing a Participant's Account under Section 4.4, the following shall apply:

(a) A Participant does not have a Termination of Employment when the business unit or division of the Company that employs him is sold if the Participant and substantially all employees of that entity continue to be employed by the entity or its successor after the sale. A Participant also does not have a Termination of Employment when the subsidiary of the Company that employs him is sold if: (i) the Participant continues to be employed by the entity or its successor after the sale, and (ii) the Participant's interest in the Plan continues to be carried as a liability by that entity or its successor after the sale through a successor arrangement. In each case, the Participant's Termination of Employment shall occur upon the Participant's post-sale termination of employment from such entity or its successor (and their related organizations, as determined by the Plan Administrator).

(b) With respect to any individual deferral, the term “Termination of Employment” may encompass a Participant’s death or death may be considered a separate event, depending upon the convention the Plan Administrator follows with respect to such deferral.

2.27 Valuation Date : Each date as of which Participant Accounts are valued in accordance with procedures of the Plan Administrator that are currently in effect. Effective June 1, 2002, the Valuation Dates are the last day of each calendar month. Prior to June 1, 2002, the Valuation Dates are each Quarterly Date. Values are determined as of the close of a Valuation Date or, if such date is not a business day, as of the close of the immediately preceding business day.

2.28 YUM!: YUM! Brands, Inc.

ARTICLE III

PARTICIPATION

3.1 Eligibility to Participate.

(a) An Employee shall be eligible to defer compensation under the Plan while employed by the Employer and classified as being an executive (Level 12 or above). Notwithstanding the preceding sentence, from time to time the Plan Administrator may modify, limit or expand the class of Employees eligible to defer hereunder, pursuant to criteria for eligibility that need not be uniform among all or any group of Employees. During the period an individual satisfies all of the eligibility requirements of this section, the individual shall be referred to as an eligible Employee.

(b) Each eligible Employee becomes an active Participant on the date an amount is first withheld from the Employee's compensation pursuant to an Election Form submitted by the Employee to the Plan Administrator under Section 3.3.

(c) An individual's eligibility to participate actively by making deferrals under Section 3.2 shall cease upon the earlier of:

(1) The date the individual ceases to be an Employee who is employed by the Employer and classified as in executive status; or

(2) The date the Employee ceases to be eligible under criteria described in the second sentence of subsection (a) above.

(d) An individual, who has been an active Participant under the Plan, ceases to be a Participant on the date the Participant's Account is fully paid out.

3.2 Deferral Election.

(a) Effective on and after October 1, 2001, each eligible Employee may make an election to defer under the Plan any whole percentage up to 85% of the Employee's Base Compensation and up to 100% of the Employee's Bonus Compensation, Performance Unit Payout or Stock Option Gains in the manner described in Section 3.3. Effective prior to October 1, 2001, each eligible Employee may make an election to defer under the Plan any whole percentage up to 100% of the Employee's Base Compensation, Bonus Compensation, Performance Unit Payout or Stock Option Gains in the manner described in Section 3.3. Any amount of Base Compensation deferred by an eligible Employee for a Plan Year will be deducted

each pay period during the Plan Year for which the Employee has Base Compensation and is an eligible Employee. The amount of Bonus Compensation or Performance Unit Payout deferred by an Eligible Employee for a Plan Year will be deducted from the Employee's payment under the applicable compensation program at the time it would otherwise be made, provided the Employee remains an eligible Employee at such time. Any Stock Option Gains deferred by an eligible Employee shall be captured as of the date or dates applicable for the category of underlying options under procedures adopted by the Plan Administrator, provided that the Plan Administrator determines the eligible Employee's rights in such options may still be recognized at such time.

(b) To be effective, an Eligible Employee's Election Form must set forth the percentage of Base Compensation, Bonus Compensation or Performance Unit Payout to be deferred (or for a deferral of Stock Option Gains, the specific options on which any gains are to be deferred), the investment choice under Section 4.1 (which investment choice shall be stated in multiples of 5 percent), the deferral period under Section 3.4, the eligible Employee's Beneficiary designation, and any other information that may be requested by the Plan Administrator from time to time. In addition, the Election Form must meet the requirements of Section 3.3 below.

3.3 Time and Manner of Deferral Election .

(a) Deferrals of Base Compensation . Subject to the next two sentences, an eligible Employee must make a deferral election for a Plan Year with respect to Base Compensation at least two months prior to the Plan Year in which the Base Compensation would otherwise be paid. An individual who newly becomes an eligible Employee during a Plan Year (or less than three months prior to a Plan Year) may make a deferral election with respect to Base Compensation to be paid during the balance of the current Plan Year within 30 days of the date the individual becomes an eligible Employee. Such an individual may also make an election at this time with respect to Base Compensation to be paid during the next Plan Year.

(b) Deferrals of Bonus Compensation and Performance Unit Payouts . Subject to the next two sentences, an eligible Employee must make a deferral election for a Plan Year with respect to the Employee's Bonus Compensation or Performance Unit Payout at least two months (or, prior to May 31, 2000, at least six months) prior to the Plan Year in which the Bonus Compensation or Performance Unit Payout would otherwise be paid. An individual who newly becomes an eligible Employee may make a deferral election with respect to the individual's Bonus Compensation or Performance Unit Payout to be paid during the succeeding Plan Year so long as the deferral election is made within 30 days of the date the individual becomes an eligible Employee and prior to the first day of such succeeding Plan Year. In the first Plan Year, an eligible Employee may make a deferral election until October 31, 1997 with respect to Bonus Compensation payable in the following year.

(c) Deferrals of Stock Option Gains . From time to time, the Plan Administrator shall notify eligible Employees with outstanding Long Term Incentive Plan Options which options then qualify for deferral of their related Stock Option Gains. An eligible Employee who has qualifying options must make a deferral election with respect to the Employee's related Stock Option Gains at least 6 months before such qualifying options' proposed capture date (as defined below) or, if earlier, in the calendar year preceding the year of the proposed capture date. The "proposed capture date" for a set of options shall be the earliest date that the Plan Administrator would capture a Participant's Stock Option Gains in accordance with the deferral agreement prepared for such purpose by the Plan Administrator.

(d) General Provisions . A separate deferral election under (a), (b) or (c) above must be made by an eligible Employee for each category of a Plan Year's compensation that is eligible for deferral. If an eligible Employee fails to file a properly completed and executed Election Form with the Plan Administrator by the prescribed time, the Employee will be deemed to have elected not to defer any Base Compensation, Bonus Compensation, Performance Unit Payout or Stock Option Gains, as the case may be, for the applicable Plan Year. An election is irrevocable once received and determined by the Plan Administrator to be properly completed. Increases or decreases in the amount or percentage a Participant elects to defer shall not be permitted during a Plan Year. Notwithstanding the preceding three sentences, to the extent necessary because of extraordinary circumstances, the Plan Administrator may grant an extension of any election period and may permit (to the extent necessary to avoid undue hardship to an eligible Employee) the complete revocation of an election with respect to future deferrals. Any such extension or revocation shall be available only if the Plan Administrator determines it shall not trigger constructive receipt of income and only upon such conditions as may be required by the Plan Administrator.

(e) Beneficiaries . A Participant designates on the Election Form a Beneficiary to receive payment in the event of the Participant's death of amounts credited to the Participant's Account. A Beneficiary is paid in accordance with the terms of a Participant's Election Form, as interpreted by the Plan Administrator in accordance with the terms of this Plan. At any time, a Participant may change a Beneficiary designation for any or all subaccounts in a writing that is signed by the Participant and filed with the Plan Administrator prior to the Participant's death, and that meets such other standards as the Plan Administrator shall require from time to time.

3.4 Period of Deferral . An eligible Employee making a deferral election shall specify a deferral period on the Employee's Election Form by designating a specific payout date, one or more specific payout events or both a date and one or more specific events from the choices that are made available to the eligible Employee by the Plan Administrator.

Subject to the next sentence, an eligible Employee's elected period of deferral shall run until the earliest occurring date or event specified on the Employee's Election Form. Notwithstanding an eligible Employee's actual election, an eligible Employee shall be deemed to have elected a period of deferral of not less than:

(a) For Base Compensation, at least until January 1 of the second Plan Year following the Plan Year during which the Base Compensation would have been paid absent the deferral (until 6 months after the Plan Year during which the Base Compensation would have been paid for deferral elections made before the Effective Date);

(b) For Bonus Compensation, at least 2 years after the date the Bonus Compensation would have been paid absent the deferral (1 year for deferral elections made before the Effective Date);

(c) For Performance Unit Payouts, at least 2 years after the date the Performance Unit Payout would have been paid absent the deferral (1 year for deferral elections made before the Effective Date); and

(d) For Stock Option Gains, at least 2 years after the date the Stock Option Gain is credited to a Deferral Subaccount for the benefit of the Participant (1 year for deferral elections made before the Effective Date).

ARTICLE IV

INTERESTS OF PARTICIPANTS

4.1 Accounting for Participants' Interests.

(a) Deferral Subaccounts. Each Participant shall have a separate Deferral Subaccount credited with the amount of each separate deferral of Base Compensation, Bonus Compensation, Performance Unit Payout or Stock Option Gains made by the Participant under this Plan. A Participant's deferral shall be credited to the Participant's Account as soon as practicable following the date when the deferral of compensation actually occurs, as determined by the Plan Administrator. A Participant's Account is a bookkeeping device to track the value of the Participant's deferrals (and the Employer's liability therefor). No assets shall be reserved or segregated in connection with any Account, and no Account shall be insured or otherwise secured.

(b) Account Earnings or Losses. As of each Valuation Date, a Participant's Account shall be credited with earnings and gains (and shall be debited for expenses and losses) determined as if the amounts credited to the Participant's Account had actually been invested as directed by the Participant in accordance with this section (as modified by Section 4.3). The Plan provides only for "phantom investments," and therefore such earnings, gains, expenses and losses are hypothetical and not actual. However, they shall be applied to measure the value of a Participant's Account and the amount of the Employer's liability to make deferred payments to or on behalf of the Participant.

(c) Investment Options. Each of a Participant's Subaccounts (other than those containing Stock Option Gains) shall be invested on a phantom basis in any combination of phantom investment options specified by the Participant from those offered by the Plan Administrator from time to time. Subsection (e) below governs the phantom investment options available for deferrals of Stock Option Gains. The Plan Administrator may discontinue any phantom investment option with respect to some or all Accounts, and it may provide for shifting a Participant's phantom investment from the discontinued option to a specified replacement option (unless the Participant selects another replacement option in accordance with such requirements as the Plan Administrator may apply). As of the Effective Date, except as otherwise noted below, the phantom investment options are:

(1) YUM! Common Stock Account. Participant Accounts invested in this phantom option are adjusted to reflect an investment in YUM! Common Stock. An amount deferred or transferred into this option is converted to phantom shares of YUM! Common Stock of equivalent value by dividing such amount by the Fair Market Value of a share of YUM!

Common Stock on the date that is determined by the Plan Administrator to be the date as of which the amount is invested.

(i) Effective June 1, 2002, partial shares are determined for this purpose. Prior to June 1, 2002, only whole shares were determined for this purpose, rounded to the next lowest whole number of shares. Any remaining amount was credited to a dividend subaccount. Also credited to the dividend subaccount (both before and after June 1, 2002) are all amounts that would be received by the Account as dividends, if dividends were paid on phantom shares of YUM! Common Stock as they are on actual shares. Effective October 1, 2000, the amount invested in the dividend subaccount is credited at the rate of return under the Stable Value Account. Effective January 1, 1999 through September 30, 2000, the amount invested in the dividend subaccount was credited at the rate of return under the Security Plus Account. Prior to January 1, 1999, the amount invested in the dividend subaccount was credited at the rate of return under the Prime Rate Account.

(ii) A Participant's interest in the YUM! Common Stock Account is valued as of a Valuation Date by multiplying the number of phantom shares credited to the Participant's Account on such date by the Fair Market Value of a share of YUM! Common Stock on such date, and then adding the value of the Participant's dividend subaccount.

(iii) If shares of YUM! Common Stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spinoff, combination or exchange of shares, complete or partial liquidation or other similar corporate change, such equitable adjustment shall be made in the number of shares credited to an Account or subaccount as the Plan Administrator may determine to be necessary or appropriate.

(iv) Effective January 1, 2000, amounts deferred or transferred into the YUM! Common Stock Account must remain invested in phantom YUM! Common Stock and may not be transferred into another phantom investment option.

In no event will shares of YUM! Common Stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of YUM! Common Stock on account of an interest in this phantom option.

(2) 401k. From time to time, the Plan Administrator shall designate which of the investment options under the 401k shall be available as

phantom investment options under the Plan. Participant Accounts invested in these phantom options are adjusted to reflect an investment in the corresponding investment options under the 401k.

(i) Effective October 1, 2001, such available phantom investment option is the Stable Value Account. Any amounts invested in the Security Plus Account on September 30, 2001 were transferred to the Stable Value Account on October 1, 2001.

(ii) Effective prior to October 1, 2001 and on or after January 1, 2000, such available phantom investment option was the Security Plus Account. Any amounts invested in the Equity-Index Account and the Equity-Income Account on December 31, 1999 and not directed by the Participant to be invested in the YUM! Common Stock Account or the Security Plus Account were automatically transferred to the Security Plus Account on January 1, 2000.

(iii) Effective prior to January 1, 2000 and on and after the Effective Date, but subject to subparagraph (iv) below, such available phantom options were the Equity-Index Account, Equity-Income Account, and the Security Plus Account.

(iv) Effective January 1, 1999 in the case of 1999 salary deferrals, such available phantom investment option was the Security Plus Account.

(3) Prime Rate Account. Effective for periods before January 1, 1999, Participant Accounts invested in this phantom option accrue a return based upon the prime rate of interest announced from time to time by Citibank, N.A. (or another bank designated by the Plan Administrator from time to time). Returns accrue during the period since the last Valuation Date based on the prime rate in effect on the first business day after such Valuation Date and are compounded annually. An amount deferred or transferred into this option is credited with the applicable rate of return beginning with the date as of which the amount is invested in this option by the Plan Administrator.

(d) Method of Allocation. With respect to any deferral election by a Participant, the Participant must use the Participant's Election Form to allocate the deferral in 5 percent increments among the phantom investment options then offered by the Plan Administrator. Thereafter, except for amounts invested in the Discount Stock Subaccount and, effective January 1, 2000, the YUM! Common Stock Account, a Participant may reallocate previously deferred amounts in a subaccount by properly completing and submitting a fund transfer form provided by the Plan Administrator and specifying, in 5 percent increments, the reallocation of the Participant's

Subaccount among the phantom investment options then offered by the Plan Administrator. Any such transfer form shall be effective as of the Valuation Date that follows its receipt by at least the number of days that the Plan Administrator specifies for this purpose from time to time. If more than one transfer form is received on a timely basis for a subaccount, the transfer form that the Plan Administrator determines to be the most recent shall be followed.

(e) Investment Choices for Stock Option Gains. Deferrals of Stock Option gains initially may be invested only in the YUM! Common Stock Account. In the case of a Participant who has attained Retirement, the Plan Administrator may make available some or all of the other phantom investment options described in subsection (c) above. In this case, any election to reallocate the balance in the Participant's applicable Deferral Subaccount shall be governed by the foregoing provisions of this section.

4.2 Vesting of a Participant's Account. Except as provided in Section 4.3, a Participant's interest in the value of the Participant's Account shall at all times be 100 percent vested, which means that it will not forfeit as a result of Termination of Employment.

4.3 Risk of Forfeiture Subaccounts. This section provides opportunities for eligible Participants to invest their deferrals subject to a risk of forfeiture for certain Terminations of Employment.

(a) Discount Stock. Beginning after the Effective Date, a Participant may elect to defer the Participant's Bonus Compensation for each year to a separate Discount Stock Subaccount in accordance with this subsection. For investment purposes, any such deferral shall be treated as if it were invested in the YUM! Common Stock Account, except that the number of phantom shares allocated to the Participant's Discount Stock Subaccount shall initially be determined by dividing the Participant's deferral amount by 75 percent of the Fair Market Value of YUM! Common Stock on the date as of which the amount is credited to the Discount Stock Subaccount by the Plan Administrator.

(1) Forfeitures. A Participant shall forfeit the entire amount credited to the Participant's Discount Stock Subaccount (as adjusted for changes in value under Section 4.1(b)) if the Participant has a Termination of Employment prior to the second anniversary of the date as of which the Participant's deferral was credited to the subaccount (the "Second Anniversary"). Notwithstanding the prior sentence, if the Plan Administrator determines that the Participant's termination prior to the Second Anniversary was:

(i) An involuntary termination without cause, the amount in the subaccount shall be recalculated to equal the original

amount of the Participant's deferral to the subaccount (and such amount shall be distributed to the Participant on the Second Anniversary of the deferral), but there shall be no other forfeiture;

(ii) On account of total disability or death, no forfeiture shall occur;

(iii) On account of Retirement after attaining at least age 65, no forfeiture shall occur;

(iv) On account of Retirement before age 65 but on or after the first anniversary of the date as of which the deferral was credited to the Participant's subaccount (the "First Anniversary"), no forfeiture shall occur;

(v) On account of Retirement before age 65 and before the First Anniversary, the amount in the subaccount shall be recalculated to eliminate a prorated portion of the total value of the discount (which shall include any related phantom stock appreciation and dividend equivalents), but there shall be no other forfeiture; or

(vi) Effective October 1, 1998, on account of an involuntary termination without cause pursuant to a restructuring designated by the Chief People Officer of YUM! as a "Reduction in Force," no forfeiture shall occur.

For purposes of subparagraph (v) above, the portion of the discount that shall be eliminated shall be calculated by taking (I) the total value of the discount, multiplying it by (II) the number of days from the Participant's Termination of Employment to the First Anniversary, and dividing this product by (III) 365.

(2) Transfer Restrictions: Amounts deferred into the Discount Stock Subaccount must remain invested in phantom YUM! Common Stock and may not be transferred into another phantom investment.

(b) Grandfathered Risk of Forfeiture. A Participant may elect to defer Base Compensation, Bonus Compensation or Performance Unit Payouts to a Risk of Forfeiture Subaccount provided for in this subsection (a "Grandfathered Risk of Forfeiture Subaccount") only if: (i) the Participant had, as of June 1, 1994, a deferred compensation subaccount under the Prior Plan maintained under a forfeiture agreement (as defined below), and (ii) the Participant is not yet eligible to retire when the first amount would be deferred pursuant to the Participant's current risk-of-forfeiture election. A "forfeiture agreement" is an agreement with the Company, any Employer, or one of their predecessors providing that the subaccount would be

forfeited if the employee terminated employment voluntarily or on account of misconduct prior to Retirement. A Participant who meets these requirements may elect under Article III to defer some or all of the Participant's eligible compensation to a Grandfathered Risk of Forfeiture Subaccount subject to the following terms. Effective January 1, 2000, the Grandfathered Risk of Forfeiture Subaccount described in this subsection will no longer be available. The subaccount of Participants invested in a Grandfathered Risk of Forfeiture Subaccount as of December 31, 1999 will become fully vested (and will cease to be a Risk of Forfeiture Subaccount) on January 1, 2000.

(1) A Grandfathered Risk of Forfeiture Subaccount will be terminated and forfeited in the event that the Participant has a Termination of Employment that is voluntary or because of the Participant's misconduct prior to the earliest of:

(i) The end of the deferral period designated in the Participant's Election Form for such deferral;

(ii) The date the Participant becomes eligible for Retirement; or

(iii) The date indicated on the Participant's Election Form as the end of the risk of forfeiture condition (but not before completing the minimum risk of forfeiture period required by the Plan Administrator from time to time).

(2) A Grandfathered Risk of Forfeiture Subaccount shall become fully vested (and shall cease to be a Risk of Forfeiture Subaccount) when:

(i) The Participant reaches any of the dates in paragraph (1) above while still employed by the Company or one of its affiliates, or

(ii) On the date the Participant terminates involuntarily from the Employer (including death and termination for disability), provided that such termination is not for the Participant's misconduct.

(3) No amounts credited to a Grandfathered Risk of Forfeiture Subaccount may be transferred to a subaccount of the Participant that is not a Grandfathered Risk of Forfeiture Subaccount. No amounts credited to a subaccount of the Participant that is not a Grandfathered Risk of Forfeiture Subaccount may be transferred to a Grandfathered Risk of Forfeiture Subaccount.

(4) A Participant may initially direct and then reallocate the Participant's Grandfathered Risk of Forfeiture Subaccount to any of the phantom investment options under the Plan that are currently available for such direction or reallocation, whichever applies. During the period before a Grandfathered Risk of Forfeiture Subaccount ceases to be a Risk of Forfeiture Subaccount, the return under any such phantom investment option shall be supplemented as follows.

(i) In the case of the YUM! Common Stock Account, the Participant's dividend subaccount thereunder shall be credited with an additional year-end dividend amount equal to 2 percent of the average closing price of YUM! Common Stock for the 30 business days preceding the end of the Company's fiscal year multiplied by the number of phantom shares of YUM! Common Stock credited to the Participant's Account as of the end of the year. If the Participant's subaccount was not a Grandfathered Risk of Forfeiture Subaccount for the entire year (or if the Participant reallocated amounts to the YUM! Common Stock Account after the beginning of the year), this 2 percent additional dividend will be prorated down appropriately, as determined by the Plan Administrator. In addition, the Participant's dividend subaccount shall earn interest at a rate that is 2 percent above the rate ordinarily applicable under the Prime Rate Account for the period that it is contained within a Risk of Forfeiture Subaccount.

(ii) In the case of any other available phantom investment option, the return on each such option shall be supplemented with an additional 2% annual return for the period that it is held within a Grandfathered Risk of Forfeiture Subaccount (but prorated for periods of such investment of less than a year).

4.4 Distribution of a Participant's Account. A Participant's Account shall be distributed as provided in this Section 4.4. Any Discount Stock Subaccount and the portion of any other subaccount that is invested in the YUM! Common Stock Account may be distributed, at the option of the Plan Administrator, either in the form of cash or in whole shares of YUM! Common Stock (with cash for any partial share and the value of the dividend account). All other subaccount balances shall be distributed in cash. Effective January 1, 1999, the portion of a Participant's Account attributable to the Discount Stock Subaccount will be distributed in whole shares of YUM Common Stock. Effective January 1, 2000, the portion of a Participant's Account attributable to the YUM! Common Stock Account will be distributed in whole shares of YUM! Common Stock.

(a) Scheduled Payout Date. With respect to a specific deferral, a Participant's "Scheduled Payout Date" shall be the earliest to occur date or event of

those selected by the Participant for such deferral in accordance with Section 3.4. Notwithstanding the prior sentence:

(1) In the case of a deferral of Stock Option Gains, a Participant's Scheduled Payout Date for such deferral shall be the date the Participant has a Termination of Employment other than for death, disability or Retirement (or two years after the date of the deferral, if that would be later than such Termination of Employment), and

(2) In the case of a deferral into a Discount Stock Subaccount that (under Section 4.3(a)(1)(i)) has been recalculated to equal the original amount of the deferral in connection with an involuntary termination without cause, a Participant's Scheduled Payout Date for the recalculated amount shall be the date of such termination (or two years after the date of the deferral, if that would be later than such termination).

Unless an election has been made in accordance with subsection (b) below, the Participant's subaccount containing the deferral shall be distributed to the Participant in a single lump sum as soon as practicable following the Scheduled Payout Date.

(b) Payment Election. A Participant may delay receipt of a subaccount beyond its Scheduled Payout Date, or elect to receive installments rather than a lump sum, by making a payment election under this subsection. A payment election must be made by the calendar year before the year containing the Scheduled Payout Date (or if earlier, at least 6 months before the Scheduled Payout Date). Any payment election to receive a lump sum at a later time must specify a revised payout date that is at least 2 years after the Scheduled Payout Date. Any payment election to receive installment payments in lieu of a lump sum shall specify the amount (or method for determining) each installment and a set of revised payout dates, the last of which must be at least 2 years after the Scheduled Payout Date. With respect to any subaccount, only one election may be made under this subsection. Beneficiaries are not permitted to make elections under this subsection. In addition, an election under this subsection may not delay the distribution of an amount for which the Scheduled Payment Date is determined under subsection (a)(1) or (2) above. Actual payment shall be made on the Quarterly Date occurring as soon as practicable following the revised payout date.

(c) Valuation. In determining the amount of any individual distribution pursuant to subsection (a) or (b) above, the Participant's subaccount shall continue to be credited with earnings and gains (and debited for expenses and losses) under Sections 4.1 and 4.3 until the Valuation Date preceding the Scheduled Payout Date or revised payout date for such distribution (whichever is applicable). In determining the value of a Participant's remaining subaccount following an installment distribution, such installment distribution shall reduce the value of the Participant's

subaccount as of the close of the Valuation Date preceding the revised payout date for such installment.

(d) Limitations. The following limitations apply to distributions from the Plan.

(1) Installments may only be made quarterly, semi-annually or annually, for a period of no more than 20 years, and not later than the Participant's 80th birthday (or what would have been the Participant's 80th birthday, if the Participant dies earlier).

(2) If a Participant has elected a Scheduled Payout Date that would be after the Participant's 80th birthday, the Participant shall be deemed to have elected such 80th birthday as his or her Scheduled Payout Date.

(3) If a Participant has elected to defer income, which would qualify as performance-based compensation under Code section 162(m), into a Risk of Forfeiture Subaccount, then such subaccount may not be paid out at any time while the Participant is a covered employee under Code section 162(m)(3), to the extent the Plan Administrator determines it would result in compensation being paid to the Participant in such year that would not be deductible under Code section 162(m). The payout of any such amount shall be deferred until a year when the Participant is no longer a section 162(m) covered employee. The Plan Administrator may waive the foregoing provisions of this paragraph to the extent necessary to avoid an undue hardship to the Participant. This paragraph shall apply notwithstanding any provision of the Plan to the contrary.

(e) Prior to September 15, 1998, upon a Participant's death, the Participant's Beneficiary shall be paid each subaccount still standing to the Participant's credit under the Plan in accordance with the terms of the Participant's payout election for such subaccount under Section 3.4, or the Participant's payment election under subsection (b) above, whichever is applicable. Effective September 15, 1998, upon a Participant's death, the Participant's Beneficiary shall be paid in a single lump sum in an amount equal to each subaccount still standing to the Participant's credit under the Plan as soon as administratively practicable following the Participant's death.

4.5 Acceleration of Payment for Certain Hardships. Except as expressly provided in this Section 4.5, no payments shall be made under this Plan prior to the date (or dates) applicable under Section 4.4.

(a) A Participant who is suffering severe financial hardship resulting from extraordinary and unforeseeable events beyond the control of the Participant

(and who does not have other funds reasonably available that could satisfy the severe financial hardship) may file a written request with the Plan Administrator for accelerated payment of all or a portion of the amount credited to the Participant's Account. A committee composed of representatives from the Company's Compensation Department and Law Department, or such other parties as the Plan Administrator may specify from time to time, shall have sole discretion to determine whether a Participant satisfies the requirements for a hardship request and the amount that may be distributed (which shall not exceed the amount reasonably necessary to alleviate the Participant's hardship).

(b) The Plan Administrator may adjust the standards for hardship withdrawals from time to time to the extent it determines such adjustment to be necessary to avoid triggering constructive receipt of income under the Plan.

(c) When some or all of a Participant's subaccount is distributed pursuant to this section, the distribution and the subaccount shall be valued as provided by the Plan Administrator, using rules patterned after those in Section 4.4(c) above.

(d) Effective prior to September 15, 1998, a Beneficiary could request a hardship distribution upon satisfaction of the foregoing requirements and subject to the foregoing limitations.

ARTICLE V

PLAN ADMINISTRATOR

5.1 Plan Administrator. The Plan Administrator is the Compensation Committee of the Company's Board of Directors (the "Committee") or its delegate or delegates, who shall act within the scope of their delegation pursuant to such operating guidelines as the Committee shall establish from time to time. The Plan Administrator is responsible for the administration of the Plan.

5.2 Action. Action by the Committee may be taken in accordance with procedures that the Committee adopts from time to time or that the Company's Law Department determines are legally permissible.

5.3 Right and Duties. The Plan Administrator shall administer and manage the Plan and shall have all powers necessary to accomplish that purpose, including (but not limited to) the following:

- (a) To exercise its discretionary authority to construe, interpret, and administer this Plan;
- (b) To exercise its discretionary authority to make all decisions regarding eligibility, participation and deferrals, to make allocations and determinations required by this Plan, and to maintain records regarding Participants' Accounts;
- (c) To compute and certify to the Employer the amount and kinds of payments to Participants or their Beneficiaries, and to determine the time and manner in which such payments are to be paid;
- (d) To authorize all disbursements by the Employer pursuant to this Plan;
- (e) To maintain (or cause to be maintained) all the necessary records for administration of this Plan;
- (f) To make and publish such rules for the regulation of this Plan as are not inconsistent with the terms hereof;
- (g) To delegate to other individuals or entities from time to time the performance of any of its duties or responsibilities hereunder;
- (h) To establish or to change the phantom investment options or arrangements under Article IV; and

(i) To hire agents, accountants, actuaries, consultants and legal counsel to assist in operating and administering the Plan.

The Plan Administrator has the exclusive and discretionary authority to construe and to interpret the Plan, to decide all questions of eligibility for benefits, to determine the amount and manner of payment of such benefits and to make any determinations that are contemplated by (or permissible under) the terms of this Plan, and its decisions on such matters will be final and conclusive on all parties. Any such decision or determination shall be made in the absolute and unrestricted discretion of the Plan Administrator, even if (A) such discretion is not expressly granted by the Plan provisions in question, or (B) a determination is not expressly called for by the Plan provisions in question, and even though other Plan provisions expressly grant discretion or call for a determination. In the event of a review by a court, arbitrator or any other tribunal, any exercise of the Plan Administrator's discretionary authority shall not be disturbed unless it is clearly shown to be arbitrary and capricious.

5.4 Compensation, Indemnity and Liability. The Plan Administrator will serve without bond and without compensation for services hereunder. All expenses of the Plan and the Plan Administrator will be paid by the Employer. No member of the Committee, and no individual acting as the delegate of the Committee, shall be liable for any act or omission of any other member or individual, nor for any act or omission on the member's own part, excepting the member's own willful misconduct. The Employer will indemnify and hold harmless each member of the Committee and any individual or individuals acting as the delegate of the Committee against any and all expenses and liabilities, including reasonable legal fees and expenses, arising out of membership on the Committee (or serving as the delegate of the Committee), excepting only expenses and liabilities arising out of the member's own willful misconduct.

5.5 Taxes. If the whole or any part of any Participant's Account becomes liable for the payment of any estate, inheritance, income, or other tax which the Employer may be required to pay or withhold, the Employer will have the full power and authority to withhold and pay such tax out of any moneys or other property in its hand for the account of the Participant. The Employer will provide the Participant notice of such withholding. Prior to making any payment, the Employer may require such releases or other documents from any lawful taxing authority as it shall deem necessary.

ARTICLE VI

CLAIMS PROCEDURE

6.1 Claims for Benefits. If a Participant or Beneficiary (hereafter, "Claimant") does not receive timely payment of any benefits which he or she believes are due and payable under the Plan, such person may make a claim for benefits to the Plan Administrator. The claim for benefits must be in writing and addressed to the Plan Administrator or to the Company. If the claim for benefits is denied, the Plan Administrator will notify the Claimant in writing within 90 days after the Plan Administrator initially received the benefit claim. However, if special circumstances require an extension of time for processing the claim, the Plan Administrator will furnish notice of the extension to the Claimant prior to the termination of the initial 90-day period and such extension may not exceed one additional, consecutive 90-day period. Any notice of a denial of benefits should advise the Claimant of the basis for the denial, any additional material or information necessary for the Claimant to perfect a claim, and the steps which the Claimant must take to have such claim for benefits reviewed.

6.2 Appeals. Each Claimant whose claim for benefits has been denied may file a written request for a review of such claim by the Plan Administrator. The request for review must be filed by the Claimant within 60 days after the Claimant received the written notice denying such claim. The decision of the Plan Administrator will be made within 60 days after receipt of a request for review and will be communicated in writing to the Claimant. Such written notice shall set forth the basis for the Plan Administrator's decision. If there are special circumstances which require an extension of time for completing the review, the Plan Administrator's decision may be rendered not later than 120 days after receipt of a request for review.

ARTICLE VII

AMENDMENT AND TERMINATION

7.1 Amendments. The Compensation Committee of the Board of Directors of the Company has the right in its sole discretion to amend this Plan in whole or in part at any time and in any manner; provided, however, that no such amendment shall reduce the amount credited to the Account of any Participant as of the date such amendment is adopted. Any amendment shall be in writing and adopted by the Committee or an officer of the Company who is authorized by the Committee for this purpose. All Participants shall be bound by such amendment.

7.2 Termination of Plan. The Company expects to continue this Plan, but does not obligate itself to do so. The Company, acting by the Compensation Committee of its Board of Directors, reserves the right to discontinue and terminate the Plan at any time, in whole or in part, for any reason (including a change, or an impending change, in the tax laws of the United States or any State). Termination of the Plan will be binding on all Participants (and a partial termination shall be binding upon all affected Participants), but in no event may such termination reduce the amounts credited at that time to any Participant's Account. If this Plan is terminated (in whole or in part), amounts theretofore credited to affected Participants' Accounts may either be paid in a lump sum immediately, or distributed in some other manner consistent with this Plan, as determined by the Plan Administrator in its sole discretion.

ARTICLE VIII

MISCELLANEOUS

8.1 Limitation on Participant's Rights. Participation in this Plan does not give any Participant the right to be retained in the Employer's or Company's employ (or any right or interest in this Plan or any assets of the Company or Employer other than as herein provided). The Company and Employer reserve the right to terminate the employment of any Participant without any liability for any claim against the Company or Employer under this Plan, except for a claim for payment of deferrals as provided herein.

8.2 Unfunded Obligation of Individual Employer. The benefits provided by this Plan are unfunded. All amounts payable under this Plan to Participants are paid from the general assets of the Participant's individual Employer. Nothing contained in this Plan requires the Company or Employer to set aside or hold in trust any amounts or assets for the purpose of paying benefits to Participants. This Plan creates only a contractual obligation on the part of a Participant's individual Employer, and the Participant has the status of a general unsecured creditor of this Employer with respect to amounts of compensation deferred hereunder. No other Employer guarantees or shares such obligation, and no other Employer shall have any liability to the Participant or the Participant's Beneficiary. In the event, a Participant transfers from the employment of one Employer to another, the former Employer shall transfer the liability for deferrals made while the Participant was employed by that Employer to the new Employer (and the books of both Employers shall be adjusted appropriately).

8.3 Other Plans. This Plan shall not affect the right of any eligible Employee or Participant to participate in and receive benefits under and in accordance with the provisions of any other employee benefit plans which are now or hereafter maintained by any Employer, unless the terms of such other employee benefit plan or plans specifically provide otherwise or it would cause such other plan to violate a requirement for tax favored treatment.

8.4 Receipt or Release. Any payment to a Participant in accordance with the provisions of this Plan shall, to the extent thereof, be in full satisfaction of all claims against the Plan Administrator, the Employer and the Company, and the Plan Administrator may require such Participant, as a condition precedent to such payment, to execute a receipt and release to such effect.

8.5 Governing Law. This Plan shall be construed, administered, and governed in all respects in accordance with applicable federal law and, to the extent not preempted by federal law, in accordance with the laws of the State of North Carolina. If any provisions of this instrument shall be held by a court of competent jurisdiction to be invalid or unenforceable, the remaining provisions hereof shall continue to be fully effective.

8.6 Adoption of Plan by Related Employers . The Plan Administrator may select any corporation related to the Company by stock ownership as an Employer and permit or cause such corporation to adopt the Plan. The selection by the Plan Administrator shall govern the effective date of the adoption of the Plan by such related Employer.

8.7 Gender, Tense, and Headings . In this Plan, whenever the context so indicates, the singular or plural number and the masculine, feminine, or neuter gender shall be deemed to include the other. Headings and subheadings in this Plan are inserted for convenience of reference only and are not considered in the construction of the provisions hereof.

8.8 Successors and Assigns; Nonalienation of Benefits . This Plan inures to the benefit of and is binding upon the parties hereto and their successors, heirs and assigns; provided, however, that the amounts credited to the Account of a Participant are not (except as provided in Section 5.5) subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, charge, garnishment, execution or levy of any kind, either voluntary or involuntary, and any attempt to anticipate, alienate, sell, transfer, assign, pledge, encumber, charge or otherwise dispose of any right to any benefits payable hereunder, including, without limitation, any assignment or alienation in connection with a separation, divorce, child support or similar arrangement, will be null and void and not binding on the Plan or the Company or Employer. Notwithstanding the foregoing, the Company reserves the right to make payments in accordance with a divorce decree, judgment or other court order as and when cash payments are made in accordance with the terms of this Plan due to the Account of a Participant and credited against such Account.

8.9 Facility of Payment . Whenever, in the Plan Administrator's opinion, a Participant or Beneficiary entitled to receive any payment hereunder is under a legal disability or is incapacitated in any way so as to be unable to manage his or her financial affairs, the Plan Administrator may direct the Employer to make payments to such person or to the legal representative of such person for his or her benefit, or to apply the payment for the benefit of such person in such manner as the Plan Administrator considers advisable. Any payment in accordance with the provisions of this section shall be a complete discharge of any liability for the making of such payment to the Participant or Beneficiary under the Plan.

8.10 Separate Plans . This Plan document encompasses two separate plans of deferred compensation for all legal purposes, including ERISA and federal and state tax law, as set forth in subsections (a) and (b) below.

(a) The portion of the Plan that provides for deferrals of Base Compensation, Bonus Compensation and Performance Unit Payouts (which shall be known as the "YUM! Brands Executive Income Deferral Plan").

(b) The portion of the Plan that provides for deferrals of Stock Option Gains (which shall be known as the “YUM! Brands Option Gains Deferral Plan”).

Together, these two separate plans of deferred compensation are referred to as the YUM! Brands Executive Income Deferral Program.

This ____ day of _____, 2003, the above restated Plan is hereby adopted and approved by the Company's duly authorized officer to be effective as stated herein.

YUM! BRANDS, INC.

By: _____

APPROVED

By: _____
Law Department

YUM! BRANDS EXECUTIVE INCOME DEFERRAL PROGRAM

APPENDIX

The following Appendix articles modify or supplement the general terms of the Plan as it applies to certain executives.

Except as specifically modified in the Appendix, the foregoing provisions of the Plan shall fully apply. In the event of a conflict between this Appendix and the foregoing provisions of the Plan, the Appendix shall govern with respect to the conflict.

App-i

ARTICLE A
SPINOFF FROM PEPSICO

This Article sets forth provisions that apply in connection with the Company's spinoff from PepsiCo, Inc.

A.1 Definitions : When used in this Article, the following underlined terms shall have the meanings set forth below. Except as otherwise provided in this Article, all terms that are defined in Article II of the Plan shall have the meaning assigned to them by Article II.

(a) 1997 Agreement : The 1997 Employee Programs Agreement between PepsiCo and Tricon (dated as of August 26, 1997).

(b) Distribution Date : The "Distribution Date" as that term is defined in the 1997 Separation Agreement between PepsiCo and Tricon.

(c) PepsiCo Account Holder : A Participant who had an interest in the PepsiCo Capital Stock Account under the Prior Plan immediately prior to the Effective Date.

(d) Transferred Individual : A nonterminated "Transferred Individual" as that term is defined in the 1997 Agreement. For this purpose, a Transferred Individual shall be considered "nonterminated" if he or she is actively employed by (or on a leave of absence from and expected to return to) the Company and any of its affiliates, as of the end of the day on the Distribution Date.

(e) Transition Individuals : A "Transition Individual" as that term is defined in the 1997 Agreement.

(f) PepsiCo : PepsiCo, Inc., a North Carolina Corporation.

A.2 Assumption of Benefits and Liabilities . Effective as of the beginning of the day on the Effective Date, all interests in the Prior Plan of (and Prior Plan liabilities with respect to) Transferred Individuals shall be assumed by this Plan.

(a) In the case of a Transferred Individual, effective as of the beginning of the day on the Effective Date, the Transferred Individual's Account shall be credited with the amount that stood to his or her credit under the Prior Plan immediately prior to the Effective Date, and the allocation of this amount to phantom investment options under this Plan shall mirror the allocation then in effect for the Transferred Individual under the Prior Plan.

(b) Any deferral election made under the Prior Plan for a Transferred Individual shall be carried over and continued under this Plan. Notwithstanding the prior sentence:

(1) A Transferred Individual may revise his or her Prior Plan deferral election for Bonus Compensation payable in 1998 by making a new election not later than October 31, 1997, and

(2) A Transferred Individual's Prior Plan election to defer Stock Option Gains on any stock options that, under the 1997 Agreement, remain options on PepsiCo capital stock shall be void (and no election may be made under this Plan with respect to deferring Stock Option Gains on such options).

(c) A Transferred Individual who has made a deferral election with respect to the performance unit award payable to him under the PepsiCo Long Term Incentive Plan for the 1994 award year shall, once the deferral occurs, be credited with such deferral solely under this Plan. Any designation to have some or all of this deferral invested in the PepsiCo capital stock account under the Prior Plan shall be converted to a designation for investment in a phantom investment option under this Plan (other than the PepsiCo Capital Stock Account) which is designated by the Plan Administrator for this purpose.

A.3 Special PepsiCo Stock Investment Option. As of the Effective Date, the Plan Administrator shall establish a temporary phantom investment option under the Plan, the PepsiCo Capital Stock Account. In no event will shares of PepsiCo capital stock actually be purchased or held under this Plan, and no Participant shall have any rights as a shareholder of PepsiCo capital stock on account of an interest in the PepsiCo Capital Stock Account.

(a) Valuation and Adjustment: A Participant's interest in the PepsiCo Capital Stock Account is valued as of a Valuation Date by multiplying the number of phantom shares credited to the Participant's Account on such date by the Fair Market Value of a share of PepsiCo capital stock on such date, and then adding the value of the Participant's dividend subaccount. If shares of PepsiCo capital stock change by reason of any stock split, stock dividend, recapitalization, merger, consolidation, spin-off, combination or exchange of shares, complete or partial liquidation or other similar corporate change, such equitable adjustment shall be made in the number of shares credited to an Account or subaccount as the Plan Administrator may determine to be necessary or appropriate.

(b) Investment Reallocations. In accordance with Section 4.1(e), a PepsiCo Account Holder may reallocate amounts from his or her Subaccounts in the PepsiCo Capital Stock Account to other phantom investment options under the Plan

that are available for this purpose. No Participant may reallocate amounts into the PepsiCo Capital Stock Account.

(c) Termination of the PepsiCo Capital Stock Account. Effective as of the end of the day on December 31, 1998 (or such later date as the Plan Administrator shall specify), the PepsiCo Capital Stock Account shall cease to be available under the Plan. Any amount under the Plan still standing to the credit of a PepsiCo Account Holder on such date shall automatically be reallocated to the phantom investment option described in Section 4.1(c)(3) (the EC Plus Prime Rate Account) unless the Participant selects a different replacement option in accordance with such requirements as the Plan Administrator may apply.

A.4 Employment Transfers by Transition Individuals. This section shall apply to individuals who transfer between Tricon and PepsiCo under circumstances that cause them to be Transition Individuals.

(a) If a Participant, who is a Transition Individual, is transferred to PepsiCo, such transfer to PepsiCo shall not be considered a Termination of Employment or other event that could trigger distribution of the Participant's interest in the Plan. In this case, the Participant's interest in the Plan (and all Plan liabilities with respect to the Participant) shall be transferred to the PepsiCo Executive Income Deferral Program. This transfer shall constitute a complete payout of the Participant's Account for purposes of determining who is a Participant or Beneficiary under the Plan.

(b) If a Transition Individual, who is a participant in the PepsiCo Executive Income Deferral Program, is transferred from PepsiCo to Tricon, this Plan shall accept a transfer of such Transition Individual's interest in the PepsiCo Executive Income Deferral Program, and the amount transferred shall become the initial balance in the Transition Individual's Account hereunder. To the extent that any phantom investment option available under the PepsiCo Executive Income Deferral Program is not also available under this Plan, the Plan Administrator shall adopt rules for reallocating the transferred amount to phantom investment options under this Plan. Otherwise, the allocation of this amount to phantom investment options under this Plan shall mirror the allocation then in effect for the Transition Individual under the PepsiCo Executive Income Deferral Program.

A.5 Limit on Stock Distributions. Notwithstanding that Section 4.4 permits certain distributions to be made in Tricon Common Stock, during the two year period following the Effective Date, the number of shares of Tricon Common Stock delivered or purchased under this Plan (when aggregated with shares of Tricon Common Stock delivered or purchased under other plans or programs of the Company) shall at all times be less than the number of shares that would result in PepsiCo not having "control" of Tricon

(immediately before distribution of Tricon Common Stock to PepsiCo's shareholders) within the meaning of Sections 355(a)(1)(A) and 368(c) of the Internal Revenue Code.

App-4

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ARTICLE B

ADDITIONAL AMOUNT CREDITED TO CERTAIN PARTICIPANTS' ACCOUNTS

Each Participant who is an active employee of the Company or its wholly owned subsidiaries on January 1, 2000 and who has directed that the Participant's entire Account be invested in either the YUM! Discount Stock Subaccount, YUM! Common Stock Account or Security Plus Account by December 31, 1999 will receive an additional credit (Described below) to the Participant's account on January 1, 2000. To receive this credit, each Participant must sign an election and release form designated by the Plan Administrator for this purpose and submit it to the Plan Administrator no later than November 15, 1998.

Participants will not receive the additional credit for the portion of their Account invested in the YUM! Discount Stock Subaccount or representing the 1999 base salary subaccount.

The additional credit will be equal to 10% of each of the Participant's December 31, 1999 Account balances excluding amounts deferred in the YUM! Discount Stock Subaccount and 1999 base salary subaccount.

App-5

ARTICLE C

NEW PAYMENT TIMING ELECTION

Each Participant who has an Account under the Plan as of September 15, 1998, may elect to change the Scheduled Payout Date with respect to each subaccount that is scheduled for payout on or after January 1, 2000, except that for such an election to be valid the Participant must execute an election and release form provided by the Plan Administrator for this purpose by October 31, 1998.

The earliest Scheduled Payout Date a Participant may elect is January 1, 2000. The election available under this Article C of the Appendix is in addition to the election available under Section 4.4(b) of the Plan. However, making an election under this Article does not increase a Participant's rights under Section 4.4(b). Therefore, if a Participant has previously made an election under Section 4.4(b) with respect to any subaccount, the Participant is not entitled to another election under Section 4.4(b) with respect to that subaccount as a result of any election under this Appendix C.

App-6

ARTICLE D

RDC CONVERSION

In the case of an individual who becomes a Participant and who previously participated in the Restaurant Deferred Compensation Plan (“RDC Plan”), then his or her undistributed RDC Plan balance (if any) will be transferred to this Plan on the January 1 following the date on which the Employee becomes a Participant, and thereafter it will be maintained under this Plan. All elections made by a Participant under the RDC Plan with respect to the Participant’s transferred balance will be preserved and shall apply under this Plan, to the fullest extent practicable, with respect to such transferred balance.

App-7

Yum! Brands, Inc.
Restaurant General Manager Stock Plan
(as amended through June 23, 2003)

1. Purposes. The purpose of the Yum! Brands, Inc. Restaurant General Manager Stock Plan (the "Plan") is to provide Yum! Brands, Inc. stock options, stock appreciation rights and restricted stock to designated Restaurant General Managers ("RGMs") at its Subsidiaries and effective April 1, 1999, other employees of the Company and its Subsidiaries (other than officers subject to Section 16 of the Securities Exchange Act of 1934).

2. Definitions. Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meanings set forth below:

- (a) "Common Stock" or "Stock" means Company Common Stock, without par value.
- (b) "Committee" means the Compensation Committee of the Board of Directors of the Company, as appointed from time to time by the Board.
- (c) "Company" means Yum! Brands, Inc., a North Carolina corporation, its divisions and direct and indirect Subsidiaries .
- (d) "Exercise Price" means the price at which a share of Common Stock covered by an Option or SAR granted hereunder may be purchased.
- (e) "Fair Market Value" means an amount equal to the average of the high and low sales prices for Common Stock as reported on the composite tape for securities listed on The New York Stock Exchange, Inc. on the date in question (or, if no sales of Stock were made on said Exchange on such date, on the next preceding day on which sales were made on such Exchange), except that such average price shall be rounded up to the nearest one-fourth.
- (f) "Grant Date" means the date an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award is granted under this Plan.
- (g) "Option" or "Stock Option" means a right granted under the Plan to a Participant to purchase a share of Company Common Stock at a fixed price for a specified period of time.
- (h) "Participant" means an eligible employee of the Company who is granted a Stock Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan.
- (i) A "Restricted Stock" Award is a grant of shares of Stock, and a "Restricted Stock Unit" Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.
- (i) "Retirement" means termination from employment by the Company for reasons other than death after the employee has fulfilled the requirements for either a normal, early or disability retirement pension, as defined under the Company's retirement program applicable to such employee at the date of termination of employment.

(j) "Stock Appreciation Right" (an "SAR") means a right granted under the Plan to a Participant to receive, in cash or stock (as determined by the Committee), value equal to (or otherwise based on) the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

(k) "Subsidiary" means any corporation or other entity, whether domestic or foreign, in which the Corporation has or obtains, directly or indirectly, a proprietary interest of at least 50% by reason of stock ownership or otherwise.

(l) "Totally Disabled" shall have the meaning set forth in the Company's long term disability program applicable to such employee.

3. Administration. The Committee will determine which RGMs and other eligible employees will receive Stock Option SAR, Restricted Stock Award and Restricted Stock Unit Award grants under the Plan and, except as otherwise required by law or this Plan, will determine the grant terms of each Stock Option, SAR, Restricted Stock Award and Restricted Stock Unit Award granted. A written summary setting forth the terms and conditions of each Participant's grant under the Plan shall be presented to each Participant.

The Plan shall be administered by the Committee which shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan as the Committee deems necessary or advisable.

The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee concerning any matter arising under or with respect to the Plan or any Options, SARs, Restricted Stock Awards or Restricted Stock Units Awards granted hereunder, shall be final, binding and conclusive on all interested parties, including the Company, its shareholders and all former, present and future employees of the Company. Unless otherwise provided by the Committee, all of the Committee's power and authority hereunder are delegated to the Chairman, Chief Executive Officer and Chief People Officer of the Company, such delegation to be subject to such terms and conditions as the Committee in its discretion shall determine. The Chief People Officer of the Company will from time to time report on the status of the Plan and outstanding Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards to the Committee.

4. Stock Available for Options, SAR s , Restricted Stock Award s and Restricted Stock Units Awards. The shares that may be delivered or purchased under the Plan shall not exceed an aggregate of 15,000,000 shares of Common Stock, subject to any adjustments which may be made pursuant to Section 11 hereof. Shares of Stock used for purposes of the Plan will be shares of authorized but unissued Common Stock. To the extent that any shares of Stock covered by an Option , SAR, Restricted Stock Award or Restricted Stock Unit Award are not delivered to a Participant or beneficiary because the Option, SAR, Restricted Stock Award or Restricted Stock Unit Award is forfeited or cancelled, or the shares of Stock are not delivered because the Options, SARs, Restricted Stock Award s or Restricted Stock Unit Awards are settled in cash or for any other reason, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

5. Eligibility. Each RGM and other eligible employee designated by the Committee is eligible to receive an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award grant under this Plan. In addition, effective July 1, 2001, all employees of the Company and its Subsidiaries (other than officers subject to Section 16 of the Securities Exchange Act of 1934) are

eligible to receive an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award grant under this Plan.

6. Terms and Conditions of Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards. Each Option and SAR outstanding hereunder shall be in writing and shall contain the following terms and conditions:

(a) Exercise Price . The Exercise Price shall be equal to the Fair Market Value of a share of Common Stock on the Grant Date.

(b) Term and Exercise Dates . Options and SARs granted hereunder shall have a term of no longer than ten years from the Grant Date and shall become 100% vested four years from the Grant Date or as otherwise prescribed by the Committee under the terms of the grant. To the extent that Stock Options and SARs are not exercised when they become initially exercisable, they shall be carried forward and be exercisable until the expiration of the term of such Stock Options or SARs, subject to the provisions of Sections 6(e) and (f) hereof.

(c) Exercise of Option or SAR . To exercise an Option, the holder thereof shall give notice of his or her exercise to the Company, or its agent, specifying the number of shares of Common Stock to be purchased and identifying the specific Options that are being exercised. To exercise an SAR, the holder thereof shall give notice of his or her exercise to the Company, or its agent, identifying the specific SARs that are being exercised and the number of shares of Stock to be covered by the exercise. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option or an SAR that is settled in Stock. An Option or SAR is exercisable during a Participant's lifetime only by the Participant, provided, however, that in the event the Participant is incapacitated and unable to exercise Options or SARs, such Options and SARs may be exercised by such Participant's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

(d) Payment of Exercise Price . The Exercise Price for the Options being exercised must be paid in full at time of issuance of the Common Stock. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, a Participant shall also be required to pay the amount of tax to be withheld at the time of exercise of an Option or SAR. No share of Stock will be delivered to any Participant until all such amounts have been paid.

(e) Effect of Termination of Employment, Disability or Death . No Option or SAR may be exercised by a Participant after the termination of his or her employment with the Company, except that: (i) if such termination occurs by reason of the Participant's death, all Options and SARs then held by the Participant shall become immediately exercisable as of the date of death and may be exercised by such Participant's executor (or, if none, his or her legal representative) until the expiration of such Options and SARs in accordance with their terms; (ii) if such termination occurs by reason of the Participant's becoming Totally Disabled, all Options and SARs then held by the Participant shall not terminate but shall continue to be outstanding and be able to be exercised by the Participant in accordance with their terms until the earlier of the cessation of the condition causing the Participant to be totally disabled or the expiration of such Options and SARs; (iii) if such termination occurs by reason of the Participant's Retirement, all Options and SARs then held by the Participant

shall become immediately exercisable as of the date of such Retirement and may be exercised by the Participant until the expiration of such Options and SARs in accordance with their terms; and (iv) if such termination is voluntary by the employee or is by action of the Company (except as described in Section 6(f) hereof), all Options and SARs then held by the Participant which are exercisable at the date of termination shall continue to be exercisable by the Participant until the earlier of 90 days after such date or the expiration of such Options and SARs in accordance with their terms, and all Options and SARs which are not exercisable at such date shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(f) Misconduct. In the event that a Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of the Company or of another company based on information gained as a result of that Participant's employment with the Company, or (iv) committed a felony or other serious crime, then that Participant shall forfeit all rights to any unexercised Options and SARs granted under the Plan and all of that Participant's outstanding Options and SARs shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(g) Nontransferability of Options and SARs. During a Participant's lifetime, his or her Options and SARs shall not be transferable and shall only be exercisable by the Participant and any purported transfer shall be null and void. No Option or SAR shall be transferable other than by will or the laws of descent and distribution.

Each Restricted Stock Award and Restricted Stock Unit Award shall be subject to the following:

(a) Any such Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.

(b) If the right to become vested in a Restricted Stock Award or Restricted Stock Unit Award is conditioned on the completion of a specified period of service with the Company or the Subsidiaries, without achievement of performance measures or other performance objectives being required as a condition of vesting, and without it being granted in lieu of other compensation, then the required period of service for full vesting of the Award shall be not less than two years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participant's death, disability, retirement, change in control or involuntary termination).

(c) Misconduct. In the event that a Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of the Company or of another company based on information gained as a result of that Participant's employment with the Company, or (iv) committed a felony or other serious crime, then that Participant shall forfeit all rights to any Restricted Stock Awards and Restricted Stock Unit Awards granted under the Plan and all of that Participant's outstanding Restricted Stock Awards and Restricted Stock Unit Awards shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(d) Nontransferability of Restricted Stock Awards and Restricted Stock Unit Awards. During a Participant's lifetime, his or her Restricted Stock Awards and Restricted Stock Unit Awards shall not be transferable and any purported transfer shall be null and void.

7. Amendment. The Committee may, at any time, amend, suspend or terminate the Plan, in whole or in part, provided that no such action shall adversely affect any rights or obligations with respect to any grants theretofore outstanding hereunder. The Committee may amend the terms and conditions of outstanding Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards provided, however, that (i) no such amendment shall be adverse to the holders of the Options and SARs, (ii) no such amendment shall extend the period for exercise of an Option and SAR, and (iii) the amended terms of the Option, SAR, Restricted Stock Award or Restricted Stock Unit Award would be permitted under this Plan.

8. Foreign Employees. Without amending the Plan, the Committee may treat Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards granted to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement of the purposes of the Plan, and, in furtherance of such purposes the Committee may make such modifications, amendments, procedures, subplans and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees. The Committee shall have the authority to adopt plans, supplemental to this Plan, covering employees residing outside the United States, including but not limited to the United Kingdom.

9. Registration, Listing and Qualification of Shares. Each Option, SAR, Restricted Stock Award or Restricted Stock Unit Award shall be subject to the requirement that if at any time the Committee shall determine that the registration, listing or qualification of the shares covered thereby upon any securities exchange or under any foreign, federal, state or local law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option, SAR, Restricted Stock Award or Restricted Stock Unit Award or the purchase of shares thereunder, no such Option, SAR, Restricted Stock Award or Restricted Stock Unit Award may be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any person exercising an Option and SAR shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

10. Buy Out of Option and SAR Gains. At any time after any Stock Option or SAR becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option or SAR and to cause the Company to pay to the Participant the excess of the Fair Market Value of the shares of Common Stock covered by such Option or SAR over the Exercise Price of such Option or SAR at the date the Committee provides written notice (the "Buy Out Notice") of its intention to exercise such right. Buy outs pursuant to this provision shall be effected by the Company as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts may be made in cash, in shares of Common Stock, or partly in cash and partly in Common Stock, as the Committee deems advisable. To the extent payment is made in shares of Common Stock, the number of shares shall be determined by dividing the amount of the payment to be made by the Fair Market Value of a share of Common Stock at the date of the Buy Out Notice. In no event shall the Company be required to deliver a fractional share of Common Stock in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes.

11. Adjustment for Change in Stock Subject to Plan . In the event of any change in the outstanding shares of Common Stock by reason of any stock split, stock dividend, or other increase or decrease in shares effected without the receipt of consideration by the Company or other similar corporate change, such equitable adjustments may be made in the Plan and the Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards granted hereunder as the Committee determines are necessary or appropriate, including, if necessary, an adjustment in the number of shares and Exercise Prices per share applicable to Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards then outstanding and in the number of shares which are reserved for issuance under the Plan. The Committee may also make the foregoing changes and any other changes, including changes in the classes of securities available, to the extent it is deemed necessary or desirable to preserve the intended benefits of the Plan for the Corporation and the Participants in the event of any other reorganization, recapitalization, merger, consolidation, spin-off, extraordinary dividend or other distribution or similar transaction. Any such adjustment shall be conclusive and binding for all purposes of the Plan.

12. No Rights to Options, SARs, Restricted Stock Awards, Restricted Stock Unit Awards or Employment. No employee or other person shall have any claim or right to be granted an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan. Having received an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan shall not give an employee any right to receive any other grant under the Plan. A Participant shall have no rights to or interest in any Option, SAR, Restricted Stock Award or Restricted Stock Unit Award except as set forth herein. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company.

13. Rights as Shareholder . A Participant under the Plan shall have no rights as a holder of Common Stock with respect to Options, SARs, Restricted Stock Award or Restricted Stock Unit Award granted hereunder, unless and until certificates for shares of Common Stock are issued to such Participant.

14. Assignment . Except as otherwise provided in an award summary, no Stock Option, SAR, Restricted Stock Award or Restricted Stock Unit Award shall be assignable or transferable except by will or by the laws of descent and distribution and during the lifetime of a Participant, the Stock Option, SAR, Restricted Stock Award and Restricted Stock Unit Award shall be exercisable only by such Participant or such Participant's guardian or legal representative.

15. Other Actions . This Plan shall not restrict the authority of the Committee or of the Company, for proper corporate purposes, to grant or assume Stock Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards, other than under the Plan, to or with respect to any employee or other person.

16. Costs and Expenses . Except as provided in Sections 6 and 10 hereof with respect to taxes, the costs and expenses of administering the Plan shall be borne by the Company and shall not be charged to any grant nor to any employee receiving a grant.

17. Plan Unfunded . The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the delivery of Company Common Stock upon exercise of any Option or SAR granted under the Plan.

18. Governing Law . This Plan shall be governed by and construed in accordance with the

laws of the State of North Carolina without regard to its laws of conflict.

19. Effectiveness and Duration of the Plan. This Plan shall become effective May 1, 1998. The Plan shall remain in effect until terminated by the Committee.

Yum! Brands, Inc.
SharePower Plan
(as amended through June 23, 2003)

1. Purposes. The purpose of the Yum! Brands, Inc. SharePower Plan (the "Plan") is to provide Yum! Brands, Inc. stock options, stock appreciation rights and restricted stock awards to (1) Yum! Brands, Inc. employees pursuant to the Employee Programs Agreement, dated as of August 26, 1997, between TRICON Global Restaurants, Inc. (now known as Yum! Brands, Inc.) and PepsiCo, Inc. (the "Employee Programs Agreement"), which requires that certain PepsiCo, Inc. stock options granted pursuant to the PepsiCo SharePower Stock Option Plan be converted to TRICON (now known as Yum! Brands, Inc.) stock options under this Plan, and (2) Yum! Brands, Inc. employees on and after February 1, 2001.

2. Definitions. Unless the context clearly indicates otherwise, the following terms, when used in this Plan, shall have the meanings set forth below:

- (a) "Common Stock" or "Stock" means Company Common Stock, without par value.
- (b) "Committee" means the Compensation Committee of the Board of Directors of the Company, as appointed from time to time by the Board, consisting of three or more members of the Board who are not eligible to participate in the Plan and who have not, within one year prior to their appointment to the Committee, participated in the Plan.
- (c) "Company" means Yum! Brands, Inc., a North Carolina corporation, its divisions and direct and indirect subsidiaries.
- (d) "Exercise Price" means the price at which a share of Common Stock covered by an Option or SAR granted hereunder may be purchased.
- (e) "Fair Market Value" means an amount equal to the average of the high and low sales prices for Common Stock as reported on the composite tape for securities listed on The New York Stock Exchange, Inc. on the date in question (or, if no sales of Stock were made on said Exchange on such date, on the next preceding day on which sales were made on such Exchange), except that such average price shall be rounded up to the nearest one-fourth.
- (f) "Grant Date" means the date an Option was granted under the PepsiCo SharePower Stock Option Plan and the date an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award is granted under this Plan. The date of grant of an Option granted under the PepsiCo SharePower Option Plan is the date as of which the Compensation Committee of the Board of Directors of PepsiCo determined that such Option became effective.
- (g) "Option" or "Stock Option" means a right granted under the Plan to a Participant to purchase a share of Company Common Stock at a fixed price for the specified period of time.
- (h) "Participant" means an eligible employee of the Company who is granted a Stock Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan.
- (i) "PepsiCo" means PepsiCo, Inc., a North Carolina corporation.

(j) A "Restricted Stock" Award is a grant of shares of Stock, and a "Restricted Stock Unit" Award is the grant of a right to receive shares of Stock in the future, with such shares of Stock or right to future delivery of such shares of Stock subject to a risk of forfeiture or other restrictions that will lapse upon the achievement of one or more goals relating to completion of service by the Participant, or achievement of performance or other objectives, as determined by the Committee.

(k) "Retirement" means termination from employment by the Company for reasons other than death after the employee has fulfilled the requirements for either a normal, early or disability retirement pension, as defined under the Company's retirement program applicable to such employee at the date of termination of employment.

(l) "Stock Appreciation Right" (an "SAR") means a right granted under the Plan to a Participant to receive, in cash or stock (as determined by the Committee), value equal to (or otherwise based on) the excess of: (a) the Fair Market Value of a specified number of shares of Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

(m) "Totally Disabled" shall have the meaning set forth in the Company's long term disability program applicable to such employee.

3. Administration. The Plan shall be administered by the Committee, which shall have full power and authority to administer and interpret the Plan and to adopt such rules, regulations, agreements, guidelines and instruments for the administration of the Plan as the Committee deems necessary or advisable.

The Committee's interpretations of the Plan, and all actions taken and determinations made by the Committee concerning any matter arising under or with respect to the Plan or any Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards granted hereunder, shall be final, binding and conclusive on all interested parties, including the Company, its shareholders and all former, present and future employees of the Company. The Committee may delegate some or all of its power and authority hereunder to the Chairman and Chief Executive Officer of the Company, such delegation to be subject to such terms and conditions as the Committee in its discretion shall determine. The Committee may as to all questions of accounting rely conclusively upon any determinations made by the independent public accountants of the Company.

4. Stock Available for Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards. The shares that may be delivered or purchased under the Plan shall not exceed an aggregate of 14,000,000 shares of Common Stock, subject to any adjustments which may be made pursuant to Section 11 hereof. Shares of Stock used for purposes of the Plan may be either shares of authorized but unissued Common Stock or treasury shares or both. To the extent that any shares of Stock covered by an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award are not delivered to a Participant or beneficiary because the Option or SAR is forfeited or cancelled, or the shares of Stock are not delivered or because the Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards are settled in cash or for any other reason, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Stock available for delivery under the Plan.

5. Eligibility. All those employees of the Company, its divisions and direct and indirect subsidiaries whose options under the PepsiCo SharePower Stock Option Plan were converted to Company Options pursuant to the Employee Programs Agreement. In addition, effective February 1, 2001, employees of the Company (other than officers subject to Section 16 of the Securities Exchange Act of

1934) are eligible to receive Option, SAR, Restricted Stock Award or Restricted Stock Unit Award grants.

6. Terms and Conditions of Options, SARs, Restricted Stock Awards and Restricted Stock Unit Awards . Each Option and SAR outstanding hereunder shall be in writing and shall contain the following terms and conditions:

(a) Exercise Price . The Exercise Price shall be equal to the Fair Market Value of a share of Common Stock on the Grant Date.

(b) Term and Exercise Dates . Options and SARs granted hereunder shall have a term of no longer than ten years from the Grant Date and shall vest in accordance with the terms of their grant. A grant of Options or SARs may vest in installments, however, Stock Options and SARs must be exercised for full shares of Common Stock. To the extent that Stock Options and SARs are not exercised when they become initially exercisable, they shall be carried forward and be exercisable until the expiration of the term of such Stock Options or SARs, subject to the provisions of Sections 6 (e) and (f) hereof.

(c) Exercise of Option or SAR . To exercise an Option, the holder thereof shall give notice of his or her exercise to the Company, or its agent, specifying the number of shares of Common Stock to be purchased and identifying the specific Options that are being exercised. To exercise an SAR, the holder thereof shall give notice of his or her exercise to the Company, or its agent, identifying the specific SARs that are being exercised and the number of shares of Stock to be covered by the exercise. From time to time the Committee may establish procedures relating to effecting such exercises. No fractional shares shall be issued as a result of exercising an Option or an SAR that is settled in Stock. An Option or SAR is exercisable during a Participant's lifetime only by the Participant, provided, however, that in the event the Participant is incapacitated and unable to exercise Options or SARs, such Options or SARs may be exercised by such Participant's legal guardian, legal representative, fiduciary or other representative whom the Committee deems appropriate based on applicable facts and circumstances.

(d) Payment of Exercise Price . The Exercise Price for the Options being exercised must be paid in full at time of issuance of the Common Stock. In addition, in order to enable the Company to meet any applicable foreign, federal (including FICA), state and local withholding tax requirements, a Participant shall also be required to pay the amount of tax to be withheld at the time of exercise of an Option or SAR. No share of Stock will be delivered to any Participant until all such amounts have been paid.

(e) Effect of Termination of Employment, Disability or Death . No Option or SAR may be exercised by a Participant after the termination of his or her employment with the Company, except that: (i) if such termination occurs by reason of the Participant's death, all Options and SARs then held by the Participant shall become immediately exercisable as of the date of death and may be exercised by such Participant's executor (or, if none, his or her legal representative) until the expiration of such Options or SARs in accordance with their terms; (ii) if such termination occurs by reason of the Participant becoming Totally Disabled, all Options and SARs then held by the Participant shall continue to become exercisable and be able to be exercised by the Participant in accordance with their terms; (iii) if such termination occurs by reason of the Participant's Retirement, all Options and SARs then held by the Participant shall become immediately exercisable as of the date of such Retirement and may be exercised by the Participant until the expiration of such Options or SARs in accordance with their terms; and (iv)

if such termination is voluntary by the employee or is by action of the Company (except as described in Section 6(f) hereof), all Options and SARs then held by the Participant which are exercisable at the date of termination shall continue to be exercisable by the Participant until the earlier of 90 days after such date or the expiration of such Options or SARs in accordance with their terms and all Options and SARs which are not exercisable at such date shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(f) Misconduct. In the event that a Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of the Company or of another company based on information gained as a result of that Participant's employment with the Company, or (iv) committed a felony or other serious crime, then that Participant shall forfeit all rights to any unexercised Options or SARs granted under the Plan and all of Participant's outstanding Options and SARs shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(g) Nontransferability of Options and SARs. During a Participant's lifetime, his or her Options and SARs shall not be transferable and shall only be exercisable by the Participant and any purported transfer shall be null and void. No Option or SAR shall be transferable other than by will or the laws of descent and distribution.

Each Restricted Stock Award and Restricted Stock Unit Award shall be in writing and shall be subject to the following:

(a) Any such Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine.

(b) If the right to become vested in a Restricted Stock Award or Restricted Stock Unit Award is conditioned on the completion of a specified period of service with the Company or the Subsidiaries, without achievement of Performance Measures or other performance objectives being required as a condition of vesting, and without it being granted in lieu of other compensation, then the required period of service for full vesting of the Award shall be not less than two years (subject to acceleration of vesting, to the extent permitted by the Committee, in the event of the Participant's death, disability, retirement, change in control or involuntary termination).

(c) Misconduct. In the event that a Participant has (i) used for profit or disclosed to unauthorized persons, confidential information or trade secrets of the Company, (ii) breached any contract with or violated any fiduciary obligation to the Company, (iii) engaged in unlawful trading in the securities of the Company or of another company based on information gained as a result of that Participant's employment with the Company, or (iv) committed a felony or other serious crime, then that Participant shall forfeit all rights to any Restricted Stock Award or Restricted Stock Unit Award granted under the Plan and all of Participant's outstanding Restricted Stock Awards and Restricted Stock Unit Awards shall automatically terminate and lapse, unless the Committee shall determine otherwise.

(d) Nontransferability of Restricted Stock Awards and Restricted Stock Unit Awards. During a Participant's lifetime, his or her Restricted Stock Awards and Restricted Stock Unit Awards shall not be transferable and any purported transfer shall be null and void.

7. Amendment . The Committee may, at any time, amend, suspend or terminate the Plan, in whole or in part, provided that no such action shall adversely affect any rights or obligations with respect to any grants theretofore outstanding hereunder. The Committee may amend the terms and conditions of outstanding Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards provided, however, that (i) no such amendment shall be adverse to the holders of the Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards (ii) no such amendment shall extend the period for exercise of an Option SAR, Restricted Stock Award or Restricted Stock Unit Award and (iii) the amended terms of the Option, SAR, Restricted Stock Award or Restricted Stock Unit Award would be permitted under this Plan.

8. Foreign Employees . Without amending the Plan, the Committee may treat Options and SARs granted to eligible employees who are foreign nationals on such terms and conditions different from those specified in this Plan as may in the judgment of the Committee be necessary or desirable to foster and promote achievement for the purposes of the Plan, and, in furtherance of such purposes the Committee may make such modifications, procedures, subplans and the like as may be necessary or advisable to comply with provisions of laws in other countries in which the Company operates or has employees.

9. Registration, Listing and Qualification of Shares . Each Option, SAR, Restricted Stock Award or Restricted Stock Unit Award shall be subject to the requirement that if any time the Committee shall determine that the registration, listing or qualification of the shares covered thereby upon any securities exchange or under any foreign, federal, state or local law, or the consent or approval of any governmental regulatory body, is necessary or desirable as a condition of, or in connection with, the granting of such Option, SAR, Restricted Stock Award or Restricted Stock Unit Award or the purchase of shares thereunder, no such Option SAR, Restricted Stock Award or Restricted Stock Unit Award may be exercised unless and until such registration, listing, qualification, consent or approval shall have been effected or obtained free of any condition not acceptable to the Committee. Any person exercising an Option or SAR shall make such representations and agreements and furnish such information as the Committee may request to assure compliance with the foregoing or any other applicable legal requirements.

10. Buy Out of Option and SAR Gains . At any time after any Stock Option or SAR becomes exercisable, the Committee shall have the right to elect, in its sole discretion and without the consent of the holder thereof, to cancel such Option or SAR and to cause the Company to pay to the Participant the excess of the Fair Market Value of the shares of Common Stock covered by such Option or SAR over the Exercise Price of such Option or SAR at the date the Committee provides written notice (the "Buy Out Notice") of its intention to exercise such right. Buy outs pursuant to this provision shall be effected by the Company as promptly as possible after the date of the Buy Out Notice. Payments of buy out amounts may be made in cash, in shares of Common Stock, or partly in cash and partly in Common Stock, as the Committee deems advisable. To the extent payment is made in shares of Common Stock, the number of shares shall be determined by dividing the amount of the payment to be made by the Fair Market Value of a share of Common Stock at the date of the Buy Out Notice. In no event shall the Company be required to deliver a fractional share of Common Stock in satisfaction of this buy out provision. Payments of any such buy out amounts shall be made net of any applicable foreign, federal (including FICA), state and local withholding taxes.

11. Adjustment for Change in Stock Subject to Plan . In the event of any change in the outstanding shares of Common Stock by reason of any stock split, stock dividend, recapitalization, merger, consolidation, combination or exchange of shares or other similar corporate change, such equitable adjustments may be made in the Plan and the Options, SARs, Restricted Stock Awards or

Restricted Stock Unit Awards granted hereunder as the Committee determines are necessary or appropriate, including, if necessary, an adjustment in the number of shares and Exercise Prices per share applicable to Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards then outstanding and in the number of shares which are reserved for issuance under the Plan. Any such adjustment shall be conclusive and binding for all purposes of the Plan.

12. No Rights to Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards or Employment. No employee or other person shall have any claim or right to be granted an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan. Having received an Option, SAR, Restricted Stock Award or Restricted Stock Unit Award under the Plan shall not give an employee any right to receive any other grant under the Plan. A Participant shall have no rights to or interest in any Option, SAR, Restricted Stock Award or Restricted Stock Unit Award except as set forth herein. Neither the Plan nor any action taken hereunder shall be construed as giving any employee any right to be retained in the employ of the Company.

13. Rights as Shareholder. A Participant under the Plan shall have no rights as a holder of Common Stock with respect to Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards granted hereunder, unless and until certificates for shares of Common Stock are issued to such Participant.

14. Other Actions. This Plan shall not restrict the authority of the Committee or of the Company, for proper corporate purposes, to grant or assume Stock Options, SARs, Restricted Stock Awards or Restricted Stock Unit Awards, other than under the Plan, to or with respect to any employee or other person.

15. Costs and Expenses. Except as provided in Sections 6 and 10 hereof with respect to taxes, the costs and expenses of administering the Plan shall be borne by the Company and shall not be charged to any grant nor to any employee receiving a grant.

16. Plan Unfunded. The Plan shall be unfunded. Except for reserving a sufficient number of authorized shares to the extent required by law to meet the requirements of the Plan, the Company shall not be required to establish any special or separate fund or to make any other segregation of assets to assure the delivery of Company Common Stock upon exercise of any Option or SAR, or delivery of shares under a Restricted Stock Award or Restricted Stock Unit Award granted under the Plan.

17. Governing Law. This Plan shall be governed by and construed in accordance with the laws of the State of North Carolina.

18. Effectiveness and Duration of the Plan. This Plan shall become effective at the beginning of October 7, 1997.

CREDIT AGREEMENT

dated as of

November 8, 2005

among

YUM! BRANDS, INC.,
YUM! RESTAURANT HOLDINGS,
YUM! RESTAURANTS INTERNATIONAL S.à.R.L., LLC (U.S. BRANCH),
YUM! RESTAURANTS INTERNATIONAL (CANADA) LP,

The Lenders Party Hereto

and

CITIBANK INTERNATIONAL PLC,
as Facility Agent

CITIBANK, N.A., CANADIAN BRANCH,
as Canadian Facility Agent

CITIGROUP GLOBAL MARKETS LIMITED,
J.P. MORGAN SECURITIES INC.,
as Joint Mandated Lead Arrangers and Joint Bookrunners

HSBC BANK USA, N.A., and
COOPERATIEVE CENTRALE RAIFFEISEN-BOERENLEENBANK B.A. "RABOBANK INTERNATIONAL", NEW YORK BRANCH
as Co-Arrangers

[CS&M Ref. No. 8500-385]

TABLE OF CONTENTS

Page

ARTICLE I

Definitions

SECTION 1.01.	Defined Terms	1
SECTION 1.02.	Classification of Loans and Borrowings	27
SECTION 1.03.	Terms Generally	27
SECTION 1.04.	Accounting Terms; GAAP	27

ARTICLE II

The Credits

SECTION 2.01.	Commitments	28
SECTION 2.02.	Loans and Borrowings	28
SECTION 2.03.	Requests for Revolving Borrowings	29
SECTION 2.04.	Bankers' Acceptances	30
SECTION 2.05.	Swingline Loans	33
SECTION 2.06.	Assigned Dollar Value	34
SECTION 2.07.	Funding of Borrowings	35
SECTION 2.08.	Interest Elections	36
SECTION 2.09.	Termination, Reduction and Extension of Commitments	38
SECTION 2.10.	Repayment of Loans and B/As; Evidence of Debt	40
SECTION 2.11.	Prepayment of Loans	41
SECTION 2.12.	Fees	42
SECTION 2.13.	Interest	43
SECTION 2.14.	Alternate Rate of Interest	44
SECTION 2.15.	Increased Costs	45
SECTION 2.16.	Break Funding Payments	46
SECTION 2.17.	Taxes	47
SECTION 2.18.	Payments Generally; Pro Rata Treatment; Sharing of Set-offs	48
SECTION 2.19.	Mitigation Obligations; Replacement of Lenders	49

ARTICLE III

Representations and Warranties

SECTION 3.01.	Organization; Powers	50
SECTION 3.02.	Authorization; Enforceability	50
SECTION 3.03.	Governmental Approvals; No Conflicts	51
SECTION 3.04.	Financial Condition; No Material Adverse Change	51
SECTION 3.05.	Properties	51
SECTION 3.06.	Litigation and Environmental Matters	52
SECTION 3.07.	Compliance with Laws and Agreements	52
SECTION 3.08.	Investment and Holding Company Status	52
SECTION 3.09.	Taxes	52
SECTION 3.10.	ERISA	53

SECTION 3.11.	Disclosure	53
SECTION 3.12.	Initial Guarantors	53

ARTICLE IV

Conditions

SECTION 4.01.	Effective Date	53
SECTION 4.02.	Each Credit Event	55

ARTICLE V

Affirmative Covenants

SECTION 5.01.	Financial Statements and Other Information	55
SECTION 5.02.	Notices of Material Events	57
SECTION 5.03.	Existence; Conduct of Business	57
SECTION 5.04.	Payment of Obligations	58
SECTION 5.05.	Maintenance of Properties; Insurance	58
SECTION 5.06.	Books and Records; Inspection Rights	58
SECTION 5.07.	Compliance with Laws	58
SECTION 5.08.	Use of Proceeds	58
SECTION 5.09.	Principal Domestic Subsidiaries	59

ARTICLE VI

Negative Covenants

SECTION 6.01.	Subsidiary Indebtedness	59
SECTION 6.02.	Liens	59
SECTION 6.03.	Fundamental Changes	60
SECTION 6.04.	Investments, Loans, Advances, Guarantees and Acquisitions	61
SECTION 6.05.	Hedging Agreements	63
SECTION 6.06.	Restricted Payments	63
SECTION 6.07.	Transactions with Affiliates	63
SECTION 6.08.	Issuances of Equity Interests by Principal Domestic Subsidiaries	64
SECTION 6.09.	Leverage Ratio	64
SECTION 6.10.	Fixed Charge Coverage Ratio	64
SECTION 6.11.	Sale and Lease-Back Transactions	64

ARTICLE VII

Events of Default

SECTION 7.01.	Events of Default	65
SECTION 7.02.	Exclusion of Immaterial Subsidiaries	67

ARTICLE VIII

The Agents

ARTICLE IX

Miscellaneous

SECTION 9.01.	Notices	70
SECTION 9.02.	Waivers; Amendments	71
SECTION 9.03.	Expenses; Indemnity; Damage Waiver	72
SECTION 9.04.	Successors and Assigns	74
SECTION 9.05.	Survival	77
SECTION 9.06.	Counterparts; Integration; Effectiveness	78
SECTION 9.07.	Severability	78
SECTION 9.08.	Right of Setoff	78
SECTION 9.09.	Governing Law; Jurisdiction; Consent to Service of Process	78
SECTION 9.10.	WAIVER OF JURY TRIAL	79
SECTION 9.11.	Headings	79
SECTION 9.12.	Confidentiality	80
SECTION 9.13.	Interest Rate Limitation	80
SECTION 9.14.	Judgment Currency	81
SECTION 9.15.	USA Patriot Act	81

SCHEDULES :

Schedule A – Initial Guarantors

Schedule 2.01 -- Commitments

Schedule 2.13 -- Mandatory Cost

Schedule 2.17 -- PTR Scheme

Schedule 3.06 -- Disclosed Matters

Schedule 3.11 -- Disclosure

Schedule 6.01 -- Existing Indebtedness

Schedule 6.02 -- Existing Liens

EXHIBITS :

- Exhibit A -- Form of Assignment and Assumption
- Exhibit B -- Form of Guarantee Agreement
- Exhibit C-1 -- Form of Opinion of Mayer, Brown, Rowe & Maw LLP
- Exhibit C-2 -- Form of Opinion of Stikeman Elliot LLP
- Exhibit C-3 -- Form of Opinion of Kaufhold Wagener Ossola Erpelding, avocats
- Exhibit C-4 -- Form of Opinion of Linklaters
- Exhibit C-5 -- Form of Opinion of counsel to Yum! Brands, Inc.

CREDIT AGREEMENT (the “Agreement”) dated as of November 8, 2005, among YUM! BRANDS, INC., YUM! RESTAURANT HOLDINGS, YUM! RESTAURANTS INTERNATIONAL S.à.R.L., LLC (U.S. BRANCH) and YUM! RESTAURANTS INTERNATIONAL (CANADA) LP, the LENDERS party hereto, CITIBANK INTERNATIONAL PLC, as Facility Agent and CITIBANK, N.A., CANADIAN BRANCH, as Canadian Facility Agent.

The parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

“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.

“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 (a) the LIBO Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

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

“ Agents ” means the Facility Agent and the Canadian Facility Agent.

“ Alternative Currency ” means Sterling, with respect to the UK Commitments, or Canadian Dollars, with respect to the Canadian Commitments.

“ Alternative Currency Borrowing ” means a Borrowing comprised of Alternative Currency Loans.

“ Alternative Currency Equivalent ” means, with respect to an amount in U.S. Dollars on any date in relation to a specified Alternative Currency, the amount of such specified Alternative Currency that may be purchased with such amount of U.S. Dollars at the Spot Exchange Rate with respect to such Alternative Currency on such date.

“ Alternative Currency Loan ” means any Loan denominated in an Alternative Currency.

“ Applicable Percentage ” means, with respect to any Lender of any Class, the percentage of the total Commitments of such Class represented by such Lender’s Commitment of such Class. If the Commitments of any Class have terminated or expired, the Applicable Percentages for such Class shall be determined based upon the Commitments of such Class most recently in effect, giving effect to any assignments.

“ Applicable Margin ” means, for any day, with respect to any Loan hereunder, the applicable margin per annum set forth below based upon (a) the ratings by Moody’s and S&P, respectively, applicable on such date to the Index Debt and (b) the Leverage Ratio. If the Category applicable to the ratings established or deemed to have been established (as set forth below) by Moody’s and S&P for the Index Debt (the “ Index Category ”) shall fall within a Category numerically higher (i.e., less favorable to the Borrowers) than the Category applicable to the Leverage Ratio (the “ Leverage Category ”), then the Applicable Margin shall be determined by reference to the Leverage Category; provided, that in any case where the

Leverage Category is more than one Leverage Category is more than one Category numerically lower (i.e., more favorable to the Borrowers) than the applicable Index Category, then the Applicable Margin shall be determined by reference to the Category one numerically lower (i.e., more favorable to the Borrowers) than the applicable Index Category. If the Leverage Category is in a Category numerically higher (i.e., less favorable to the Borrowers) than the Index Category, then Applicable Margin shall be determined by reference to the Index Category.

Category	Index Debt Ratings	Leverage Ratio	Applicable Margin (basis points)
1	≥ A2 / A	< 0.60x	20
2	A3 / A-	0.60x -0.84x	25
3	Baa1 / BBB+	0.85x -1.09x	30
4	Baa2 / BBB	1.10x -1.49x	40
5	Baa3 / BBB-	1.50x -1.89x	60
6	Ba1 / BB+	1.90x -2.29x	90
7	< Ba1 / BB+	> 2.30x	120

For purposes of the foregoing, (i) if either Moody's or S&P shall not 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 such rating agency shall be deemed to have established a rating in Category 7; (ii) if the ratings established or deemed to have been established by Moody's and S&P for the Index Debt shall fall within different Categories, the Applicable Margin shall be based on the Category numerically lower (i.e., more favorable to the Borrowers) of the two ratings unless one of the two ratings is two or more Categories numerically lower (i.e., more favorable to the Borrowers) than the other, in which case the Applicable Margin shall be determined by reference to the Category one numerically higher (i.e., less favorable to the Borrowers) than the Category numerically lower (i.e., more favorable to the Borrowers) of the two ratings; and (iii) if the ratings established or deemed to have been established by Moody's and 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), such change 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 shall have been furnished by the Company to the Agent and the Lenders pursuant to Section 5.01 or otherwise. Each change in the Applicable Margin shall apply during the period commencing on the effective date of such change and ending on the date immediately preceding the effective date of the next such change. If the rating system of Moody's or S&P shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Company, the Borrowers 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 Margin shall be determined by reference to the rating most recently in effect prior to such change or cessation.

For purposes of the foregoing, (i) the Leverage Ratio shall be determined as of the end of each fiscal

quarter of the Company's fiscal year based upon the Company's consolidated financial statements delivered pursuant to Section 5.01(a) or (b); and (ii) each change in the Applicable Margin resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Facility Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next change in the Applicable Margin; provided that the Leverage Ratio shall be deemed to be based on Category 7 (A) at any time that an Event of Default (other than an Event of Default of the type set forth in clause (e) or (h) of Section 7.01) has occurred and is continuing or (B) if the Company fails to deliver the consolidated financial statements required to be delivered by it pursuant to Section 5.01(a) or (b), during the period from the expiration of the time for delivery thereof until (but excluding the date that) such consolidated financial statements are delivered.

“ Applicable Swingline Percentage ” means (a) in respect of any funding of Luxembourg Swingline Loans, 43.75% for each of Citibank N.A., London and JPMorgan Chase Bank, N.A. and 12.50% for Wachovia Bank N.A., and (b) in respect of any funding of UK Swingline Loans, 41.77215% for each of Citibank N.A., London and JPMorgan Chase Bank, N.A., and 16.4557% for Wachovia Bank N.A.

“ Approved Fund ” has the meaning assigned to such term in Section 9.04.

“ Assigned Dollar Value ” has the meaning assigned to such term in Section 2.06.

“ 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 9.04), and accepted by the Facility Agent, in the form of Exhibit A or any other form approved by the Facility Agent.

“ Augmenting Lender ” has the meaning set forth in Section 2.06.

“ Availability Period ” means, in respect of any Class of Commitments, the period from and including the Effective Date to but excluding the earlier of the Maturity Date and the date of termination of the Commitments of such Class.

“ B/A ” and “ Banker's Acceptances ” means a bill of exchange, including a depository bill issued in accordance with the Depository Bills and Notes Act (Canada), denominated in Canadian Dollars, drawn by the Canadian Borrower and accepted by a Lender in accordance with the terms of this Agreement.

“ B/A Drawing ” means B/As accepted and purchased on the same date and as to which a single Contract Period is in effect including any B/A Equivalent Loans accepted and purchased on the same date and as to which a single Contract Period is in effect. For greater certainty, all provisions of this Agreement which are applicable to B/As are also applicable, mutatis mutandis, to B/A Equivalent Loans.

“B/A Equivalent Loan” has the meaning assigned to such term in Section 2.04.

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

“Borrowers” means the UK Borrower, the Luxembourg Borrower and the Canadian Borrower.

“Borrowing” means (a) Revolving Loans of the same Class and 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) Swingline Loans of the same Class made on the same date.

“Borrowing Request” means a request by a Borrower for a Revolving Borrowing in accordance with Section 2.03 or a Swingline Borrowing pursuant to Section 2.05.

“Business Day” means any day that is not a Saturday, Sunday or other day on which commercial banks in London or New York City are authorized or required by law to remain closed; provided that, (a) 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 deposits in the applicable currency in the London interbank market, and (b) when used in connection with any Loan or B/A made to or drawn by the Canadian Borrower, the term “Business Day” shall also exclude any day on which banks are not open for business in Toronto.

“Canadian Alternate Base Rate” means, for any day, a rate per annum equal to the greater of (a) the interest rate per annum publicly announced from time to time by the Canadian Facility Agent as its reference rate in effect on such day at its principal office in Toronto for determining interest rates applicable to commercial loans denominated in Canadian Dollars in Canada (each change in such reference rate being effective from and including the date such change is publicly announced as being effective) and (b) the interest rate per annum equal to the sum of (i) the CDOR Rate on such day (or, if such rate is not so reported on the Reuters Screen CDOR Page, the average of the rate quotes for bankers’ acceptances denominated in Canadian Dollars with a term of 30 days received by the Canadian Facility Agent at approximately 10:00 a.m., Toronto time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) from one or more banks of recognized standing selected by it) and (ii) 0.50% per annum.

“CABR”, when used with respect 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 Canadian Alternate Base Rate.

“Canadian Borrower” means Yum! Restaurants International (Canada) LP, a limited partnership organized and existing under the laws of the Province of Ontario, Canada.

“Canadian Commitment” means, with respect to each Lender, the commitment of such Lender to make

Canadian Revolving Loans and Canadian Swingline Loans hereunder and to accept and purchase or arrange for the purchase of B/As hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Canadian Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09, (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Canadian Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Canadian Commitment, as applicable. The initial aggregate amount of the Lenders' Canadian Commitments is US\$70,000,000.

“Canadian Dollars” or “Cdn.\$” means lawful currency of Canada.

“Canadian Facility Agent” means Citibank N.A., Canadian Branch in its capacity as facility sub-agent for the Canadian Lenders hereunder.

“Canadian Lender” means a Lender with a Canadian Commitment or Canadian Revolving Credit Exposure.

“Canadian Revolving Borrowing” means a Borrowing comprised of Canadian Revolving Loans.

“Canadian Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of (a) the aggregate principal amount of such Lender's Canadian Revolving Loans and Canadian Swingline Loans denominated in U.S. Dollars outstanding at such time, (b) the Assigned Dollar Value of the aggregate principal amount of such Lender's Canadian Revolving Loans and Canadian Swingline Loans denominated in Canadian Dollars outstanding at such time and (c) the Assigned Dollar Value of the aggregate face amount of the B/As accepted by such Lender and outstanding at such time.

“Canadian Resident” means at any time, a Person who at that time (i) is resident in Canada for purposes of the Income Tax Act (Canada) or (ii) is an authorized foreign bank which at all times holds all of its interest in the Canadian Commitment and Loans made to the Canadian Borrower hereunder in the course of its Canadian banking business for the purposes of the Income Tax Act (Canada).

“Canadian Revolving Loan” means a Loan made pursuant to Section 2.01(a).

“Canadian Swingline Loan” means a Loan to the Canadian Borrower made pursuant to Section 2.05.

“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.

“CDOR Rate” means, on any date, an interest rate per annum equal to the average discount rate applicable to bankers’ acceptances denominated in Canadian Dollars with a term of 30 days (for purposes of the definition of “Canadian Alternate Base Rate”) or with a term equal to the Contract Period of the relevant B/As (for purposes of the definition of “Discount Rate”) appearing on the Reuters Screen CDOR Page (or on any successor or substitute page of such Screen, or any successor to or substitute for such Screen, providing rate quotations comparable to those currently provided on such page of such Screen, as determined by the Canadian Facility Agent from time to time acting reasonably) at approximately 10:00 a.m., Toronto time, on such date (or, if such date is not a Business Day, on the next preceding Business Day)

“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 date of this Agreement, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the date of this Agreement or (c) compliance by any Lender, 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 date of this Agreement that would be complied with by similarly situated banks acting reasonably.

“Class”, (a) when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Canadian Loans, Luxembourg Revolving Loans or UK Revolving Loans, (b) when used in reference to any Commitment, refers to whether such Commitment is a Canadian Commitment, a Luxembourg Commitment or a UK Commitment, (c) when used in reference to any Lender, refers to whether such Lender is a Canadian

Lender, a Luxembourg Lender or a UK Lender and (d) when used in reference to any Borrower, refers to whether such Borrower is the Canadian Borrower, the Luxembourg Borrower or the UK Borrower.

“CLO” has the meaning assigned to such term in Section 9.04.

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

“Commitments” means the UK Commitments, the Luxembourg Commitments and the Canadian Commitments.

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

“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 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, (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 and (d) for purposes of Section 6.06, without duplication and to the extent added to or subtracted from revenues in determining net income or loss for such period, all non-cash extraordinary items during such period, as determined on a consolidated basis for the Company and the Subsidiaries in accordance with GAAP. 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 under the Existing Company Credit Agreement) 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 Facility 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.

“Contract Period” means, with respect to any B/A, the period commencing on the date such B/A is issued and accepted and ending on the date 30, 60, 90 or 180 days (or, with the consent of each Canadian Lender, any other number of days) thereafter, as the Canadian Borrower may elect; provided that if such Contract Period would end on a day other than a Business Day, such Contract Period shall be extended to the next succeeding Business Day.

“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.

“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.

“Denomination Date” means, in relation to any Alternative Currency Borrowing, the date that is three Business Days before the date such Borrowing is made.

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

“Discount Proceeds” means, with respect to any B/A, an amount (rounded upward, if necessary, to the nearest Cdn.\$0.01) calculated by multiplying (a) the face amount of such B/A by (b) the quotient obtained by dividing (i) one by (ii) the sum of (A) one and (B) the product of (x) the Discount Rate (expressed as a decimal) applicable to such B/A and (y) a fraction of which the numerator is the Contract Period applicable to such B/A and the denominator is 365, with such quotient being rounded upward or downward to the fifth decimal place and .000005 being rounded upward.

“Discount Rate” means, with respect to a B/A being accepted and purchased on any day, (a) for a Canadian Lender which is a Schedule I Bank, (i) the CDOR Rate applicable to such B/A or (ii) if the discount rate for a particular Contract Period is not quoted on the Reuters Screen CDOR Page, the arithmetic average (as determined by the Canadian Facility Agent) of the percentage discount rates (expressed as a decimal and rounded upward, if necessary, to the nearest 1/100 of 1%) quoted to the Facility Agent by the Schedule I Reference Banks as the percentage discount rate at

which each such bank would, in accordance with its normal practices, at approximately 10:00 a.m., Toronto time, on such day, be prepared to purchase bankers' acceptances accepted by such bank having a face amount and term comparable to the face amount and Contract Period of such B/A, and (b) for a Canadian Lender which is a Non-Schedule I Bank, the lesser of (i) the CDOR Rate applicable to such B/A plus 0.10% per annum and (ii) the arithmetic average (as determined by the Canadian Facility Agent) of the percentage discount rates (expressed as a decimal and rounded upward, if necessary, to the nearest 1/100 of 1%) quoted to the Canadian Facility Agent by the Non-Schedule I Reference Banks as the percentage discount rate at which each such bank would, in accordance with its normal practices, at approximately 10:00 a.m., Toronto time, on such day, be prepared to purchase bankers' acceptances accepted by such bank having a face amount and term comparable to the face amount and Contract Period of such B/A.

“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 9.02).

“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 Material 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.

“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, 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) the existence with respect to any Plan of an “accumulated funding deficiency” (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) 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.

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

“Excluded Equity Interests” means, with respect to any Person, any Equity Interest that by its terms or otherwise (a) matures or is subject to mandatory redemption or repurchase pursuant to a sinking fund obligation or otherwise; (b) is convertible into or exchangeable or exercisable for Indebtedness or any Excluded Equity Interest at the option of the holder thereof; or (c) may be required to be redeemed or repurchased at the option of the holder thereof, in whole or in part.

“Excluded Subsidiary” means 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.

“Excluded Taxes” means, with respect to the Facility Agent, the Canadian Facility Agent, any Lender or any other recipient of any payment to be made by or on account of any obligation of any Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income 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 or any similar tax imposed by any jurisdiction in which the recipient is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Company under Section 2.19(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender (x) at the time such Foreign Lender (i) becomes a party to this Agreement, (ii) designates a new lending office or (iii) with respect to a Foreign Lender that is a Canadian Lender, at the time such Lender no longer qualifies as a Canadian Resident (pursuant to the definition of such term in effect at the Effective Date) or (y) attributable to such Foreign Lender’s failure to comply with Section 2.17(e) or Section

2.17(f), except and only to the extent that such Foreign 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 applicable Borrower with respect to such withholding tax pursuant to Section 2.17(a). For the purposes of item (c) above, a withholding tax includes any Tax that a Foreign Lender is required to pay pursuant to paragraph 212(1)(b) of the Income Tax Act (Canada).

“Existing Company Credit Agreement” means the Amended and Restated Credit Agreement dated as of September 7, 2004, as amended, among the Company, the lenders party thereto and JPMorgan Chase Bank, N.A., as administrative agent.

“Facility Agent” means Citibank International plc, in its capacity as facility agent for the Lenders hereunder.

“Federal Funds Effective Rate” means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Facility Agent from three Federal funds brokers of recognized standing selected by it.

“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.

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

“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 Borrowers, the Company, the Guarantors and the Facility Agent.

“Guarantors” means the Initial Guarantors and any other Subsidiaries that become parties to the Guarantee Agreement.

“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.

“ Index Debt ” means (a) indebtedness in respect of the obligations of the Company under the Existing Company Credit Agreement or, if such indebtedness is not rated by the relevant rating agency (or the Existing Company Credit Agreement ceases to be in effect, or is guaranteed or secured on a basis different than this Agreement), (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).

“ Information Memorandum ” means the Confidential Information Memorandum dated October 2005 relating to the Company, the Borrowers and the Transactions.

“ Initial Guarantors ” means the Subsidiaries listed on Schedule A.

“ Interest Election Request ” means a request by the Borrower to convert or continue a Revolving Borrowing in accordance with Section 2.08 .

“ Interest Payment Date ” means (a) with respect to any CABR Loan (other than a Swingline 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 CABR Loan that is a Swingline Loan, the date such Loan is required to be repaid hereunder.

“ Interest Period ” means (a) with respect to any LIBOR Borrowing that is not a Swingline 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, three or six months thereafter (or with the consent of each participating Lender, such other number of months or days thereafter) as the applicable Borrower may elect, and (b) with respect to any LIBOR Swingline Borrowing, the period commencing on the date of such Borrowing and ending such number of days (not exceeding seven days) thereafter

as the applicable Borrower may elect; 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 (except in the case of a LIBOR Swingline Borrowing) 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 with a duration measured in months and 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.

“Lead Arrangers” means Citigroup Global Markets Limited and J.P. Morgan Securities Inc., in their capacities as joint mandated lead arrangers 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. Unless the context otherwise requires, the term “Lender” includes a Swingline Lender.

“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) in the case of a Revolving Borrowing, the London interbank offered rate per annum determined by reference to the British Bankers’ Association Interest Settlement Rates for deposits with a maturity comparable to such Interest Period denominated in the currency in which such Borrowing is denominated as reflected on the applicable page of the Telerate Screen (or on any successor or substitute page of such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Facility Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in the currency in which such Loan or Borrowing is denominated in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, and (b) in the case of a Swingline Borrowing, the arithmetic mean of the rates (rounded upwards to four decimal places) as supplied to the Facility Agent at its request as quoted by the applicable Reference Banks to leading banks in the London interbank market at approximately 11:00 a.m., London time, on the date of commencement of such Interest Period, for deposits with a maturity comparable to such Interest Period denominated in the currency in which such Borrowing is denominated. In the event that a rate required to be determined pursuant to clause (a) above with respect to any LIBOR Revolving Borrowing for any Interest Period is not available at the time of determination for any reason, then the “LIBO Rate” with respect to

such LIBOR Borrowing for such Interest Period shall be the arithmetic mean of the rates (rounded upwards to four decimal places) for deposits with a maturity comparable to such Interest Period denominated in the currency of such Borrowing, as supplied to the Facility Agent at its request quoted by the applicable Reference Banks to leading banks in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

“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.

“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, 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 (h) of Section 6.02, plus (c) the fair market value of all property sold or transferred after the Effective Date (as defined in the Existing Company Credit Agreement) pursuant to Sale and Lease-Back Transactions permitted by clause (b) of Section 6.12.

“Loan Documents” means this Agreement, the Guarantee Agreement and any promissory notes issued pursuant to Section 2.10(e).

“Loan Parties” means the Borrowers and the Guarantors.

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

“Luxembourg Borrower” means Yum! Restaurants International S.à.r.l., LLC (U.S. Branch), the U.S. Branch of a Luxembourg limited liability company, registered to do business as a foreign corporation in the State of Kentucky.

“Luxembourg Commitment” means, with respect to each Lender, the commitment of such Lender to make Luxembourg Revolving Loans and Luxembourg Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s Luxembourg Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09, and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender’s Luxembourg Commitment

is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Luxembourg Commitment, as applicable. The initial aggregate amount of the Lenders' Luxembourg Commitments is US\$50,000,000.

“Luxembourg Lender” means a Lender with a Luxembourg Commitment or Luxembourg Revolving Credit Exposure.

“Luxembourg Revolving Borrowing” means a Borrowing comprised of Luxembourg Revolving Loans.

“Luxembourg Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of (a) the aggregate principal amount of such Lender's Luxembourg Revolving Loans outstanding at such time and (b) such Lender's Luxembourg Swingline Exposure at such time.

“Luxembourg Revolving Loan” means a Loan made pursuant to Section 2.01(b).

“Luxembourg Swingline Exposure” means, at any time, the aggregate principal amount of all Luxembourg Swingline Loans outstanding at such time. The Luxembourg Swingline Exposure of any Lender at any time shall be its Applicable Percentage of the total Luxembourg Swingline Exposure at such time.

“Luxembourg Swingline Loan” means a Loan to the Luxembourg Borrower made pursuant to Section 2.05.

“Mandatory Cost” has the meaning set forth in Schedule 2.13.

“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 or any Borrower 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 \$75,000,000. 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 November 8, 2010, as such date may be extended pursuant to Section 2.09.

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

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

“ New Lender ” has the meaning set forth in Section 2.09.

“ Non-Schedule I Bank ” means any Canadian Lender not named on Schedule I to the Bank Act (Canada).

“ Non-Schedule I Reference Banks ” means the Schedule II/III Reference Banks.

“ 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.

“ Participant ” has the meaning set forth in Section 9.04.

“ 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 and all actions required to be taken, if any, with respect to each Subsidiary resulting from such acquisition under Section 5.09 shall be taken, (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 Facility 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 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), 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, banker's 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 \$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 \$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 refer to 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 (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 Citibank, N.A., 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 whose consolidated 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, A&W, Long John Silver’s or Taco Bell trademark) for use in the United States of America or any jurisdiction therein.

“Reference Bank” means (a) when used in connection with Canadian Commitments or Loans thereunder, Schedule I Reference Banks and Schedule II/III Reference Banks and (b) when used in connection with UK Commitments or Loans thereunder, or Luxembourg Commitments or Loans thereunder, Citibank NA, London, JPMorgan Chase Bank, N.A., HSBC Bank USA and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. “Rabobank International”, New York Branch.

“Register” has the meaning set forth in Section 9.04.

“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 having Revolving Credit Exposures and unused Commitments representing more than 50% of the sum of the total Revolving Credit Exposures and unused Commitments at such time.

“Restricted 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.

“Revaluation Date” means, (a) with respect to an Alternative Currency Borrowing (other than a CABR Borrowing) or B/A, the last day of each Interest Period or Contract Period with respect to such Borrowing or B/A and, if the Borrower elects a new Interest Period prior to the end of the existing Interest Period with respect to such Borrowing, the date of commencement of such new Interest Period and (b) with respect to any CABR Borrowing, the last day of each March, June, September and December.

“Revolving Borrowing” means a UK Revolving Borrowing, a Luxembourg Revolving Borrowing or a Canadian Revolving Borrowing.

“Revolving Credit Exposure” means UK Revolving Credit Exposure, Luxembourg Revolving Credit Exposure or Canadian Revolving Credit Exposure.

“Revolving Loan” means a UK Revolving Loan, a Luxembourg Revolving Loan or a Canadian Revolving Loan.

“S&P” means Standard & Poor’s.

“Sale and Lease-Back Transaction” has the meaning assigned to such term in Section 6.12.

“Schedule I Bank” means any bank named on Schedule I to the Bank Act (Canada).

“Schedule I Reference Bank” means, where there are two or fewer Canadian Lenders which are Canadian chartered banks that are Schedule I Banks, all such Lenders, and where there are more than two such Lenders, two of such Lenders chosen by the Canadian Facility Agent and the Canadian Borrower and identified as such by notice from the Canadian Facility Agent to the Lenders.

“Schedule II/III Reference Banks” means Citibank Canada and JPMorgan Chase, N.A., Canada Branch; provided that if either of such banks ceases to be a Canadian Lender, such bank shall also cease to be a Schedule II/III Reference Bank, and a successor Schedule II/III Reference Bank shall be chosen by the Canadian Facility Agent and the Canadian Borrower from the Canadian Lenders which are not Schedule I Banks and identified as such by notice from the

Canadian Facility Agent to the applicable Lenders.

“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 9.14.

“Spot Exchange Rate” means, on any day, (a) with respect to any Alternative Currency in relation to U.S. Dollars, the spot rate at which U.S. Dollars are offered on such day for such Alternative Currency which appears on page FXXF of the Reuters Screen at approximately 11:00 a.m., London time and (b) with respect to U.S. Dollars in relation to any specified Alternative Currency, the spot rate at which such specified Alternative Currency is offered on such day for U.S. Dollars which appears on page FXXF of the Reuters Screen at approximately 11:00 a.m., London time. For purposes of determining the Spot Exchange Rate in connection with an Alternative Currency Borrowing, such Spot Exchange Rate shall be determined as of the Denomination Date for such Borrowing with respect to the transactions in the applicable Alternative Currency that will settle on the date of such Borrowing.

“Statutory Reserve Rate” means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages

(including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which Citibank, N.A. is subject for eurocurrency funding (currently referred to as “Eurocurrency Liabilities” in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. LIBOR Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

“Sterling” means lawful currency of the United Kingdom.

“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.

“Swingline Borrowing” means a Borrowing comprised of Swingline Loans.

“Swingline Lenders” means Citibank N.A., London, JPMorgan Chase Bank, N.A. and Wachovia Bank N.A.

“Swingline Loan” means a UK Swingline Loan, a Luxembourg Swingline Loan or a Canadian Swingline Loan.

“System Unit” means any restaurant operated under the name Kentucky Fried Chicken, KFC, Pizza Hut, Taco Bell, A&W, Long John Silver’s or any other brand that is acquired and operated by the Company or a Subsidiary or franchised or licensed by the Company or a Subsidiary to any of its franchisees or licensees.

“Taxes” means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

“Transactions” means the execution, delivery and performance by the Loan Parties of the Loan Documents, 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 or, in the case of a

Canadian Revolving Loan or Canadian Revolving Borrowing, whether it is B/A or bears interest at the Canadian Alternate Base Rate.

“UK Borrower” means Yum! Restaurants Holdings, an unlimited liability company organized and existing under the laws of England and Wales.

“UK Commitment” means, with respect to each Lender, the commitment of such Lender to make UK Revolving Loans and UK Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender’s UK Revolving Credit Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.09, and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 10.04. The initial amount of each Lender’s UK Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its UK Commitment, as applicable. The initial aggregate amount of the Lenders’ UK Commitments is US\$230,000,000.

“UK Lender” means a Lender with a UK Commitment or UK Revolving Credit Exposure.

“UK Revolving Borrowing” means a Borrowing comprised of UK Revolving Loans.

“UK Revolving Credit Exposure” means, with respect to any Lender at any time, the sum of (a) the aggregate principal amount of such Lender’s UK Revolving Loans denominated in U.S. Dollars outstanding at such time, (b) the Assigned Dollar Value of the aggregate principal amount of such Lender’s UK Revolving Loans denominated in Sterling outstanding at such time and (c) such Lender’s UK Swingline Exposure at such time.

“UK Revolving Loan” means a Loan made pursuant to Section 2.01(c).

“UK Swingline Exposure” means, at any time, the aggregate principal amount of all UK Swingline Loans outstanding at such time. The UK Swingline Exposure of any Lender at any time shall be its Applicable Percentage of the total UK Swingline Exposure at such time.

“UK Swingline Loan” means a Loan to the UK Borrower made pursuant to Section 2.05.

“U.S. Dollar Equivalent” means, with respect to an amount of any Alternative Currency on any date, the amount of U.S. Dollars that may be purchased with such amount of the Alternative Currency at the Spot Exchange Rate with respect to the Alternative Currency on such date.

“U.S. Dollars” or “US\$” refers to lawful money of the United States of America.

“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 Class (e.g., a “Canadian Revolving Loan”) or by Type (e.g., a “LIBOR Revolving Loan”) or by Class and Type (e.g., a “Canadian LIBOR Revolving Loan”). Borrowings also may be classified and referred to by Class (e.g., a “Canadian Revolving Borrowing”) or by Type (e.g., a “LIBOR Borrowing”) or by Class and Type (e.g., a “Canadian LIBOR Revolving 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, (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, if the Company notifies the Facility 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 Facility 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.

ARTICLE II

The Credits

SECTION 2.01. Commitments. (a) Subject to the terms and conditions set forth herein, each Canadian Lender agrees to make Canadian Revolving Loans under this Section and Canadian Swingline Loans under Section 2.05, in each case to the Canadian Borrower (denominated in U.S. Dollars or Canadian Dollars), including by means of B/A or B/A Equivalent Loans pursuant to Section 2.04, from time to time during the Availability Period in an aggregate principal amount that will not result in such Lender's Canadian Revolving Credit Exposure exceeding such Lender's Canadian Commitment. Within the foregoing limit and subject to the terms and conditions set forth herein, the Canadian Borrower may borrow, prepay and reborrow Canadian Revolving Loans.

(b) Each Luxembourg Lender agrees to make Luxembourg Revolving Loans to the Luxembourg Borrower (denominated in U.S. Dollars) from time to time during the Availability Period in an aggregate principal amount that will not result in such Lender's Luxembourg Revolving Credit Exposure exceeding such Lender's Luxembourg Commitment. Within the foregoing limit and subject to the terms and conditions set forth herein, the Luxembourg Borrower may borrow, prepay and reborrow Luxembourg Revolving Loans.

(c) Each UK Lender agrees to make UK Revolving Loans to the UK Borrower (denominated in U.S. Dollars or Sterling) from time to time during the Availability Period in an aggregate principal amount that will not result in such Lender's UK Revolving Credit Exposure exceeding such Lender's UK Commitment. Within the foregoing limit and subject to the terms and conditions set forth herein, the UK Borrower may borrow, prepay and reborrow UK Revolving Loans.

SECTION 2.02. Loans and Borrowings. (a) Each Revolving Loan shall be made as part of a Borrowing consisting of Revolving Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. 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 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 2.14, each Revolving Borrowing shall be comprised entirely of LIBOR Loans as the applicable Borrower may request in accordance herewith, except that a Canadian Revolving Borrowing denominated in Canadian Dollars may be a CABR Borrowing. Each Lender at its option may make any LIBOR 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 applicable Borrower to repay such Loan in accordance with the terms of this Agreement and shall not result in any increased costs under Section 2.15 or any obligation by the applicable Borrower to make any payment under

of Section 2.17 in excess the amounts, if any, that such Lender would be entitled to claim under Section 2.15 or 2.17, as applicable, without giving effect to such change in lending office.

(c) At the commencement of each Interest Period for any LIBOR Revolving Borrowing, 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 (or the Alternative Currency Equivalent). Each CABR Revolving 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 (or the Alternative Currency Equivalent). Each Swingline Loan shall be in an amount that is an integral multiple of US\$100,000 and not less than US\$500,000 (or the Alternative Currency Equivalent). Borrowings of more than one Type and Class may be outstanding at the same time; provided that there shall not at any time be more than a total of 10 LIBOR Revolving Borrowings of any Class outstanding.

(d) Loans made pursuant to any Alternative Currency Borrowing shall be made in the Alternative Currency specified in the applicable Borrowing Request in an aggregate amount equal to the Alternative Currency Equivalent of the U.S. Dollar amount specified in such Borrowing Request; provided; that for purposes of the Borrowing amounts specified in paragraph (c), each Alternative Currency Borrowing shall be deemed to be in a principal amount equal to its Assigned Dollar Value.

(e) Notwithstanding any other provision of this Agreement, the Borrowers 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 Revolving Borrowings. To request a Revolving Borrowing, the applicable Borrower shall notify the Facility Agent (and in the case of a Canadian Revolving Borrowing, the Canadian Facility Agent) in writing of such request by hand delivery or telecopy not later than 11:00 a.m., London time, three Business Days before the date of the proposed Borrowing. Each such Borrowing Request shall be irrevocable and shall be in a form approved by such Agent and signed by the applicable Borrower. Each such Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the identity of the Borrower;

(ii) the aggregate amount of such Borrowing (expressed in U.S. Dollars) and the currency thereof (as permitted by Section 2.01);

(iii) the date of such Borrowing, which shall be a Business Day;

(iv) in the case of a Canadian Revolving Borrowing, whether such Borrowing is to be a LIBOR Borrowing (in the case of a Borrowing denominated in Canadian Dollars or U.S. Dollars) or a CABR Borrowing (in the case of a Borrowing denominated in Canadian Dollars).

(v) 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

(vi) the location and number of the applicable Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

If no election as to the Type of Revolving Borrowing is specified, then the requested Revolving Borrowing shall be a LIBOR Borrowing if denominated in U.S. Dollars or Sterling, or a CABR Borrowing if denominated in Canadian Dollars. If no Interest Period is specified with respect to any requested LIBOR Revolving Borrowing, then the applicable Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the applicable Agent shall advise each participating Lender 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. Bankers' Acceptances. (a) Each acceptance and purchase of B/As of a single Contract Period pursuant to Section 2.01(a) shall be made ratably by the Canadian Lenders in accordance with the amounts of their Canadian Commitments. The failure of any Canadian Lender to accept any B/A required to be accepted by it shall not relieve any other Canadian Lender of its obligations hereunder; provided that the Canadian Commitments are several and no Canadian Lender shall be responsible for any other Canadian Lender's failure to accept B/As as required.

(b) The B/As of a single Contract Period accepted and purchased on any date shall be in an aggregate amount that is at least equal to the Alternative Currency Equivalent (in Canadian Dollars) of US\$10,000,000 and is an integral multiple of the Alternative Currency Equivalent (in Canadian Dollars) of US\$1,000,000. If any Canadian Lender's ratable share of the B/As of any Contract Period to be accepted on any date would not be an integral multiple of Cdn.\$100,000, the face amount of the B/As accepted by such Lender may be increased or reduced to the nearest integral multiple of Cdn.\$100,000 by the Canadian Facility Agent in its sole discretion. B/As of more than one Contract Period, but not more than 10 Contract Periods, may be outstanding at the same time.

(c) To request an acceptance and purchase of B/As, the Canadian Borrower shall notify the Canadian Facility Agent of such request in writing by telecopy or hand delivery not later than 10:00 a.m., Toronto time, one Business Day before the date of such acceptance and purchase. Each such request shall be irrevocable and shall be in a form approved by the Canadian Facility Agent and signed by the Canadian Borrower. Each such request shall specify the following information:

(i) the aggregate face amount of the B/As to be accepted and purchased;

(ii) the date of such acceptance and purchase, which shall be a Business Day;

(iii) the Contract Period to be applicable thereto, which shall be a period contemplated by the definition of the term “Contract Period” (and which shall in no event end after the Maturity Date); and

(iv) the location and number of the Canadian Borrower’s account to which the applicable Discount Proceeds (net of applicable acceptance fees) are to be disbursed, which shall comply with the requirements of Section 2.07.

If no Contract Period is specified with respect to any requested acceptance and purchase of B/As, then the Canadian Borrower shall be deemed to have selected a Contract Period of 30 days’ duration.

Promptly following receipt of a request in accordance with this paragraph, the Canadian Facility Agent shall advise the Facility Agent and each Canadian Lender of the details thereof and of the amount of B/As to be accepted and purchased by such Lender.

(d) The Canadian Borrower hereby appoints each Canadian Lender as its attorney to sign and endorse on its behalf, manually or by facsimile or mechanical signature, as and when deemed necessary by such Lender, blank forms of B/As, each such Lender hereby agreeing that it will not sign or endorse B/As in excess of those required in connection with B/A Drawings that have been requested by the Canadian Borrower hereunder. It shall be the responsibility of each Canadian Lender to maintain an adequate supply of blank forms of B/As for acceptance under this Agreement. The Canadian Borrower recognizes and agrees that all B/As signed and/or endorsed on its behalf by any Canadian Lender in accordance with the terms and conditions of this Agreement shall bind the Canadian Borrower as fully and effectually as if manually signed and duly issued by authorized officers of the Canadian Borrower. Each Canadian Lender is hereby authorized to issue such B/As endorsed in blank in such face amounts as may be determined by such Lender; provided that the aggregate face amount thereof is equal to the aggregate face amount of B/As required to be accepted by such Lender. No Canadian Lender shall be liable for any damage, loss or claim arising by reason of any loss or improper use of any such instrument unless such loss or improper use results from the bad faith, gross negligence or willful misconduct of such Lender. Each Canadian Lender shall maintain a record with respect to B/As (i) received by it from the Canadian Facility Agent in blank hereunder, (ii) voided by it for any reason, (iii) accepted and purchased by it hereunder and (iv) canceled at their respective maturities. Each Canadian Lender further agrees to retain such records in the manner and for the periods provided in applicable provincial or federal statutes and regulations of Canada and to provide such records to the Canadian Borrower upon its request and at its expense. Upon request by the Canadian Borrower, a Canadian Lender shall cancel all forms of B/A that have been pre-signed or pre-endorsed on behalf of the Canadian Borrower and that are held by such Canadian Lender and are not required to be issued pursuant to this Agreement.

(e) Drafts of the Canadian Borrower to be accepted as B/As hereunder shall be signed as set forth in paragraph (d) above. Notwithstanding that any Person whose signature appears on any B/A may no longer be an authorized signatory for any of the Canadian Lenders or Canadian Borrower at the date of issuance of such B/A, such signature shall

nevertheless be valid and sufficient for all purposes as if such authority had remained in force at the time of such issuance and any such B/A so signed and properly completed in accordance with the terms and conditions of this Agreement shall be binding on the Canadian Borrower.

(f) Upon acceptance of a B/A by a Canadian Lender, such Lender shall purchase such B/A from the Canadian Borrower at the Discount Rate for such Lender applicable to such B/A accepted by it and provide to the Canadian Facility Agent the Discount Proceeds for the account of such Canadian Borrower as provided in Section 2.07. The acceptance fee payable by the Canadian Borrower to a Canadian Lender under Section 2.12 in respect of each B/A accepted by such Lender shall be set off against the Discount Proceeds payable by such Lender under this paragraph. Notwithstanding the foregoing, in the case of any B/A Drawing resulting from the conversion or continuation of a B/A Drawing or Canadian Revolving Loan pursuant to Section 2.01, the net amount that would otherwise be payable to the Canadian Borrower by each Canadian Lender pursuant to this paragraph will be applied as provided in Section 2.08(f).

(g) Each Canadian Lender may at any time and from time to time hold, sell, rediscount or otherwise dispose of any or all B/A's accepted and purchased by it.

(h) Each B/A accepted and purchased hereunder shall mature at the end of the Contract Period applicable thereto.

(i) The Canadian Borrower waives presentment for payment and any other defense to payment of any amounts due to a Canadian Lender in respect of a B/A accepted and purchased by it pursuant to this Agreement which might exist solely by reason of such B/A being held, at the maturity thereof, by such Lender in its own right and the Canadian Borrower agrees not to claim any days of grace if such Lender as holder sues the Canadian Borrower on the B/A for payment of the amounts payable by the Canadian Borrower thereunder. On the last day of the Contract Period of a B/A, or such earlier date as may be required pursuant to the provisions of this Agreement, the Canadian Borrower shall pay the Canadian Lender that has accepted and purchased such B/A the full face amount of such B/A, and after such payment the Canadian Borrower shall have no further liability in respect of such B/A and such Lender shall be entitled to all benefits of, and be responsible for all payments due to third parties under, such B/A.

(j) At the option of the Canadian Borrower and any Canadian Lender, B/As under this Agreement to be accepted by that Lender may be issued in the form of depository bills for deposit with The Canadian Depository for Securities Limited pursuant to the Depository Bills and Notes Act (Canada). All depository bills so issued shall be governed by the provisions of this Section 2.04.

(k) If a Canadian Lender is not a chartered bank under the Bank Act (Canada) or if a Canadian Lender notifies the Canadian Facility Agent in writing that it is otherwise unable to accept B/As, such Lender will, instead of accepting and purchasing B/As, make a Loan (a "B/A Equivalent Loan") to the Canadian Borrower in the amount

and for the same term as each draft which such Lender would otherwise have been required to accept and purchase hereunder. Each such Lender will provide to the Canadian Facility Agent the Discount Proceeds of such B/A Equivalent Loan for the account of the Canadian Borrower in the same manner as such Lender would have provided the Discount Proceeds in respect of the draft which such Lender would otherwise have been required to accept and purchase hereunder. Each such B/A Equivalent Loan will bear interest at the same rate that would result if such Lender had accepted (and been paid an acceptance fee) and purchased (at the applicable Discount Rate) a B/A for the relevant Contract Period (it being the intention of the parties that each such B/A Equivalent Loan shall have the same economic consequences for the Canadian Lenders and the Canadian Borrower as the B/A that such B/A Equivalent Loan replaces). All such interest shall be paid in advance on the date such B/A Equivalent Loan is made, and will be deducted from the principal amount of such B/A Equivalent Loan in the same manner in which the Discount Proceeds of a B/A would be deducted from the face amount of the B/A. Subject to the repayment requirements of this Agreement, on the last day of the relevant Contract Period for such B/A Equivalent Loan, the Canadian Borrower shall be entitled to convert each such B/A Equivalent Loan into another type of Loan, or to roll over each such B/A Equivalent Loan into another B/A Equivalent Loan, all in accordance with the applicable provisions of this Agreement.

(l) Notwithstanding any provision hereof but subject to Section 2.11(b), the Canadian Borrower may not prepay any B/A Drawing other than on the last day of its Contract Period.

(m) For greater certainty, all provisions of this Agreement which are applicable to B/As shall also be applicable, mutatis mutandis, to B/A Equivalent Loans.

SECTION 2.05. Swingline Loans. (a) Subject to the terms and conditions set forth herein, the Canadian Lenders have agreed in Section 2.01 to make Canadian Swingline Loans and the Swingline Lenders hereby agree to make UK Swingline Loans (denominated in U.S. Dollars or Sterling) and Luxembourg Swingline Loans (denominated in U.S. Dollars) ratably in accordance with their Applicable Swingline Percentage, in each case as provided in this Section 2.05. The aggregate principal amount of Swingline Loans of any Class at any time outstanding shall not result in the total Revolving Credit Exposures of such Class exceeding the total Commitments of such Class. In addition (i) the aggregate principal amount of Luxembourg Swingline Loans at any time outstanding shall not exceed US\$32,000,000 and (ii) the aggregate principal amount of UK Swingline Loans at any time outstanding shall not exceed US\$158,000,000 (based on Assigned Dollar Values in the case of Swingline Loans denominated in Sterling). No Lender shall be required to make a Swingline Loan to refinance an outstanding Swingline Loan. No Swingline Loans of any Class will be made on the last day of any calendar quarter, and if any Swingline Loans of any Class are outstanding on the Business Day immediately preceding the last day of any calendar quarter, the applicable Borrower shall prepay such Swingline Loans. Each Canadian Swingline Loan denominated in Canadian Dollars shall be made as a CABR Swingline Loan and each Swingline Loan denominated in U.S. Dollars or Sterling shall be made as a LIBOR Swingline Loan. Within the foregoing limits and subject to the terms and

conditions set forth herein, the Borrowers may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Loan of any Class, the applicable Borrower shall notify the Facility Agent of such request in writing by telecopy or hand delivery not later than 9:00 a.m., London time (or, in the case of a Canadian Swingline Loan, the Canadian Borrower shall notify the Canadian Facility Agent of such request in writing by telecopy or hand delivery not later than 9:00 a.m., Toronto time), on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall be in a form approved by the applicable Agent and signed by the applicable Borrower. Each such Borrowing Request shall specify the following information in compliance with Section 2.02:

(i) the identity of the Borrower;

(ii) the Class and aggregate amount of such Swingline Loan (expressed in U.S. Dollars) and the currency thereof (as permitted by Section 2.01);

(iii) the date of such Swingline Loan, which shall be a Business Day;

(iv) in the case of a LIBOR Swingline Loan, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of Interest Period; and

(v) the location and number of the applicable Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.07.

In the case of a request for a Canadian Swingline Loan, the Canadian Facility Agent will promptly notify the Canadian Lenders of any such notice received from the Canadian Borrower. In the case of a request for a UK Swingline Loan or a Luxembourg Swingline Loan, the Facility Agent will promptly notify the Swingline Lenders of any such notice received from the UK Borrower or Luxembourg Borrower, as the case may be.

(c) A Swingline Lender may by written notice given to the Facility Agent not later than 11:00 a.m., London time, on any Business Day require the Luxembourg Lenders or UK Lenders to acquire participations, on the date that is three Business Days thereafter, in all or a portion of such Swingline Lender's outstanding Luxembourg Swingline Loans or UK Swingline Loans, respectively. Promptly upon receipt of such notice, the Facility Agent will give notice thereof to each applicable Lender, specifying in such notice such Lender's Applicable Percentage of such Swingline Loan or Loans. Each Luxembourg Lender and UK Lender hereby absolutely and unconditionally agrees, on the date that is three Business Days after the date of receipt of notice as provided above, to pay to the Facility Agent, for the account of the applicable Swingline Lender, such Lender's Applicable Percentage of such Swingline Loan or Loans. Each such Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or

reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each such Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.07 with respect to Loans made by such Lender (and Section 2.07 shall apply, mutatis mutandis, to the payment obligations of the Lenders), and the Facility Agent shall promptly pay to the applicable Swingline Lender the amounts so received by it from the applicable Lenders. The Facility Agent shall notify the applicable Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Facility Agent and not to the applicable Swingline Lender. Any amounts received by any Swingline Lender from any Borrower (or other party on behalf of such Borrower) in respect of a Swingline Loan after receipt by such Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Facility Agent; any such amounts received by the Facility Agent shall be promptly remitted by the Facility Agent to the Lenders that shall have made their payments pursuant to this paragraph and to such Swingline Lender, as their interests may appear; provided that any such payment so remitted shall be repaid to such Swingline Lender or to the Facility Agent, as applicable, if and to the extent such payment is required to be refunded to such Borrower for any reason. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve any Borrower of any default in the payment thereof.

SECTION 2.06. Assigned Dollar Value. (a) With respect to each Alternative Currency Borrowing or B/A, its “ Assigned Dollar Value ” shall mean the following:

(i) the U.S. Dollar amount specified in the Borrowing Request therefor unless and until adjusted pursuant to the following clause (ii), and

(ii) as of each Revaluation Date with respect to such Alternative Currency Borrowing or B/A, the Assigned Dollar Value of such Borrowing or B/A shall be adjusted to be the U.S. Dollar Equivalent thereof (as determined by the Facility Agent based upon the applicable Spot Exchange Rate, which determination shall be conclusive absent manifest error), subject to further adjustment in accordance with this clause (ii) thereafter.

(b) The Assigned Dollar Value of an Alternative Currency Loan shall equal the Assigned Dollar Value of the Alternative Currency Borrowing of which such Loan is a part multiplied by the percentage of such Borrowing represented by such Loan.

(c) The Facility Agent shall notify the Company and the relevant Lenders of any change in the Assigned Dollar Value of any Alternative Currency Borrowing or B/A promptly following determination of such change.

SECTION 2.07. Funding of Borrowings. (a) Each UK Lender shall make each UK Revolving Loan, each Luxembourg Lender shall make each Luxembourg Revolving Loan, and each Swingline Lender shall make each UK

Swingline Loan and each Luxembourg Swingline Loan, in each case to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 2:00 p.m., London time, to the account of the Facility Agent most recently designated by it for such purpose by notice to the applicable Lenders. Each Canadian Lender shall make each Canadian Revolving Loan, Canadian Swingline Loan and disburse the Discount Proceeds (net of applicable acceptance fees) of each B/A to be accepted and purchased by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 2:00 p.m., Toronto time, to the account of the Canadian Facility Agent most recently designated by it for such purpose by notice to the applicable Lenders. The applicable Agent will make such Loans or Discount Proceeds (as applicable) available to the applicable Borrower by promptly crediting the amounts so received, in like funds, to an account of such Borrower as designated in such Borrower's applicable Borrowing Request (or, in the case of a Borrowing made in an Alternative Currency, to an account mutually agreed between the Borrower and the applicable Agent for funding such Borrowing).

(b) Unless an Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to such Agent such Lender's share of such Borrowing, such 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 applicable Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the applicable Agent, then such Lender and such Borrower severally agree to pay to such 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 such Agent, at (i) in the case of such Lender, the rate determined by the applicable 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 applicable Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.08. Interest Elections. (a) Each Revolving 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. Each B/A Drawing shall have a Contract Period as specified in the applicable request therefor. Thereafter, (i) the Canadian Borrower may elect to convert a Canadian Revolving Borrowing or B/A Drawing to a different Type or to continue such Borrowing or B/A Drawing and (ii) in the case of a LIBOR Borrowing, the applicable Borrower may elect to continue such Borrowing as a LIBOR Borrowing and may elect Interest Periods therefor, all as provided in this Section, it being understood that no B/A Drawing may be converted or continued other than at the end of the Contract Period applicable thereto. The applicable Borrower may elect different options with respect to different portions of the affected Borrowing or B/A, as the case may be, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing or accepting the B/As comprising such B/A Drawing, as the case may be, and any Loans or B/As resulting from an election made with respect to any such portion shall be considered a separate Borrowing or

B/A Drawing. This Section shall not apply to Swingline Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the applicable Borrower shall notify the Facility Agent (or, in the case of an election that relates to a Canadian Revolving Borrowing or B/A, the Canadian Facility Agent) of such election in writing by telecopy or hand delivery (i) in the case of an election that would result in a Borrowing, by the time and date that a Borrowing Request would be required under Section 2.03 if such Borrower were requesting a Revolving Borrowing resulting from such election to be made on the effective date of such election, and (ii) in the case of an election that would result in a B/A Drawing or the continuation of a B/A Drawing, by the time and date that a request would be required under Section 2.04 if the Canadian Borrower were requesting an acceptance and purchase of B/As to be made on the effective date of such election. Each such Interest Election Request shall be irrevocable and shall be in a form reasonably acceptable to the applicable Agent and signed by the applicable Borrower. Notwithstanding any other provision of this Section, (i) no Borrower shall be permitted to change the Borrower or currency of any Borrowing, and (ii) each conversion or continuation of a Borrowing shall comply with the applicable provisions of Section 2.02.

(c) Each such Interest Election Request shall specify the following information in compliance with Section 2.02:

(i) the Borrowing or B/A Drawing 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 or B/A Drawing (in which case the information to be specified pursuant to clause (iii) below shall be specified for each resulting Borrowing or B/A Drawing);

(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 a Canadian Revolving Borrowing or B/A, whether the resulting Borrowing is to be a LIBOR Borrowing, a CABR Borrowing or a B/A Drawing; and

(iv) if the resulting Borrowing is 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", and in the case of an election of a B/A Drawing, the Contract Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Contract Period".

If any such Interest Election Request does not specify an Interest Period or Contract Period, then the applicable Borrower shall be deemed to have selected an Interest Period of one month's duration or Contract Period of 30 days' duration as applicable.

(d) Promptly following receipt of an Interest Election Request, the applicable Agent shall advise each participating Lender of the details thereof and of such Lender's portion of each resulting Borrowing or B/A Drawing, as the case may be.

(e) If any Borrower fails to deliver a timely Interest Election Request (i) with respect to a LIBOR Revolving Borrowing denominated in U.S. Dollars or Sterling, then, unless such Borrowing is repaid as provided herein, at the end of the Interest Period such Borrowing shall be continued as a LIBOR Borrowing with an Interest Period of one month's duration or (ii) with respect to a LIBOR Revolving Borrowing or B/A Drawing denominated in Canadian Dollars, then, unless such Borrowing or B/A Drawing is repaid as provided herein, at the end of the Interest Period or Contract Period (as applicable) for such Borrowing or B/A Drawing, such Borrowing or B/A Drawing shall be converted to a CABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Facility Agent, at the request of the Required Lenders, so notifies the Borrowers, then, so long as an Event of Default is continuing, unless repaid (i) each LIBOR Revolving Borrowing shall be continued at the end of the Interest Period applicable thereto as a LIBOR Borrowing with an Interest Period of one month's duration, (ii) no outstanding Borrowing denominated in Canadian Dollars may be converted to or continued as a B/A Drawing and (iii) unless repaid, each B/A Drawing shall be converted to a CABR Borrowing at the end of the applicable Contract Period therefor.

(f) Upon the conversion of any Canadian Revolving Borrowing (or portion thereof), or the continuation of any B/A Drawing (or portion thereof), to or as a B/A Drawing, the net amount that would otherwise be payable to the Canadian Borrower by each Canadian Lender pursuant to Section 2.04(f) in respect of such new B/A Drawing shall be applied against the principal of the Canadian Revolving Loan made by such Canadian Lender as part of such Canadian Revolving Borrowing (in the case of a conversion), or the reimbursement obligation owed to such Canadian Lender under Section 2.04(i) in respect of the B/As accepted by such Lender as part of such maturing B/A Drawing (in the case of a continuation), and such Borrower shall pay to such Lender an amount equal to the difference between the principal amount of such Canadian Revolving Loan or the aggregate face amount of such maturing B/As, as the case may be, and such net amount.

SECTION 2.09. Termination, Reduction and Extension of Commitments. (a) Unless previously terminated, the Commitments shall terminate on the Maturity Date.

(b) The applicable Borrower may at any time terminate, or from time to time reduce, the Commitments of any Class; provided that (i) each reduction of the Commitments of any Class shall be in an amount that is an integral multiple of US\$5,000,000 and not less than US\$10,000,000 and (ii) a Borrower shall not terminate or reduce the Commitments of any Class if, after giving effect to any concurrent prepayment of the Loans in accordance with Section 2.11, the total Revolving Credit Exposures of such Class would exceed the total Commitments of such Class.

(c) The applicable Borrower shall notify the Facility Agent (and in the case of the Canadian Commitments, the Canadian Facility Agent) of any election to terminate or reduce the Commitments of any Class under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, such Agent shall advise the Lenders of the contents thereof. Each notice delivered by any Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Commitments of any Class delivered by a Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by such Borrower (by notice to the applicable 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 of any Class shall be made ratably among the Lenders in accordance with their respective Commitments of such Class.

(d) (i) Any Borrower may, by notice to the Facility Agent (and, if in respect of the Canadian Commitments, the Canadian Facility Agent) (which shall promptly deliver a copy to each of the Lenders of the applicable Class) not less than 60 days prior to the Maturity Date in respect of any Class of Commitments and Loans then in effect (the "Pending Maturity Date"), request that the Lenders of the applicable Class extend the Pending Maturity Date to a date specified in such notice that is a Business Day not later than one year after the Pending Maturity Date (the "Extended Maturity Date"). Each such Lender shall, by notice to the applicable Borrower and the applicable Agent given not later than the date specified in such Borrower's notice for a response (which shall be at least 30 days prior to the Pending Maturity Date) (the "Response Deadline"), advise such Borrower whether or not such Lender agrees to such extension (and any Lender that does not advise such Borrower on or before the Response Deadline shall be deemed to have advised such Borrower that it will not agree to such extension). In the event that, by the Response Deadline, Lenders of the applicable Class holding less than 66 2/3 % of the aggregate Commitments of such Class shall have agreed to extend the Pending Maturity Date, such Borrower may arrange for one or more banks or other financial institutions (any such bank or other financial institution referred to in this clause (d)(i) being called an "New Lender"), which may include any Lender, to extend Commitments of such Class or increase their existing Commitments of such Class in an aggregate amount equal to the unsubscribed amount; provided that (A) each New Lender, if not already a Lender hereunder, shall be subject to the approval of the applicable Agent (which approvals shall not be unreasonably withheld) and such Borrower and each New Lender shall execute all such documentation as the such Agent shall reasonably specify to evidence its Commitment of such Class and/or its status as a Lender hereunder and (B) each New Lender shall execute all such documentation pursuant to the preceding clause (A) no later than the Pending Maturity Date.

(ii) If (and only if) Lenders, including New Lenders, holding Commitments of the applicable Class that represent at least 66 2/3 % of the aggregate Commitments of such Class prior to the Pending Maturity Date shall have agreed to extend the Maturity Date, then (effective on and as of the Pending Maturity Date), (A) the Maturity Date for such Class of Commitments and Loans shall be extended to the Extended Maturity Date, and (B) the

Commitment of such Class of each non-extending Lender shall terminate, and all Loans of such Class of such non-extending Lender shall become due and payable, together with all interest accrued thereon and all other amounts owed to such Lender hereunder, on the Pending Maturity Date then in effect.

(iii) Notwithstanding the provisions of paragraphs (d)(i) and (d)(ii) of this Section, no extension of the Pending Maturity Date for any Class of Commitments and Loans shall be effective with respect to any Lender unless, on and as of the Pending Maturity Date for such Class, the conditions set forth in Section 4.02 shall be satisfied (with all references in such Section to a Borrowing being deemed to be references to such extension) and the Facility Agent (or, in the case of Canadian Commitments, the Canadian Facility Agent) shall have received a certificate to that effect, dated the Pending Maturity Date, and executed by a Financial Officer.

(iv) On the Pending Maturity Date, if any Revolving Loans of the applicable Class are outstanding, the applicable Borrower (A) shall prepay all Revolving Loans of such Class then outstanding (including all accrued but unpaid interest thereon) and (B) may, at its option, fund such prepayment by simultaneously borrowing Revolving Loans of such Class and for the Interest Periods specified in a Borrowing Request delivered pursuant to Section 2.03, which Revolving Loans shall be made by the Lenders of such Class (including any New Lenders) ratably in accordance with their respective Commitments of such Class (calculated after giving effect to (x) any Commitment increases by any Lenders or any new Commitments made by any New Lenders pursuant to paragraph (d) (i) of this Section and (y) the termination of the Commitments of non-extending Lenders). The payments made pursuant to clause (A) above in respect of each LIBOR Loan shall be subject to Section 2.16.

SECTION 2.10. Repayment of Loans and B/As; Evidence of Debt. (a) Each Borrower hereby unconditionally promises to pay to the Facility Agent (or, in the case of Canadian Revolving Loans or Canadian Swingline Loans, the Canadian Facility Agent) for the account of each Lender or Swingline Lender, as applicable, (i) the then unpaid principal amount of each Revolving Loan owing by such Borrower to such Lender on the Maturity Date, and (ii) the then unpaid principal amount of each Swingline Loan owing by such Borrower to such Lender or Swingline Lender, as applicable, on the earlier of the Maturity Date and, in the case of any Canadian Swingline Loan denominated in Canadian Dollars, the date that is five Business Days after such Swingline Loan is made or, in the case of any other Swingline Loan, the last day of the Interest Period applicable thereto; provided that on each date that a Revolving Borrowing is made to such Borrower, such Borrower shall repay all Swingline Loans to such Borrower which were outstanding at the time such Borrowing was requested. The Canadian Borrower hereby unconditionally promises to pay on the Maturity Date, to the Canadian Facility Agent for the account of each applicable Lender, the face amount of each B/A, if any, accepted by such Lender as provided in Section 2.04.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the applicable Borrowers 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 Facility Agent (and, in the case of Canadian Commitments and Loans thereunder, the Canadian Facility Agent) shall maintain accounts in which it shall record (i) the amount and currency of each Loan made hereunder, the Class and Type thereof and the Interest Period applicable thereto, and the amount of each B/A and the Contract Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from each Borrower to each Lender hereunder and (iii) the amount of any sum received by such Agent hereunder for the account of the Lenders of any Class and each Lender's share thereof. The Canadian Facility Agent shall promptly provide the Facility Agent with all information needed to maintain such accounts in respect of Loans or B/A Drawings administered by such Agent.

(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 any Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrowers to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the applicable Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the applicable Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.11. Prepayment of Loans. (a) Each Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to prior notice in accordance with paragraph (d) of this Section.

(b) If, as of any Revaluation Date, the total Canadian Revolving Credit Exposure exceeds 105% of the total amount of the Canadian Revolving Commitments, then the Canadian Borrower shall, not later than the date that is four Business Days after the Canadian Borrower receives notice thereof from the Canadian Facility Agent, prepay one or more Canadian Revolving Borrowings or Canadian Swingline Borrowings in an aggregate amount sufficient to reduce the total Canadian Revolving Credit Exposures to an amount not exceeding the total Canadian Revolving Commitments; provided, however, that the Canadian Borrower shall not be obligated to prepay any B/A in order to comply with the terms of this Section 2.11(b); provided, further, that should a prepayment of all outstanding Canadian Revolving Borrowings and Canadian Swingline Borrowings be insufficient to reduce the Canadian Revolving Credit Exposure below 105% of the

total Canadian Revolving Commitments, the Canadian Borrower shall provide cash collateral to the Canadian Facility Agent in an amount sufficient to secure the outstanding B/As to the extent necessary to comply with this paragraph (b) (and such collateral will be held by the Canadian Facility Agent and applied to pay B/As as and when due).

(c) If, as of any Revaluation Date, the total UK Revolving Credit Exposure exceeds 105% of the total amount of the UK Revolving Commitments, then the UK Borrower shall, not later than the date that is four Business Days after the UK Borrower receives notice thereof from the Facility Agent, prepay one or more UK Revolving Borrowings or UK Swingline Borrowings in an aggregate amount sufficient to reduce the total UK Revolving Credit Exposures to an amount not exceeding the total UK Revolving Commitments.

(d) A Borrower shall notify the applicable Agent by telecopy of any prepayment by it hereunder (i) in the case of prepayment of a LIBOR Revolving Borrowing, not later than 11:00 a.m., London time, three Business Days before the date of prepayment, (ii) in the case of prepayment of a UK Swingline Borrowing or a Luxembourg Swingline Borrowing, not later than 9:00 a.m. London time, on the date of prepayment, (iii) in the case of prepayment of a CABR Revolving Borrowing, not later than 11:00 a.m., Toronto time, three Business Days before the date of prepayment and (iv) in the case of prepayment of a Canadian Swingline Borrowing, not later than 9:00 a.m., Toronto time, on 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 of any Class as contemplated by Section 2.09, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.09. Promptly following receipt of any such notice relating to a Borrowing, the applicable Agent shall advise the participating Lenders of the contents thereof. Each partial prepayment of any Revolving Borrowing shall be in an amount that would be permitted in the case of an advance of a Revolving 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 2.13.

SECTION 2.12. Fees. (a) The Canadian Borrower agrees to pay to the Canadian Facility Agent, for the account of each Canadian Lender a commitment fee, which shall accrue at a rate per annum equal to 32.5% of the Applicable Margin on the daily unused amount of the Canadian Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Canadian Commitment terminates. The UK Borrower agrees to pay to the Facility Agent, for the account of each UK Lender a commitment fee, which shall accrue at a rate per annum equal to 32.5% of the Applicable Margin on the daily unused amount of the UK Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such UK Commitment terminates. The Luxembourg Borrower agrees to pay to the Facility Agent, for the account of each Luxembourg Lender a commitment fee, which shall

accrue at a rate per annum equal to 32.5% of the Applicable Margin on the daily unused amount of the Luxembourg Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which such Luxembourg Commitment terminates. Accrued commitment fees with respect to each Class of Commitments shall be payable quarterly in arrears on the last day of March, June, September and December of each year and upon the termination of the Commitments of such Class, calculated based on the number of days elapsed in a 360-day year. For purposes of computing commitment fees, (i) a Canadian Commitment of a Lender shall be deemed to be used to the extent of the outstanding Canadian Revolving Loans, Canadian Swingline Loans and B/As of such Lender, (ii) a Luxembourg Commitment of a Lender shall be deemed to be used to the extent of the outstanding Luxembourg Revolving Loans of such Lender (and the Luxembourg Swingline Exposure of such Lender shall be disregarded for such purpose), (iii) a UK Commitment of a Lender shall be deemed to be used to the extent of the outstanding UK Revolving Loans of such Lender (and the UK Swingline Exposure of such Lender shall be disregarded for such purpose) and (iv) amounts denominated in Alternative Currencies shall be based on Assigned Dollar Values.

(b) The Canadian Borrower agrees to pay to the Canadian Facility Agent, for the account of each Canadian Lender, on each date on which B/As drawn by the Canadian Borrower are accepted hereunder, in Canadian Dollars, an acceptance fee equal to (i) the product of the Applicable Margin and the face amount of each B/A accepted by such Lender multiplied by (ii) a fraction, the numerator of which is the number of days in the Contract Period applicable to such B/A and the denominator of which is 365.

(c) Each Borrower agrees to pay to the Agents, for their own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Agents.

(d) All fees payable hereunder shall be paid in U.S. Dollars (or, in the case of fees payable under paragraph (b) above, Canadian Dollars) on the dates due, in immediately available funds, to the applicable Agent for distribution, in the case of commitment fees, to the Lenders. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each CABR Borrowing shall bear interest at the Canadian Alternate Base Rate plus, if the Applicable Margin exceeds 100 basis points, the excess of such Applicable Margin over 100 basis points.

(b) The Loans comprising each LIBOR Borrowing shall bear interest, at the aggregate of (i) the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing, (ii) the Applicable Margin and (iii) in the case of UK Revolving Loans or UK Swingline Loans denominated in Sterling, the Mandatory Cost (if any).

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by any Borrower or the Company hereunder is paid when due, whether at stated maturity, not 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, (ii) in the case of any other amount denominated in Canadian Dollars, 2% plus the rate applicable to CABR Loans as provided in paragraph (a) of this Section or (iii) in the case of any other amount denominated in U.S. Dollars or Sterling, 2% plus the rate applicable to LIBOR Borrowings as provided in paragraph (b) of this Section, provided that for the purposes of this Section, the Interest Period for any overdue amount shall be any period selected by the Facility Agent not exceeding one month.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans of any Class, upon termination of the Commitments of such Class; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan, 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 Revolving 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.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that the calculation of interest on UK Revolving Loans or UK Swingline Loans that are denominated in Sterling shall be made on the basis of a year of 365 days, 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 Canadian Alternate Base Rate, if any, shall be determined by the Canadian Facility Agent and the applicable Adjusted LIBO Rate, if any, shall be determined by the Facility Agent, and such determination shall be conclusive absent manifest error.

(f) For purposes of the Interest Act (Canada), (i) whenever any interest or fee under this Agreement is calculated using a rate based on a year of 360 days or 365 days, as the case may be, the rate determined pursuant to such calculation, when expressed as an annual rate, is equivalent to (x) the applicable rate based on a year of 360 days or 365 days, as they case may be, (y) multiplied by the actual number of days in the calendar year in which the period for which such interest or fee is payable (or compounded) ends, and (z) divided by 360 or 365, as the case may be, (ii) the principle of deemed reinvestment of interest does not apply to any interest calculation under this Agreement, and (iii) the rates of interest stipulated in this Agreement are intended to be nominal rates and not effective rates or yields. The provisions of this paragraph apply to Loans made to the Canadian Borrower.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a LIBOR Borrowing:

(a) the Facility Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Facility Agent is advised by a majority in interest of the Lenders participating in such Borrowing that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Facility Agent shall give notice thereof to the applicable Borrower and the relevant Lenders by telecopy as promptly as practicable thereafter and, until the Facility Agent notifies such Borrower and such Class of Lenders that the circumstances giving rise to such notice no longer exist, then (i) the rate of interest on each applicable Lender's share of such Borrowing for such Interest period shall be the percentage rate per annum which is the sum of (A) the Applicable Margin, (B) the rate notified to the Facility Agent by such Lender as soon as practicable and in any event before interest is due to be paid in respect of that Interest Period, to be that which expresses as a percentage rate per annum the cost to such Lender of funding its participation in such Borrowing from whatever source it may reasonably select, and (C) in the case of UK Revolving Loans denominated in Sterling, the Mandatory Cost (if any), (ii) any Interest Election Request that requests the conversion of any Revolving Borrowing of such Class to, or continuation of any Revolving Borrowing of such Class as, a LIBOR Borrowing shall be ineffective and (iii) if the affected Class of Lenders is Canadian Lenders, then if any Borrowing Request requests a LIBOR Revolving Borrowing of such Class denominated in Canadian Dollars, such Borrowing shall be made as a CABR Borrowing.

SECTION 2.15. 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 (except any such reserve requirement reflected in the Adjusted LIBO Rate); or

(ii) impose on any Lender or the London interbank market any other condition affecting this Agreement or LIBOR Loans made by such Lender or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any LIBOR Loan (or of maintaining its obligation to make any such Loan) or to reduce the amount of any sum received or receivable by such Lender hereunder (whether of principal, interest or otherwise), then the applicable Borrower will pay to such Lender such additional amount or amounts as will compensate such Lender for such additional costs incurred or reduction suffered.

(b) If any Lender reasonably determines that any Change in Law regarding capital 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), then from time to time the applicable Borrower 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 applicable Borrower shall pay such Lender, 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 applicable Borrower shall not be required to compensate a Lender pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender, as the case may be, 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 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any LIBOR 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 to issue B/As for acceptance on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11 (b) and is revoked in accordance therewith), (d) the assignment of any LIBOR Loan or the right to receive payment in respect of a B/A other than on the last day of the Interest Period applicable thereto as a result of a request by the Company pursuant to Section 2.19, then, in any such event, the applicable 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 the applicable currency and of a comparable amount and period

from other banks in the eurodollar 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. The applicable shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of any Borrower hereunder shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if a 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 Agent or Lender (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) such Borrower shall make such deductions and (iii) such Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, each Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Each Borrower shall indemnify each Agent and each Lender, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the such Agent or such Lender, on or with respect to any payment by or on account of any obligation of each Borrower hereunder (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and 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. A certificate as to the amount of such payment or liability delivered to the applicable Borrower by a Lender, or by an Agent on its own behalf or on behalf of a Lender, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by any Borrower to a Governmental Authority, the applicable Borrower shall deliver to the applicable Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to such Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the law of the jurisdiction in which any Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to such Borrower (with a copy to the applicable 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 as will permit such payments to be made without withholding or at a reduced rate (including, with respect to the Luxembourg Lenders, appropriate certifications, if any, for purposes of United States federal withholding tax).

(f) The Company, the UK Borrower and each UK Lender that is a Foreign Lender also agree to the matters set forth in Schedule 2.17 to this Agreement.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) Each of the UK Borrower and the Luxembourg Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 12:00 noon, London time, on the date when due, in immediately available funds, without set-off or counterclaim. The Canadian Borrower shall make each payment required to be made by it hereunder (whether of principal, interest, fees or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 12:00 noon, Toronto time. All such payments shall be made to the Facility Agent at its offices in London or, in the case of payments to be made by the Canadian Borrower, to the Canadian Facility Agent at its offices in Toronto. Any amounts received after the time required to be received hereunder on any date may, in the discretion of the applicable Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. The applicable 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, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments hereunder shall be made in U.S. Dollars, except that (i) payments of principal of and interest on any Alternative Currency Loan (and, if requested by the applicable Lender, payments under Section 2.16 in respect thereof) shall be made in such Alternative Currency, and payments in respect of B/As shall be made in Canadian Dollars, in such funds as may then be customary for the settlement of international transactions in such Alternative Currency and (ii) fees payable under Section 2.12(b) shall be payable in Canadian Dollars.

(b) If at any time insufficient funds are received by and available to any Agent to pay fully all amounts of principal, interest and fees then due hereunder, such funds shall be applied (i) 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 (ii) second, towards payment of principal and 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 Revolving Loans, Swingline Loans or amount owing in respect of any B/A Drawings resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans, Swingline Loans and amounts owing in respect of any B/A Drawings 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 Revolving Loans, Swingline Loans or amounts owing in respect of any B/A Drawing of other Lenders 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 Revolving Loans, Swingline Loans and amounts owing in respect of any B/A Drawing; provided that the provisions of this paragraph shall not be construed to apply to any payment made by any 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, any Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). Each 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 any 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 Facility Agent (or, in respect of Canadian Commitments, the Canadian Facility Agent) shall have received notice from any Borrower prior to the date on which any payment is due to such Agent for the account of the Lenders hereunder that such Borrower will not make such payment, such 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 Lenders, as the case may be, the amount due. In such event, if such Borrower has not in fact made such payment, then each of the Lenders severally agrees to repay to such 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 such Agent, at the greater of the Federal Funds Effective Rate and a rate determined by such 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 2.05(c), 2.07(b) or 2.18(d), then the applicable Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by such 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 2.19. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, 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 Loans hereunder or to assign its 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 2.15 or 2.17, 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. Each Borrower hereby agrees to pay all reasonable costs and expenses relating to its Commitments or Loans incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if any Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, or if the Company is entitled to replace a Lender pursuant to Section 9.02(c), then the Company may, at its sole expense and effort, upon notice to such Lender and the Facility Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement 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 Facility Agent, which consent shall not be unreasonably withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and Swingline 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 applicable 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 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Company to require such assignment and delegation cease to apply.

ARTICLE III

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 (or partnership) and, if required, stockholder action. This Agreement and any promissory notes issued pursuant to Section 2.10(e) have been duly executed and delivered by the Company and each Borrower (or, in the case of any such promissory note, the applicable Borrower) and constitute, and the Guarantee Agreement when executed and delivered by any Loan Party that becomes party thereto will constitute, a legal, valid and binding obligation of the Company, the applicable Borrower or such Loan Party, as the case may be, 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 Company or any of its Subsidiaries 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 the Company or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment (other than pursuant to this Agreement) to be made by the Company or any of its Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of the Company or any of its Subsidiaries, 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 set forth in Schedule 6.02.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) The Company has heretofore furnished to the Lenders (i) its consolidated balance sheet and statements of income, stockholder's equity and cash flows as of and for the fiscal year ended December 25, 2004, reported on by KPMG LLP, independent public accountants, and (ii) its condensed consolidated balance sheet as of September 3, 2005, its condensed consolidated statements of income for the quarters ended September 3, 2005 and September 4, 2004, and its condensed consolidated statements of cash flows for the quarters ended September 3, 2005 and September 4, 2004, certified by its Financial Officer. 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, subject to year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clause (ii) above.

(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 25, 2004.

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, would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that, other than actions, suits or proceedings commenced by any 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 and Holding Company Status. Neither the Company nor any of its Subsidiaries is (a) an “investment company” as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a “holding company” as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

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 Statement of Financial Accounting Standards No. 87) 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, 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. Except as set forth in Schedule 3.11, neither the Information Memorandum nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of the Company by any of its authorized representatives to any Agent or any Lender in connection with the negotiation of this Agreement or delivered hereunder (as modified or supplemented by other information so furnished), when taken as a whole, contained, at the time so furnished, any material misstatement of fact or omitted, at the time so furnished, to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made and the nature and scope of the report, financial statement, certificate or other information being furnished, not materially misleading; provided that, with respect to projected financial information, the Company represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Initial Guarantors. As of the Effective Date, there are no Principal Domestic Subsidiaries other than the Initial Guarantors.

ARTICLE IV

Conditions

SECTION 4.01. Effective Date. The obligations of the Lenders to make Loans and accept and purchase B/A hereunder shall not become effective until the date on which each of the following conditions is satisfied (or waived in accordance with Section 9.02):

- (a) The Facility 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 Facility Agent (which

may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Facility Agent (or its counsel) shall have received from each of the Borrowers, the Company and the Initial Guarantors either (i) a counterpart of the Guarantee Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Facility Agent (which may include telecopy transmission of a signed signature page of the Guarantee Agreement) that such party has signed a counterpart of the Guarantee Agreement.

(c) The Facility Agent shall have received a favorable written opinion (addressed to the Facility Agent and the Lenders and dated the Effective Date) of each of Mayer, Brown, Rowe & Maw LLP, Stikeman Elliot, LLP, Kaufhold Wagener Ossola Erpelding, avocats and Linklaters, US counsel, Canadian counsel, Luxembourg counsel and UK counsel, respectively, for the Loan Parties, and Matthew Preston, Esq., Vice President and Assistant General Counsel to the Company, substantially in the form of Exhibits C-1, C-2, C-3, C-4 and C-5 respectively, and covering such other matters relating to the Loan Parties, the Loan Documents or the Transactions as the Required Lenders shall reasonably request. Each of the Company and the Borrowers hereby requests such counsel to deliver such opinions.

(d) The Facility Agent shall have received such documents and certificates as the Facility Agent or its counsel may reasonably request relating to the organization, existence and good standing of the Loan Parties, 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 Facility Agent and its counsel.

(e) The Facility 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 Facility Agent shall have received all fees and other amounts due and payable on or prior to the Effective Date, as applicable, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Company or any Borrower hereunder.

(g) To the extent requested, 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 the USA Patriot Act.

The Facility Agent shall notify the Company and the Lenders of the Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the obligations of the Lenders to make Loans shall not become effective unless each

of the foregoing conditions is satisfied (or waived pursuant to Section 9.02) at or prior to 3:00 p.m., New York City time, on November 10, 2005 (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 or accept and purchase B/As on the occasion of any Borrowing or B/A Drawing 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 or B/A Drawing 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 or B/A Drawing, no Default shall have occurred and be continuing.

Each Borrowing and each B/A Drawing shall be deemed to constitute a representation and warranty by the Company and the applicable Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and each B/A 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 Facility 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 operations, stockholders' equity and cash flows 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 "going concern" or like qualification or exception and without any qualification or exception 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 “going concern” or like qualification or exception and without any qualification or exception 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 operations, stockholders’ equity and cash flows 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, 6.06, 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) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(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 Facility 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 Facility Agent.

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 Facility Agent and each Lender on the date that the Company notifies the Facility Agent 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 Facility Agent will promptly inform the Lenders of any such notification by the Company; provided, further that the Company will furnish paper copies of such financial statement, report, proxy statement or material to the Facility Agent or any Lender that requests, by notice to the Company, that the Company do so, until the Company receives notice from the Facility Agent or such Lender, as applicable, to cease delivering such paper copies.

SECTION 5.02. Notices of Material Events. The Company will furnish to the Facility 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\$75,000,000; 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 Facility 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 Facility 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 payment by any Borrower of dividends to its shareholders. 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.

SECTION 5.09. Principal Domestic Subsidiaries. Promptly after any Subsidiary (including any Subsidiary formed or acquired after the date of execution and delivery of this Agreement) that is not a Guarantor becomes a

Principal Domestic Subsidiary, the Company will cause such Subsidiary to enter into the Guarantee Agreement and become a Guarantor as provided in the Guarantee Agreement; provided that (a) the foregoing shall not apply to any Securitization Subsidiary and (b) this Section shall not apply after all the Guarantees of Subsidiaries under the Guarantee Agreement have been released and terminated pursuant to Section 11 thereof.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and each B/A 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 (as defined in the Existing Company Credit Agreement) 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 of the Existing Company Credit Agreement; 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 of the Existing Company Credit Agreement 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\$2,000,000 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 of the Existing

Company Credit Agreement 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) acquired, constructed or improved by the Company or any Subsidiary after the date of the Existing Company Credit Agreement; 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; and

(h) Permitted Securitization Transactions, Liens arising in connection with any Permitted Securitization Transaction and other Liens not otherwise permitted by the foregoing clauses of this Section; 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 any substantial part 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 (and, in the case

of a merger involving a Borrower the survivor shall be such Borrower), (iii) the Company may sell, transfer, lease or otherwise dispose of assets to a Subsidiary or a Subsidiary may sell, transfer, lease or otherwise dispose of assets to the Company or another Subsidiary, (iv) any Subsidiary (other than a Borrower) 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, (v) the Company and its Subsidiaries may sell, transfer, lease or otherwise dispose of any Foreign Subsidiary (other than a Borrower) or any assets of any Foreign Subsidiary, (vi) this Section shall not be construed to restrict investments permitted by Section 6.04, (vii) this Section shall not be construed to restrict Permitted Securitization Transactions, (viii) the Company and its Subsidiaries may sell, transfer, lease or otherwise dispose of assets used or formerly used in its Long John Silver's business and (ix) the Company and its Subsidiaries may sell, transfer, lease or otherwise dispose of assets with an aggregate fair market value not exceeding US\$300,000,000 during the period subsequent to the date of the Existing Company Credit Agreement (in addition to sales, transfers, leases and other dispositions of assets that would not be prohibited by this Section without giving effect to this clause (ix)); provided that any merger permitted by clause (i) or (ii) of this Section involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04.

(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 (as defined in the Existing Company Credit Agreement) 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. Investments, Loans, Advances, Guarantees and Acquisitions. The Company will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any capital stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) investments by the Company or any of its Subsidiaries in the capital stock of their respective Subsidiaries;

(c) loans or advances made by the Company to any Subsidiary and made by any Subsidiary to the Company or any other Subsidiary and promissory notes or bonds issued by any Subsidiary to the Company or any other Subsidiary;

(d) subject to Section 6.01, Guarantees by the Company of Indebtedness of any Subsidiary or by any Subsidiary of Indebtedness of the Company or any other Subsidiary;

(e) debt securities, promissory notes and similar instruments received as non-cash consideration in connection with sales or dispositions of assets;

(f) investments received as a result of the compromise of claims against delinquent franchisees or account debtors in the ordinary course of business or the bankruptcy or reorganization of such franchisee or account debtors;

(g) Guarantees made by the Company and the Subsidiaries of obligations of franchisees and other third parties (other than the Company, the Subsidiaries and any joint ventures of the Company and the Subsidiaries) incurred in the ordinary course of business;

(h) investments by the Company or any of its Subsidiaries to the extent the consideration for such investments consists solely of capital stock of the Company;

(i) purchases by the Company or any of its Subsidiaries of any restaurant from a franchisee or licensee operating under any license granted by the Company or any of its Subsidiaries or any interest in a joint venture of the Company or any of its Subsidiaries that engages in businesses that the Company and its Subsidiaries would be permitted to engage in, in each case for consideration consisting of cash or common stock of the Company; provided that after giving effect to such purchase, percentage ownership of System Units by the Company and its Subsidiaries does not exceed 37.5% of the total System Units;

(j) Permitted Acquisitions;

(k) Guarantees made by the Company or any Guarantor of Hedging Agreements entered into by any Subsidiary with any Lender or any Affiliate of a Lender;

(l) Guarantees made by the Company and the Subsidiaries of lease payments related to sales of restaurants by the Company and the Subsidiaries;

(m) investments by Subsidiaries in, and Guarantees by Subsidiaries of Indebtedness of, joint ventures that are formed to engage in businesses that the Company and its Subsidiaries would be permitted to engage in;

(n) investments which are made for the purpose of hedging investment risks associated with investment decisions made by executives under the Company's deferred compensation plan for executives; and

(o) other investments and Guarantees not otherwise permitted by the foregoing clauses of this Section in an aggregate amount at any time outstanding not to exceed US\$300,000,000.

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. Restricted Payments. The Company will not, and will not permit any of its Subsidiaries to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except (a) the Company may declare and pay dividends with respect to its capital stock payable solely in additional shares of its capital stock, (b) Subsidiaries may make Restricted Payments to the Company or a wholly owned Subsidiary and may make other Restricted Payments that are made ratably to the holders of their capital stock, (c) the Company may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management or employees of the Company and its Subsidiaries and (d) the Company and its Subsidiaries may declare and make Restricted Payments not otherwise permitted by the foregoing clauses of this section in an aggregate amount subsequent to the date of the Existing Company Credit Agreement not exceeding the sum of (i) US\$750,000,000 plus (ii) 50% of cumulative Consolidated Net Income since the end of the fiscal year ended December 27, 2003, plus (iii) 100% of the net cash proceeds received by the Company from issuances of its Equity Interests other than Excluded Equity Interests (including net cash proceeds received by the Company from the exercise of options for its Equity Interests other than Excluded Equity Interests) after the Effective Date under and as defined in the Existing Company Credit Agreement; provided, that this Section 6.06 shall not apply after the date that (A) the Company's senior unsecured, long term indebtedness for borrowed money (that is not guaranteed or subject to any other credit enhancement) is rated at least Baa2 by Moody's and BBB by S&P, (B) no Default exists and (C) the Facility Agent shall have received a certificate of a Financial Officer to such effect.

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 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) any Restricted Payment permitted by Section 6.06 and (d) 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 of the Existing Company Credit Agreement 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 direct or indirect percentage ownership interest in such Principal Domestic Subsidiary and (d) issuances of Equity Interests after the date of the Existing Company Credit Agreement 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 period subsequent to the date of the Existing Company Credit 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 and (b) other Sale and Lease-Back Transactions; provided that any Sale and Lease-Back Transaction permitted by clause (b) above shall be subject to compliance with the limitation set forth in the proviso to clause (h) of Section 6.02.

SECTION 6.12. Ownership of Borrowers. The Company will not permit a Borrower of any Class to cease to be a direct or indirect wholly owned subsidiary of the Company, unless all Commitments of such Class have terminated and all Loans of such Class have been repaid.

ARTICLE VII

Events of Default

SECTION 7.01. Events of Default. If any of the following events (“Events of Default”) shall occur:

- (a) any Borrower shall fail to pay any principal of any Loan or any B/A 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 Company or any 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 Article) payable 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 or any Borrower’s existence) or 5.08 or in Article VI;
- (e) the Company or any 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 Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Facility 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) any event or condition occurs that enables or permits the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require

the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (h) shall not apply (i) at any time when the Index Debt is rated at least BBB by S&P and Baa2 by Moody's, (ii) to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness or (iii) to any event or condition that enables a counterparty to terminate a Hedging Agreement, other than an event or condition that constitutes or is in the nature of an event of default in respect of the Company or a Subsidiary;

(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 (h) 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\$75,000,000 (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 the Company or any Guarantor under the Guarantee Agreement shall be determined by a court of competent jurisdiction, or shall be asserted by the Company, a Borrower or a Guarantor, to be unenforceable, or the Company 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 9.02(b) hereof;

then, and in every such event (other than an event with respect to the Company described in clause (i) or (j) of this Article), and at any time thereafter during the continuance of such event, the Facility 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, and declare an amount equal to the full face amount of all outstanding B/As, 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 and an amount equal to the full face amount of all such outstanding B/As so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Company and the Borrowers 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 the Borrowers, and (iii) enforce its rights under the Guarantee Agreement on behalf of the Lenders; and in case of any event with respect to the Company or a Borrower described in clause (i) or (j) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding and the full face amount of all B/A then outstanding, together with accrued interest thereon and all fees and other obligations of the Company and the Borrowers 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 Company and the Borrowers.

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 (other than a Borrower) 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 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 VIII

The Agents

Each of the Lenders hereby irrevocably appoints the Facility Agent as its agent and authorizes the Facility Agent, and each of the Canadian Lenders also hereby irrevocably appoints the Canadian Facility Agent as its sub-agent and authorizes the Canadian Facility Agent, to take such actions on its behalf and to exercise such powers as are delegated to the Facility Agent and Canadian Facility Agent, respectively, by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

Any bank serving as an Agent hereunder shall have the same rights and powers in its respective capacities as a Lender as any other Lender and may exercise the same as though they were not such Agent, and such banks and their Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Company or any Subsidiary or other Affiliate thereof as if they were not an Agent hereunder.

Any bank serving as an Agent hereunder shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) such Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) such 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 such 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 9.02), and (c) except as expressly set forth in the Loan Documents, such Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Company, any Borrower or any of their Subsidiaries that is communicated to or obtained by the bank serving as such Agent or any of their Affiliates in any capacity. An 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 9.02) or in the absence of its own gross negligence or wilful misconduct. An Agent shall be deemed not to have knowledge of any Default unless and until written notice thereof is given to such Agent by the Company, a Borrower or a Lender, and such 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, (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 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 such Agent.

An 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 believed by it to be genuine and to have been signed or sent by the proper Person. An Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. An Agent may consult with legal counsel (who may be counsel for the Company or any Borrower), 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.

An Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by such Agent. Such Agent and any such sub-agent, as applicable, may perform any and all their duties and exercise their rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of (i) the Facility Agent and any such sub-agent and (ii) the Canadian Facility 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 Facility Agent and Canadian Facility Agent, respectively.

Subject to the appointment and acceptance of a successor Facility Agent or successor Canadian Facility Agent, as the case may be, as provided in this paragraph, an Agent may resign at any time by notifying the Lenders (or, in the case of the Canadian Facility Agent, the Canadian Lenders), the Company and the other Agent. 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) and the other Agent (which consent shall not be unreasonably withheld), 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 Agent gives notice of its resignation, then such retiring Agent may, on behalf of the Lenders, appoint a successor Agent, which shall be (i) a bank with an office in London, or an Affiliate of any such bank, for the successor Facility Agent, and (ii) a bank with an office in Toronto, or an Affiliate of any such bank, for the successor Canadian Facility Agent. Upon the acceptance of its appointment as Facility Agent or Canadian Facility Agent hereunder by a successor, as the case may be, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent and such retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Company or any Borrower to a successor Agent shall be the same as those payable to its respective predecessor unless otherwise agreed between the Company and such successor. After an Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Agent, its respective 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 Agent.

Each Lender acknowledges that it has, independently and without reliance upon either Agent or any other Lender 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 either Agent or any other Lender 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 party hereto agrees and acknowledges that the Lead Arrangers do not have any duties or responsibilities in their capacities as Lead Arrangers hereunder and shall not have, or become subject to, any liability hereunder in such capacities.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. (a) 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, 1900 Colonel Sanders Lane, Louisville, KY 40213-1963), Attention of Mark Hutchens, Assistant Treasurer (Telecopy No. (502) 874-2410);

(ii) if to the Canadian Borrower, to Yum! Restaurants International (Canada) L.P., c/o Stikeman Elliott LLP, 5300 Commerce Court West, 199 Bay Street, Toronto, Ontario M5L 1B9, Canada, Attention of Grace Walker (Telecopy No. (416) 847-0866);

(iii) if to the UK Borrower, to Yum! Restaurant Holdings, 32 Goldsworth Road, Woking, Surrey GU21 6JT, England, Attention of Steve Jackson (Telecopy No. +44-1483-717107)

(iv) if to the Luxembourg Borrower, to it at Yum! Restaurants International, S.à.r.l., LLC c/o CT Corporation System, Kentucky Home Life Building, Louisville, KY 40202, (or, in the case of overnight packages, 1900 Colonel Sanders Lane, Louisville, KY 40213-1963), Attention of Alan J. Kohn (Telecopy No. (502) 874-2190);

(v) if to the Facility Agent, to Citibank International plc, 4 Harbour Exchange, 2nd Floor, London E14 9GE, Attention of Sonia Gosparini (Telecopy No. 44 208 636 3824);

(vi) if to the Canadian Facility Agent, to Citigroup Global Markets, Inc., Global Loan Specialist, 2 Penn's Way, 1st Floor, New Castle, DE 19720, Attention of Dawayne Sims (Telecopy No. (212) 994-0961); or

(vii) 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 Facility Agent and the Company; provided that the foregoing shall not apply to notices pursuant to Article II unless otherwise agreed by the applicable Agent, the Company and the applicable Lenders. The Facility Agent, the Canadian Facility Agent, any Borrower or 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 9.02. Waivers; Amendments. (a) No failure or delay by the Facility Agent, the Canadian Facility 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 each 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 or the acceptance of a B/A shall not be construed as a waiver of any Default, regardless of whether any 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, the Borrowers 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 Facility 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 any amount payable in respect of B/As 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 B/A 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 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) release the Company from its guarantee under the Guarantee Agreement or limit its obligations thereunder, without the written consent of each Lender, or (vi) 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 (A) no such agreement shall amend, modify or otherwise affect the rights or duties of any Agent hereunder without the prior written consent of such Agent and (B) any waiver, amendment or modification that by its terms affects the rights or duties under the Loan Documents of one Class of Lenders (but not other Classes) shall require the written consent of the requisite percentage in interest of the affected Class of Lenders that would be required under this Section if such Class of Lenders were the only Class of Lenders hereunder at the time (and the consent of Lenders of other Classes shall not be required with respect thereto).

(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 2.19(b); provided that at the time of such replacement, each such assignee consents to the proposed waiver, amendment or modification.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Company shall pay (i) all reasonable out-of-pocket expenses incurred by the Facility Agent, the Canadian Facility Agent, the Lead Arrangers and their respective Affiliates, including the reasonable fees, charges and disbursements of Cravath, Swaine & Moore LLP, counsel for the Agents 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), (ii) all out-of-pocket expenses incurred by either Agent or any Lender, including the fees, charges and disbursements of any counsel for either 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 and the B/As accepted and purchased hereunder, including all such

out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or B/As.

(b) The Company shall indemnify each Agent, each Lead Arranger, 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 B/A 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 wilful misconduct of such Indemnitee (it being understood that, for purposes of this clause, each of a Lead Arranger, an 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 an Agent under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to such 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 (i) was incurred by or asserted against such 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 of the Company and the Borrowers shall not assert, and hereby waives, any claim against any Indemnitee, 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 B/A or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 9.04. 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) neither the Company nor any Borrower may assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender or, in the case of a Borrower, each relevant Lender (and any attempted assignment or transfer by the Company or any Borrower 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, the Related Parties of each 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 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) of:

(A) the Company, provided that no consent of the Company shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund (as defined below) with respect to a Lender or, if an Event of Default under clause (a), (b), (i) or (j) of Section 7.01 has occurred and is continuing, any other assignee; and

(B) the Facility Agent; provided that no consent of the Facility Agent shall be required for an assignment to an assignee that is (i) a Lender immediately prior to giving effect to such assignment, (ii) an Affiliate of any such Lender or (iii) an Approved Fund with respect to such Lender.

(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 Facility Agent) shall not be less than US\$10,000,000 unless each of the Company and the Facility Agent otherwise consent; provided that no such consent of the Company shall be required if an Event of Default under 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 be construed to prevent an

assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of Commitments and Loans;

(C) the parties to each assignment shall execute and deliver to the Facility Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500;

(D) the assignee, if it shall not be a Lender, shall deliver to the Facility Agent an Administrative Questionnaire;

(E) 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 9.02(b) that affects such CLO; and

(F) in the case of any such assignment of a Canadian Commitment, Canadian Revolving Loan or Canadian Swingline Loan, the assignee shall be a Canadian Resident.

For purposes of this Section 9.04(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 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a

Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 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 Facility Agent, acting for this purpose as an agent of the Borrowers, 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 of, principal amount of the Loans owing to, and amounts in respect of B/As 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 Borrowers, the Agents 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, the Borrowers, 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 applicable 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 Company, any Agent or any Swingline Lender, sell participations to one or more banks or other entities (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 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 Borrowers, the Agents 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 9.02(b) that affects such Participant. Subject to paragraph (c)(ii) of this Section, each of the Company and the Borrowers agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 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 9.08 as though it were a Lender, provided that such Participant agrees to be subject to Section 2.18(c) as though it were a Lender. Each Lender that sells a participating interest in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it) to a Participant shall, as agent of the applicable Borrower solely for the purpose of this Section 9.04(c), record in book entries maintained by such Lender the name and the amount of the participating interest of each Participant entitled to receive payments in respect of such participating interests.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 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 2.17 unless the Company is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Company and the Borrowers, to comply with Section 2.17(e) 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, 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 9.05. 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 or acceptance of any B/A, regardless of any investigation made by any such other party or on its behalf and notwithstanding that any 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 so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 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 and B/A, the expiration or termination of the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. 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 Facility 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 Facility Agent and when the Facility 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 shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 9.07. 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 9.08. 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 or any Borrower against any of and all the obligations of the Company or such Borrower 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 9.09. 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 Company and the Borrowers hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive 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 any 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 any Borrower or its properties in the courts of any jurisdiction.

(c) Each of the Company and the Borrower 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 9.01. Each Borrower hereby irrevocably designates, appoints and empowers CT Corporation System, with offices on the date hereof at 111 Eighth Avenue, 13th Floor, New York, New York 10011, as its designee, appointee and agent to receive and accept for an on its behalf, and in respect of its property, service of any and all legal process, summons, notices and documents which may be served in any action or proceeding described in paragraph (b) above. If for any reason such designee, appointee and agent shall cease to act as such, each Borrower agrees to designate a new designee, appointee and agent in New York City on the terms and for the purposes of this provision reasonably satisfactory to the Agents. 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 9.10. 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 9.11. 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 9.12. Confidentiality. Each of the Facility Agent and Canadian Facility Agent and each of 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 or any Borrower, (h) to any party to the Existing Company Credit Agreement, or (i) 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 any Agent or any Lender on a nonconfidential basis from a source other than the Company or any Borrower. For the purposes of this Section, "Information" means all information received from the Company or any Borrower relating to the Company or its business, other than any such information that is available to any Agent or any Lender on a nonconfidential basis prior to disclosure by the Company or any Borrower. 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 9.13. 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 9.14. Judgment Currency. If for the purposes of obtaining judgment in any court it is necessary to convert a sum due from any 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 Facility Agent or Canadian Facility Agent could purchase the Specified Currency with such other currency at the Facility Agent’s London office or the Canadian Facility Agent’s Toronto office, respectively, on the Business Day preceding that on which final judgment is given. The obligations of each Borrower in respect of any sum due to any Lender or any 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 such Agent (as the case may be) of any sum adjudged to be so due in such other currency such Lender or such 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 such Agent, as the case may be, in the Specified Currency, the applicable 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 such Agent, as the case may be, against such loss.

SECTION 9.15. USA Patriot Act. Each Lender hereby notifies the Company and the Borrowers 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 and each Borrower, which information includes the name and address of the Company and each Borrower and other information that will allow such Lender to identify the Company and each Borrower in accordance with the Act.

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:

YUM! RESTAURANT HOLDINGS,

by

Name:
Title:

YUM! RESTAURANTS INTERNATIONAL S.à.R.L., LLC (U.S. BRANCH),

by

Name:
Title:

YUM! RESTAURANTS INTERNATIONAL (CANADA) LP,
by its general partner YUM! BRANDS CANADA MANAGEMENT HOLDING INC.,

by

Name:
Title:

CITIBANK INTERNATIONAL PLC,
individually and as Facility Agent,

by

Name:
Title:

CITIBANK N.A., CANADIAN BRANCH,
individually and as Canadian Facility Agent,

by

Name:
Title:

JPMORGAN CHASE BANK, N.A.

by

Name:
Title:

SCHEDULE A
TO
CREDIT AGREEMENT

INITIAL GUARANTORS

Subsidiary (Jurisdiction of Incorporation)

YGR Acquisitions Corp. (Delaware)
YGR America, Inc. (Delaware)
Yorkshire Global Restaurants, Inc. (Maryland)
Long John Silver's, Inc. (Delaware)
LJS Restaurants, Inc. (Delaware)
A&W Restaurants, Inc. (Michigan)
KFC Corporation (Delaware)
Kentucky Fried Chicken Corporate Holdings Ltd. (Delaware)
Kentucky Fried Chicken International Holdings, Inc. (Delaware)
KFC Holding Co. (Delaware)
KFC U.S. Properties, Inc. (Delaware)
Pizza Hut, Inc. (California)
Pizza Hut International, LLC (Delaware)
Pizza Hut of America, Inc. (Delaware)
Taco Bell Corp. (California)
Taco Bell of America, Inc. (Delaware)

COMMITMENTS

UK Lenders	UK Commitments
Citibank, N.A., London Branch	US\$66,000,000.00
JPMorganChaseBank, N.A., London / JPMorgan Chase Bank, N.A.	US\$66,000,000.00
HSBC Bank USA, NA / HSBC Bank PLC, London	US\$36,000,000.00
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. "Rabobank International", New York Branch	US\$36,000,000.00
Wachovia Bank N.A., London Branch	US\$26,000,000.00
Total	US\$230,000,000.00
Luxembourg Lenders	Luxembourg Commitments
Citibank, N.A., London Branch	US\$14,000,000.00
JPMorganChaseBank, N.A., London / JPMorgan Chase Bank, N.A.	US\$14,000,000.00
HSBC Bank USA, NA	US\$9,000,000.00
Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A. "Rabobank International", New York Branch	US\$9,000,000.00
Wachovia Bank N.A., London Branch	US\$4,000,000.00
Total	US\$50,000,000.00
Canadian Lenders	Canadian Commitments
Citibank, N.A., Canadian Branch	US\$10,000,000.00
JPMorganChase Bank, N.A., Toronto Branch	US\$10,000,000.00
HSBC Bank USA, N.A., Toronto Branch	US\$5,000,000.00
Rabobank Nederland, Canadian Branch	US\$5,000,000.00
Congress Financial Corporation (Canada)	US\$5,000,000.00
The Bank of Nova Scotia	US\$35,000,000.00
Total	US\$70,000,000.00

CALCULATION OF THE MANDATORY COST

1. General

- (a) The Mandatory Cost is to compensate a Lender for the cost of compliance with:
- (i) the requirements of the Bank of England and/or the Financial Services Authority (or, in either case, any other authority which replaces any of its functions); or
 - (ii) the requirements of the European Central Bank.
- (b) The Mandatory Cost is expressed as a percentage rate per annum.
- (c) The “Mandatory Cost” is the weighted average (weighted in proportion to the percentage share of each Lender in the relevant Loan) of the rates for the Lenders calculated by the Facility Agent in accordance with this Schedule 2.13 on the first day of an Interest Period (or as soon as possible thereafter).
- (d) The Facility Agent must distribute each amount of Mandatory Cost among the Lenders on the basis of the rate for each Lender.
- (e) Any determination by the Facility Agent pursuant to this Schedule 2.13 will be, in the absence of manifest error, conclusive and binding on all the Parties.

2. For a Lender lending from a Facility Office in the U.K.

- (a) The relevant rate for a Lender lending from a Facility Office in the U.K. is calculated in accordance with the following formula:

$$\frac{E \times 0.01}{360} \text{ per cent per annum}$$

where on the day of application of the formula, E is calculated by the Facility Agent as being the average of the rates of charge under the fees rules supplied by the Reference Banks to the Facility Agent under paragraph (d) below and expressed in pounds per £1 million.

- (b) For the purposes of this paragraph 2:
- (i) “Facility Office” means, for the purposes of this Schedule 2.13, the office or offices notified by a Lender to the Facility Agent in writing on or before the date it becomes a Lender (or, following that date, by not less than five Business Days’ written notice) as the office or offices through which it will perform its obligations under this Agreement.

- (ii) "Fees rules" means the then current rules on periodic fees in the Supervision Manual of the FSA Handbook or any other law or regulation as may then be in force for the payment of fees for the acceptance of deposits;
 - (iii) "Fee tariffs" means the fee tariffs specified in the fees rules under fee-block Category A1 (Deposit acceptors) (ignoring any minimum fee or zero rated fee required pursuant to the fees rules but applying any applicable discount rate);
 - (iv) "FSA" means the Financial Services Authority.
 - (v) "Participating Member State" means any member state of the European Community that adopts or has adopted the euro as its lawful currency in accordance with legislation of the European Community relating to Economic and Monetary Union.
 - (vi) "Tariff base" has the meaning given to it in, and will be calculated in accordance with, the fees rules.
- (c) Each rate calculated in accordance with the formula is, if necessary, rounded to four decimal places.
- (d) If requested by the Facility Agent, each Reference Bank must, as soon as practicable after publication by the FSA, supply to the Facility Agent the rate of charge payable by that Reference Bank to the FSA under the fees rules for that financial year of the FSA (calculated by that Reference Bank as being the average of the fee tariffs applicable to that Reference Bank for that financial year) and expressed in pounds per £1 million of the tariff base of that Reference Bank.
- (e) Each Lender must supply to the Facility Agent the information required by it to make a calculation of the rate for that Lender. In particular, each Lender must supply the following information on or prior to the date on which it becomes a Lender:
- (i) the jurisdiction of its Facility Office; and
 - (ii) any other information that the Facility Agent reasonably requires for that purpose.

Each Lender must promptly notify the Facility Agent of any change to the information supplied to it under this paragraph.

- (f) The rates of charge of each Reference Bank for the purpose of E above are determined by the Facility Agent based upon the information supplied to it under paragraphs (d) and (e) above. Unless a Lender notifies the Facility Agent to the contrary, the Facility Agent may assume that the Lender's obligations in respect of cash ratio deposits and special deposits are the same as those of a typical bank from its jurisdiction of incorporation with a Facility Office in the U.K..

- (g) The Facility Agent has no liability to any Party if its calculation over or under compensates any Lender. The Facility Agent is entitled to assume that the information provided by any Lender or Reference Bank under this Schedule is true and correct in all respects.

3. For a Lender lending from a Facility Office in a Participating Member State

- (a) The relevant rate for a Lender lending from a Facility Office in a Participating Member State is the percentage rate per annum notified by that Lender to the Facility Agent. This percentage rate per annum must be certified by that Lender in its notice to the Facility Agent as its reasonable determination of the cost (expressed as a percentage of that Lender's share in all Loans made from that Facility Office) of complying with the minimum reserve requirements of the European Central Bank in respect of Loans made from that Facility Office.
- (b) If a Lender fails to specify a rate under paragraph (a) above, the Facility Agent will assume that the Lender has not incurred any such cost.

4. Changes

- (a) The Facility Agent may, after consultation with the Company and the Lenders, determine and notify all the Parties of any amendment to this Schedule 2.13 which is required to reflect:
 - (i) any change in law or regulation; or
 - (ii) any requirement imposed by the Bank of England, the Financial Services Authority or the European Central Bank (or, in any case, any successor authority).
- (b) If the Facility Agent, after consultation with the Company, determines that the Mandatory Cost for a Lender lending from a Facility Office in the U.K. can be calculated by reference to a screen, the Facility Agent may notify all the Parties of any amendment to this Agreement which is required to reflect this.

PTR SCHEME

Each Treaty Lender:

(i) irrevocably appoints the Facility Agent to act as syndicate manager under, and authorizes the Facility Agent to operate, and take any action necessary or desirable under, the PTR Scheme in connection with the UK Facility;

(ii) shall co-operate with the Facility Agent in completing any procedural formalities necessary under the PTR Scheme, and shall promptly supply to the Facility Agent such information as the Facility Agent may request in connection with the operation of the PTR Scheme;

(iii) without limiting the liability of the UK Borrower or the Company under this Agreement, shall, within 5 Business Days of demand, indemnify the Facility Agent for any liability or loss incurred by the Facility Agent as a result of the Facility Agent acting as syndicate manager under the PTR Scheme in connection with the Treaty Lender's participation in any UK Revolving Loan or UK Swingline Loan; and

(iv) shall, within 5 Business Days of demand, indemnify each of the UK Borrower and the Company for any Tax which the UK Borrower or the Company, as applicable, becomes liable to pay in respect of any payments made to such Treaty Lender arising as a result of any provisional authority issued in respect of such Treaty Lender by the UK HM Revenue & Customs under the PTR Scheme being withdrawn, except and only to the extent that such Treaty Lender would, if a deduction had been required in respect of such payments, have been entitled to receive additional amounts under Section 2.17.

Each of the UK Borrower and the Company acknowledges that it is fully aware of its contingent obligations under the PTR Scheme and shall:

(i) promptly supply to the Facility Agent such information as the Facility Agent may request in connection with the operation of the PTR Scheme; and

(ii) act in accordance with any provisional notice issued by the UK Inland Revenue under the PTR Scheme.

The Facility Agent agrees to provide, as soon as reasonably practicable, a copy of any provisional authority issued to it under the PTR Scheme in connection with any UK Revolving Loan or UK Swingline Loan to the UK Borrower specified in such provisional authority.

All Parties acknowledge that the Facility Agent:

- (i) is entitled to rely completely upon information provided to it in connection with paragraphs (a) or (b) above;
- (ii) is not obliged to undertake any enquiry into the accuracy of such information, nor into the status of the Treaty Lender or, as the case may be, the UK Borrower or the Company providing such information;
- (iii) shall have no liability to any Person for the accuracy of any information it submits in connection with paragraph (a)(i) above; and
- (iv) for the avoidance of doubt, nothing in this clause 13.7 (*PTR Scheme*) shall cause the Facility Agent to be liable for (a) any act taken by it (or omission); or (b) any costs, loss or liability suffered by a Treaty Lender, in acting as syndicate manager for the Treaty Lenders under the PTR Scheme.

In this Section, the following terms are defined as follows:

“PTR Scheme” means the Provisional Treaty Relief scheme as described in Inland Revenue Guidelines dated January 2003 and administered by the Inland Revenue’s Centre for Non-Residents.

“Treaty Lender” means a UK Lender which (i) is treated as a resident of a Treaty State for the purposes of the Treaty and (ii) does not carry on a business in the United Kingdom through a permanent establishment with which that Lender’s participation in the UK Facility is effectively connected.

“Treaty State” means a jurisdiction having a double taxation agreement (a “Treaty”) with the United Kingdom which makes provision for full exemption from tax imposed by the United Kingdom on interest.

“UK Facility” means the UK Commitments and the Loans thereunder.

DISCLOSED MATTERS

1. The matters described in the Company's Annual Report on Form 10-K for the year ended December 27, 2003 under the captions "Item 3 – Legal Proceedings" and in "Note 24 – Guarantees, Commitments and Contingencies" in the Notes to Consolidated Financial Statements under "Item 8 – Financial Statements and Supplementary Data."
2. The matters described in the Company's Quarterly Report on Form 10-Q for the quarter ended June 12, 2004 under the captions "Part II – Item 1 – Legal Proceedings" and "Note 13 – Commitments and Contingencies" in the Notes to Condensed Consolidated Financial Statements under "Part I – Financial Information."

DISCLOSURE

None.

EXISTING INDEBTEDNESS

Indebtedness of Domestic Subsidiaries as of the Effective Date (as defined in the Existing Company Credit Agreement) was US\$141,794,000.

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 Company 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 U.S. Properties, Inc.
April 30, 2003 Amended August 15, 2003	Lo Jon Property II LLC	KFC U.S. Properties, Inc.

YUM! Brands, Inc.
Ratio of Earnings to Fixed Charges Years Ended 2005-2001
(in millions except ratio amounts)

	53 Weeks	52 Weeks			
	2005	2004	2003	2002	2001
Earnings:					
Pretax income from continuing operations before cumulative effect of accounting changes	\$ 1,026	\$ 1,026	\$ 886	\$ 858	\$ 733
50% or less owned Affiliates' interests, net	(8)	2	1	(7)	(7)
Interest expense	148	145	185	180	172
Interest portion of net rent expense	179	164	147	111	93
Earnings available for fixed charges	<u>\$ 1,345</u>	<u>\$ 1,337</u>	<u>\$ 1,219</u>	<u>\$ 1,142</u>	<u>\$ 991</u>
Fixed Charges:					
Interest expense	\$ 148	\$ 146	\$ 185	\$ 180	\$ 172
Interest portion of net rent expense	179	164	147	111	93
Total fixed charges	<u>\$ 327</u>	<u>\$ 310</u>	<u>\$ 332</u>	<u>\$ 291</u>	<u>\$ 265</u>
Ratio of earnings to fixed charges ^(a)	4.11	4.31	3.67	3.92	3.74

(a) Included the impact of Wrench litigation income of \$2 million in 2005 and \$14 million in 2004 and expense of \$42 million in 2003 and AmeriServe and other credits of \$2 million in 2005, \$16 million in 2004, \$26 million in 2003, \$27 million in 2002 and \$3 million in 2001. Excluding the impact of the Wrench litigation expense and AmeriServe and other credits, the ratio of earnings to fixed charges would have been 4.10, 4.22, 3.72, 3.83, and 3.73 for the fiscal years ended 2005, 2004, 2003, 2002, and 2001, respectively.

SUBSIDIARIES OF YUM! BRANDS, INC.
AS OF DECEMBER 31, 2005

3018538 Nova Scotia Company	Canada
A&W Restaurants, Inc.	Michigan
A.C.N. 002 543 286 Pty. Ltd. (f/k/a Pizza Hut Distributors Pty. Ltd.)	Australia
A.C.N. 002 812 151 Pty. Ltd. (f/k/a Pizza Hut Restaurant Systems Pty. Ltd.)	Australia
A.C.N. 054 055 917 Pty. Ltd. (f/k/a Nero's Holdings Pty. Ltd.)	Australia
A.C.N. 054 121 416 Pty. Ltd. (f/k/a Nero's Pizza Pty. Ltd.)	Australia
A.C.N. 084 994 374 Pty. Ltd. (f/k/a Tricon Australia Investments Pty. Ltd.)	Australia
A.C.N. 101 355 772 Pty. Ltd. (f/k/a Bell Taco Pty. Ltd.)	Australia
ACN 085 239 961 Pty. Ltd. (SA1)	Australia
ACN 085 239 998 Pty. Ltd. (SA2)	Australia
American Restaurants Sp. z o.o.	Poland
American Restaurants SRO (f/k/a Conirius SRO)	Czech
Amrest Holdings N.V.	Netherlands
Ashton Fried Chicken Pty. Ltd.	Australia
Beijing Pizza Co., Ltd.	China
Big Sur Restaurant No. 2, Inc.	Delaware
Big Sur Restaurants, Inc.	Kansas
Birdland (Taiwan) Limited	Taiwan
Blue Ridge Pizza Hut, Inc.	Virginia
Buckeye PH, Inc.	Ohio
Changsha KFC Co., Ltd.	China
Chesapeake Bay Pizza Hut, Inc.	Maryland
Chongqing KFC Co., Ltd.	China
Colonel's Realty, Inc.	Canada
D H Gorman (Leicester) Limited	United Kingdom
D&E Food Service, Inc.	South Carolina
Dalian Kentucky Foodhall Co., Ltd.	China
Dalian Kentucky Fried Chicken Co., Ltd.	China
Dedman and Rose Caterers Limited	United Kingdom
Delta Creator Sp. z.o.o.	Poland
Dongguan KFC Co., Ltd.	China
Erin Investment Corp.	Pennsylvania
Expertos En Reparto A Domicillo, SRL de CV	Mexico
Expertos En Restaurantes, SRL de CV	Mexico
Finger Lickin' Chicken Limited	United Kingdom
FLC 652 Limited	United Kingdom
FTB, Inc.	Florida
G Judd and Rose Caterers Limited	United Kingdom
Gittins and Rose Caterers Limited	United Kingdom
Glenharney Insurance Company	Vermont
Global Restaurants, Inc	Mauritius
Gloucester Properties Pty. Ltd.	Australia
Guangzhou Pizza Company Limited	China
Hangzhou KFC Co., Ltd.	China
Hoosier Pizza Hut Co.	Indiana
International Fast Food Polska Sp. z o.o.	Poland

Inventure Restaurantes Ltda.	Brazil
Kentucky Fried Chicken (Germany) Rest. Holdings GmbH	Germany
Kentucky Fried Chicken Beijing Co., Ltd	China
Kentucky Fried Chicken Corporate Holdings, Ltd.	Delaware
Kentucky Fried Chicken de Mexico, SRL de CV	Mexico
Kentucky Fried Chicken Global BV	Netherlands
Kentucky Fried Chicken International Holdings, Inc.	Delaware
Kentucky Fried Chicken Japan Ltd.	Japan
Kentucky Fried Chicken Limited (f/k/a Roberts Restaurants Limited)	United Kingdom
Kentucky Fried Chicken Pty. Ltd.	Australia
KFC 652 Limited (f/k/a Kentucky Fried Chicken Limited)	United Kingdom
KFC A&W Pty. Limited	Australia
KFC Advertising, Ltd.	United Kingdom
KFC Corporation	Delaware
KFC Development (Thailand) Co., Limited	Thailand
KFC Europe Holdings LLC	Delaware
KFC France SAS	France
KFC Germany, Inc.	Delaware
KFC Holding Co. (f/k/a Kentucky Fried Chicken of California, Inc.)	Delaware
KFC Holdings B.V.	Netherlands
KFC Ireland Limited	Ireland
KFC Pension Trust Co. Ltd.	United Kingdom
KFC Services, Ltd.	United Kingdom
KFC U.S. Properties, Inc.	Delaware
Kunming KFC Co., Ltd.	China
Lanzhou KFC Co., Ltd.	China
Lee Huts, Inc.	Florida
LJS Advertising, Inc.	Kentucky
LJS Restaurants, Inc.	Delaware
Long John Silver's, Inc.	Delaware
Lookchief Limited	United Kingdom
Mercian Fast Foods Limited	United Kingdom
Middleton and Wilson Corporation	Missouri
Mountaineer Pizza Hut, Inc.	West Virginia
Multibranding Pty. Ltd. (f/k/a LJS Australia Pty Ltd)	Australia
NanChang KFC Co., Ltd.	China
Nanjing KFC Co., Ltd.	China
Nanning KFC Co., Ltd.	China
Newcastle Fried Chicken Pty. Ltd.	Australia
Norfolk Fast Foods Ltd	United Kingdom
Northside Fried Chicken Pty. Ltd.	Australia
Oriole Pizza Hut, Inc.	Maryland
Parr and Rose Caterers Limited	United Kingdom
Pasta Bravo, LLC	Delaware
PCNZ LIMITED	Mauritius
PepsiCo Eurasia Limited	Delaware
PHI (UK) Limited (f/k/a Cheeroffer Limited)	United Kingdom
PHM de Mexico, SRL de CV	Mexico

PHP De Mexico Inmobiliaria, SRL de CV	Mexico
Pizza France S.N.C.	France
Pizza Hut (Restaurations) G.m.b.H.	Germany
Pizza Hut (UK) Limited	United Kingdom
Pizza Hut (UK) Pension Trust Limited	United Kingdom
Pizza Hut Australia Finance Pty. Ltd.	Australia
Pizza Hut Del Distrito, SRL de CV	Mexico
Pizza Hut Holding GmbH	Germany
Pizza Hut International, LLC	Delaware
Pizza Hut Korea Co., Ltd.	Korea
Pizza Hut Mexicana, SRL de CV	Mexico
Pizza Hut of Allegany County No. 1, Inc.	Maryland
Pizza Hut of Allegany County No. 2, Inc.	Maryland
Pizza Hut of Allegany County No. 3, Inc.	Maryland
Pizza Hut of America, Inc.	Delaware
Pizza Hut of Charles County, Inc.	Maryland
Pizza Hut of Frederick County No. 1, Inc.	Maryland
Pizza Hut of Frederick County No. 2, Inc.	Maryland
Pizza Hut of Frederick County No. 3, Inc.	Maryland
Pizza Hut of Frederick County No. 4, Inc.	Maryland
Pizza Hut of Frederick County No. 5, Inc.	Maryland
Pizza Hut of Frederick County No. 6, Inc.	Maryland
Pizza Hut of North America, Inc.	Texas
Pizza Hut of Puerto Rico, Inc.	Delaware
Pizza Hut of St. Louis, Inc.	Missouri
Pizza Hut of St. Mary's County, Inc.	Maryland
Pizza Hut of Titusville, Inc.	Florida
Pizza Hut of Washington County No. 1, Inc.	Maryland
Pizza Hut of Washington County No. 2, Inc.	Maryland
Pizza Hut of Washington County No. 3, Inc.	Maryland
Pizza Hut Properties, Pty, Ltd.	Australia
Pizza Hut SRO	Czech
Pizza Hut Victoria Pty. Ltd.	Australia
Pizza Hut West, Inc.	California
Pizza Hut, Inc.	California
Pizza Hut, Ltd.	Texas
Pizza Huts of Cincinnati, Inc.	Indiana
Pizza Huts of Las Vegas, Inc.	Nevada
Pizza Management Inc.	Texas
Pizza-Hut Special Delivery Australia, Ltd.	Delaware
Potomac Pizza Hut, Inc.	Maryland
Qingdao Kentucky Fried Chicken Co., Ltd.	China
Red Raider Pizza Company	Delaware
Restaurantes Internacionales Limitada de Chile	Chile
Romet Corp.	Pennsylvania
SCI Argo	France
SCI Duranton	France
Sea Bond Company Limited	Hong Kong

Semoran Pizza Huts, Inc.	Florida
SEPSA S.N.C.	France
Servicios Administrativos R.P.I. SRL de CV	Mexico
Servicios Operativos RPI, SRL de CV	Mexico
Shanghai Kentucky Fried Chicken Co., Ltd.	China
Shanghai Pizza Hut Co., Ltd.	China
Shantou KFC Co., Ltd.	China
Shantou Pizza Company Limited	China
Shenzhen KFC Co., Ltd.	China
Shenzhen Pizza Company Limited	China
Single Tree Corporation	Missouri
SM2RL SAS	France
Southern Fast Foods Limited	United Kingdom
Spizza 30 SAS	France
Spolpep Sp. z.o.o.	Poland
Suffolk Fast Foods Ltd.	United Kingdom
Supreme Pizza, Inc.	Missouri
Suzhou KFC Co., Ltd.	China
Taco Bell Corp	California
Taco Bell of America, Inc.	Delaware
Taco Bell Pty. Ltd.	Australia
TaiYuan KFC Co., Ltd.	China
TCL, Inc.	Delaware
TGRI-Relo, Inc.	Texas
THC I Limited	Malta
THC II Limited	Malta
THC III Limited	Malta
THC IV Limited	Malta
THC V Limited	Malta
Tianjin KFC Co., Ltd.	China
Tricon International (Thailand) Co., Ltd.	Thailand
Tri-L Pizza Huts, Inc.	Pennsylvania
UPGC, Inc.	Canada
Valleythorn Limited	United Kingdom
VariAsian Development, Ltd.	Cayman Islands
VariAsian Operations (International), Ltd.	Cayman Islands
VariAsian, Inc.	Delaware
West End Restaurants (Holdings) Limited	United Kingdom
West End Restaurants (Investments) Limited	United Kingdom
West End Restaurants Limited	United Kingdom
WingStreet, LLC	Delaware
Wuxi KFC Co., Ltd.	China
Xiamen - KFC Co., Ltd.	China
Xinjiang KFC Co., Ltd.	China
YA Company One Pty. Ltd.	Australia
YB Operadora, SRL de CV	Mexico
YGC, Inc.	Arizona
YGR America, Inc.	Delaware

YGR International Limited	United Kingdom
YGR US, LLC	Delaware
Yorkshire Global Licensing Netherlands B.V.	Netherlands
Yorkshire Global Restaurants, Inc.	Maryland
Yorkshire Holdings, Inc.	Maryland
YSV Holdings, LLC	Delaware
Yum Procurement Corporation	Delaware
Yum Procurement Holding Corporation	Delaware
Yum Procurement Services, L.P.	Delaware
Yum Restaurant Licensing Corp.	Delaware
Yum Restaurants International (Pty) Ltd.	South Africa
Yum Restaurants International (Thailand) Co., Ltd.	Thailand
Yum Restaurants PR Holdings Inc.	Delaware
Yum Restaurants Puerto Rico, Inc.	Delaware
Yum Restaurants Services Group, Inc.	Delaware
Yum! (Shanghai) Food Co., Ltd.	China
Yum! Australia Equipment Pty Ltd.	Australia
Yum! Australia Finance Pty. Ltd.	Australia
Yum! Australia Holdings I LLC	Delaware
Yum! Australia Holdings II LLC	Delaware
Yum! Australia Holdings III LLC	Delaware
Yum! Australia Holdings Ltd.	Cayman Islands
Yum! Australia Superannuation Fund Pty. Ltd.	Australia
Yum! Brands Canada Financing LP	Canada
Yum! Brands Canada Management Holding, Inc	Canada
Yum! Brands Canada Management L.P.	Canada
Yum! Brands Global Restaurants (Canada) Company	Canada
Yum! Brands Mexico Holdings II LLC	Delaware
Yum! Brands Mexico Holdings SRL de CV	Mexico
Yum! Capital Pty. Ltd.	Australia
Yum! Franchise China Trust	China
Yum! Franchise de Mexico S de RL	Mexico
Yum! Franchise I LP	Canada
Yum! Franchise II LLP	United Kingdom
Yum! Franchise III Partnership	Australia
Yum! Holdings Australia Pty. Ltd.	Australia
Yum! International Participations, S.a.r.l.	Luxembourg
Yum! Realty Holdings Inc.	Canada
Yum! Restaurant Holdings Limited (f/k/a Restaurant Holdings Limited)	United Kingdom
Yum! Restaurantes do Brazil Ltda.	Brazil
Yum! Restaurants (Chengdu) Co., Ltd.	China
Yum! Restaurants (China) Investment Co., Ltd.	China
Yum! Restaurants (France) Ltd.	United Kingdom
Yum! Restaurants (Fuzhou) Co., Ltd.	China
Yum! Restaurants (Guangdong) Co., Ltd.. (a/k/a. Guangzhou KFC Co., Ltd.)	China
Yum! Restaurants (Hong Kong) Ltd.	Hong Kong
Yum! Restaurants (India) Pvt. Ltd.	India
Yum! Restaurants (Netherlands) Limited	United Kingdom

Yum! Restaurants (NZ) Ltd.	New Zealand
Yum! Restaurants (Shenyang) Co., Ltd.	China
Yum! Restaurants (Taiwan) Co., Ltd.	Taiwan
Yum! Restaurants (UK) Ltd.	United Kingdom
Yum! Restaurants (Wuhan) Co., Ltd.	China
Yum! Restaurants (Xian) Co., Ltd.	China
Yum! Restaurants Asia Private Limited	Singapore
Yum! Restaurants Australia Pty. Ltd.	Australia
Yum! Restaurants Australia Services Pty. Ltd.	Australia
Yum! Restaurants Consulting (Shanghai) Co., Ltd.	China
Yum! Restaurants Espana S.L.	Spain
Yum! Restaurants Europe Limited	United Kingdom
Yum! Restaurants Europe Limited (f/k/a Pizza Hut Services Limited)	United Kingdom
Yum! Restaurants Europe Ltd.	United Kingdom
Yum! Restaurants Germany GmbH	Germany
Yum! Restaurants International (Canada) L.P.	Canada
Yum! Restaurants International (MENAPAK) WLL	Bahrain
Yum! Restaurants International BV	Netherlands
Yum! Restaurants International Holdings, Ltd. (f/k/a Yum! Restaurants International, Ltd. (Cayman))	Delaware
Yum! Restaurants International Limited	United Kingdom
Yum! Restaurants International Ltd. & Co. KG	Germany
Yum! Restaurants International Management Sarl	Luxembourg
Yum! Restaurants International Sarl	Luxembourg
Yum! Restaurants International Switzerland Sarl	Switzerland
Yum! Restaurants International, Inc.	Delaware
Yum! Restaurants International, SRL de CV	Mexico
Yum! Restaurants Marketing Private Limited	India
Yum! Restaurants New Zealand Services Pty. Ltd.	Australia
Yum! Restaurants Shanghai Company Limited	China
Yum! Restaurants Spolka Zoo	Poland
Yum! Restaurants SRL De CV (f/k/a Tricon Operadora SRL de CV)	Mexico
Yum! Services Limited	Cayman Islands
Yumsop Pty. Ltd.	Australia
ZhengZhou KFC Co., Ltd.	China

Consent of Independent Registered Public Accounting Firm

The Board of Directors
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 reports dated March 2, 2006, with respect to the consolidated balance sheets of YUM as of December 31, 2005 and December 25, 2004, and the related consolidated statements of income, cash flows and shareholders’ equity and comprehensive income for each of the years in the three-year period ended December 31, 2005, and all related financial statement schedules, management’s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 and the effectiveness of internal control over financial reporting as of December 31, 2005, which reports appear in the December 31, 2005 annual report on Form 10-K of YUM.

<u>Description</u>	<u>Registration Statement Number</u>
<u>Forms S-3 and S-3/A</u>	
YUM! Direct Stock Purchase Program	333-46242
\$2,000,000,000 Debt Securities	333-42969
<u>Form S-8s</u>	
YUM! Restaurants Puerto Rico, Inc. Save-Up Plan	333-85069
Restaurant Deferred Compensation Plan	333-36877, 333-32050
Executive Income Deferral Program	333-36955
YUM! Long-Term Incentive Plan	333-36895, 333-85073, 333-32046
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

/s/ KPMG LLP
Louisville, Kentucky
March 2, 2006

CERTIFICATION

I, David C. Novak, 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: March 2, 2006

/s/ David C. Novak
Chairman, Chief Executive Officer and President

CERTIFICATION

I, Richard T. Carucci, 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: March 2, 2006

/s/ Richard T. Carucci

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 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, David C. Novak, Chairman, Chief Executive Officer and President 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: March 2, 2006

/s/ David C. Novak

Chairman, Chief Executive Officer and President

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 31, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Annual Report"), I, Richard T. Carucci, 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: March 2, 2006

/s/ Richard T. Carucci
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.