



# Serving the World

Yum! Brands 2008 Corporate Responsibility Report



## Who We Are

We at Yum! Brands are pleased to bring you our first Corporate Responsibility (CR) Report.

At Yum! CR is our commitment to people, the environment, and society as a whole. Based in Louisville, Kentucky, Yum! Brands, Inc. is the world's largest restaurant company, with nearly 36,000 restaurants in more than 110 countries and territories.

We're proud of our consistent record of success: 15 percent Earnings Per Share (EPS) growth last year, the sixth consecutive year in which we exceeded our annual EPS target of at least 10 percent growth; three percent same-store-sales growth worldwide; record cash from operations of over \$1.5 billion; and nearly \$1.7 billion returned to our shareholders, an all-time high for us.

We're equally proud of the unique culture we've built, one that's filled with energy, opportunity, and fun. We believe in our people, trust in their positive intentions, encourage ideas from everyone, and have actively developed a workforce that is diverse in style and background. Yum! is a place where anyone can, and does, make a difference.

Our commitment to our associates goes beyond just growing their professional skills. For many of our team members, working in one of our restaurants is often their first job. So we strive to develop their life skills – foundational abilities such as teamwork, responsibility, problem solving, positive energy, and a relentless drive to serve and satisfy customers – so they can grow to their full capability, be successful in whatever they do, and achieve their dreams.

This commitment to people extends to the communities we serve across the world. CR is central to our ability to succeed in the marketplace and to be positive, responsible corporate citizens. Because we're the largest restaurant company in the world and we're passionate about helping people better themselves and their communities, we're determined to address three critical challenges:

- The health and nutritional needs of our consumers;
- Feeding the world's hungry; and
- Understanding and respecting the sensitive environmental and agricultural resources on which our business depends.

In this report, you'll learn how we are proactively and systematically addressing our Corporate Responsibility today and in the future.

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## Going for Greatness by Serving the World



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

Dear Stakeholders,

At Yum! Brands, we take very seriously our responsibility to our associates, our customers and the communities in which we do business. We aspire to be the best in the world at building great brands and running great restaurants. And we're committed to making a positive difference by Serving the World.

I'm proud to share with you Yum! Brands' first Corporate Responsibility Report.

Since our founding in 1997, we've had a real passion to create greatness – to build a company that could truly earn the right to be called great. The road map we established was the Yum! Dynasty Growth Model, because like all dynasties, we wanted to be admired for our results year after year. And we have made a tremendous amount of progress. Our vision for Yum! Brands is to be The Defining Global Company That Feeds The World.

Our view is that the dynamic nature of societal and environmental changes – some predictable, some not – requires us to anticipate, understand and respond meaningfully. And that makes us stronger and better as a company, and as a responsible citizen of the world community.

We are passionate about and focused on providing:

- Customers with delicious, relevant and safe food choices;
- Associates with meaningful and productive careers, training, and development opportunities;
- Franchisees with the opportunity to own and operate their own successful businesses; and
- Support to the global society with our time, talent and resources through community outreach programs and our global movement to end world hunger – World Hunger Relief.

I feel we are uniquely positioned and well prepared to take on the responsibility that comes with leadership. We have the influence, know-how, resources, and global presence needed to serve the world. And we continue to build and strengthen relationships with individuals and organizations worldwide that have knowledge, respect and networks to help us lead the effort.

This report is our first attempt to share publicly with our stakeholders – our associates, franchisees, customers, investors and those otherwise interested in the future of our business – our commitment to Serving the World. It's the start of an ongoing, exciting journey we look forward to sharing with you.

Yum! to you,

David C. Novak  
Chairman and Chief Executive Officer



Our view is that the dynamic nature of societal and environmental changes – some predictable, some not – requires us to anticipate, understand and respond meaningfully.



# Yum! **dynasty** growth model

## our goal

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

## our passion

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

## our formula for success

People Capability First... satisfied customers and profitability follow

## how we lead (with intentionality)

- Step Change Thinkers
- Know How Builders
- Action Drivers
- People Growers

## how we grow

Build leading brands in China in every significant category	Drive aggressive, International expansion and build strong brands everywhere	Dramatically improve U.S. brand positions, consistency and returns	Drive industry-leading, long-term shareholder and franchisee value
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## how we win together (HWWT)<sup>2</sup>

- |                                  |                        |
|----------------------------------|------------------------|
| Believe in <u>All</u> People     | Go for Breakthrough    |
| We Are Customer Maniacs          | Build Know How         |
| Recognize! Recognize! Recognize! | Take the Hill Teamwork |

# ...as one system

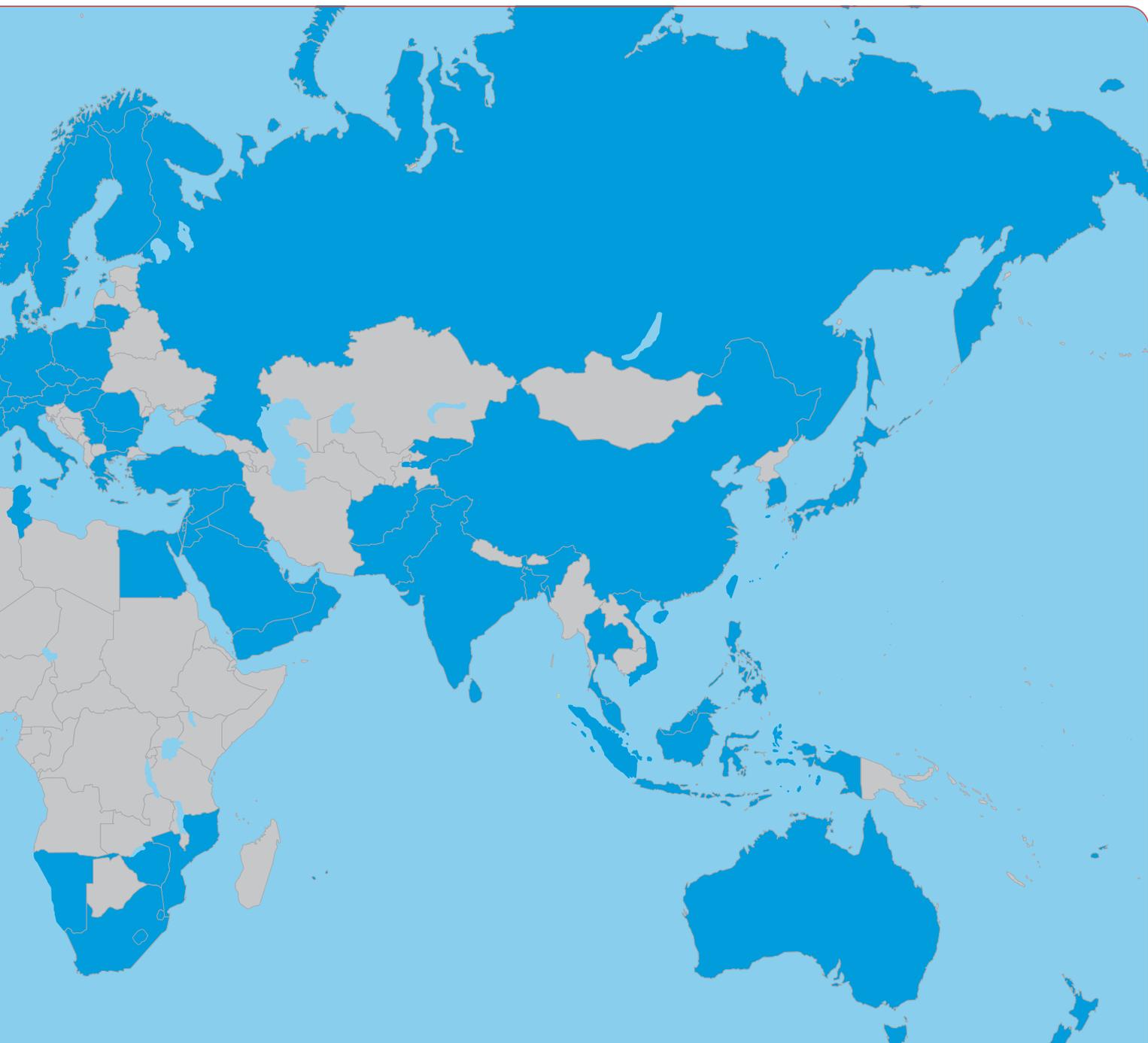
# Yum! Brands – More Than 110 Countries and Territories Around the World



## Serving the World

Yum! Brands is the world's largest restaurant company with nearly 36,000 restaurants in over 110 countries and territories and more than 1.4 million associates. Our global business consists of three segments, or reporting groups – the United States, the International Division (known as Yum! Restaurants International or YRI), and the China Division (known as Yum! China Division or Yum! Restaurants China). YRI is segmented into 14 business units, including: Asia; Canada; Caribbean and Latin America; Europe; France; Germany/Netherlands; India, Korea; Mexico; Middle East, North Africa, Pakistan and Turkey; South Africa; South Pacific; United Kingdom – KFC; and United Kingdom – Pizza Hut. Yum! China includes mainland China, Thailand and KFC Taiwan.

 **Yum! Brands  
Global Presence**



**United States**

KFC –	5,358
Pizza Hut –	7,515
Taco Bell –	5,580
Long John Silver's –	1,081
A&W –	371
<b>Total Number of Units</b>	<b>19,905</b>

**International Division**

KFC –	2,244
Pizza Hut –	1,148
Taco Bell –	65
Long John Silver's –	35
A&W –	250
<b>Total Number of Units</b>	<b>12,354</b>

**China Division**

KFC –	2,592
Pizza Hut –	480
Taco Bell –	2
<b>Total Number of Units</b>	<b>3,086*</b>

*\* includes 12 East Dawning units  
All restaurant counts are as of December 29, 2007*



# Yum! Brands Business Model

## Brand

## Brand Overview



KFC Corporation, based in Louisville, Kentucky, is one of the few brands in America that can boast about having a rich, 55-year history of success and innovation. In fact, KFC is the world's most popular chicken restaurant chain, specializing in Original Recipe®, Extra Crispy®, Colonel's Crispy Strips® and Honey BBQ Wings®, with home-style sides and freshly made chicken sandwiches. Since its founding by Colonel Harland Sanders in 1952, KFC has been serving customers delicious, already prepared complete family meals at affordable prices. There are over 14,000 KFC outlets in 105 countries and territories around the world.



Pizza Hut, Inc., based in Dallas, Texas, is the world's largest pizza restaurant company, specializing in Pan Pizza, Thin 'N Crispy® Pizza, Hand-Tossed Style Pizza and Stuffed Crust Pizza. With more than 7,500 restaurants in the United States and over 5,300 restaurants in 97 countries and territories around the world, Pizza Hut is known as America's Favorite Pizza. And soon the company will be America's Favorite Chicken Wing and America's Favorite Pasta providers. WingStreet, a subsidiary of Yum! Brands, Inc. and the largest delivery wing chain with more than 1,000 locations, is constantly expanding its presence within Pizza Hut restaurants across the U.S. with its delicious wings and blue-ribbon winning sauces. In addition, Pizza Hut has created a whole new Quick Service Restaurant (QSR) category – restaurant-quality Home Meal Replacement pasta – with the launch of Tuscani Pasta earlier this year.



Taco Bell Corp., based in Irvine, California, is the nation's leading Mexican-style QSR chain serving tacos, burritos, signature quesadillas, Border Bowls®, nachos and other specialty items. Today, Taco Bell serves more than 35 million consumers each week in more than 5,500 restaurants in the U.S. Since its founding by Glen Bell in 1962, the company's countless innovations have changed the very nature of the QSR industry. From revolutionizing new kitchen preparation systems and supply chain management processes to establishing its Value Leadership, Taco Bell has kept alive Glen's pioneering spirit. "Think Outside the Bun®" is more than a company tagline; it's a way of life at Taco Bell.



Long John Silver's, Inc., based in Louisville, Kentucky, is the world's most popular QSR seafood chain, specializing in delicious, signature batter-dipped fish, chicken, shrimp and hushpuppies. Since 1969, the company has been bringing families together with traditional seafood items, new products such as Buttered Lobster Bites, and Freshside Grille offerings, which include Pacific Grilled Salmon, Grilled Tilapia, and Shrimp Scampi. Today, there are more than 1,100 Long John Silver's® restaurants worldwide, and over 400 additional points of distribution in multibrand restaurants.



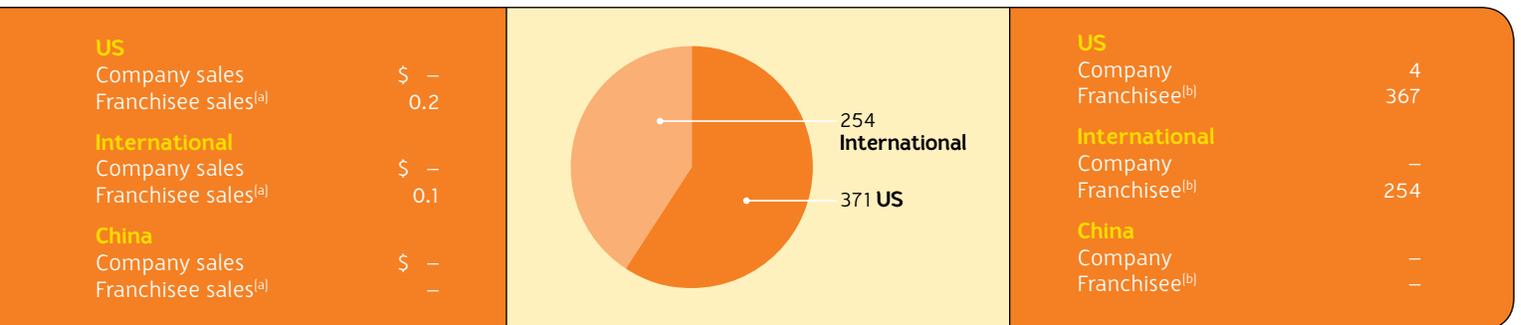
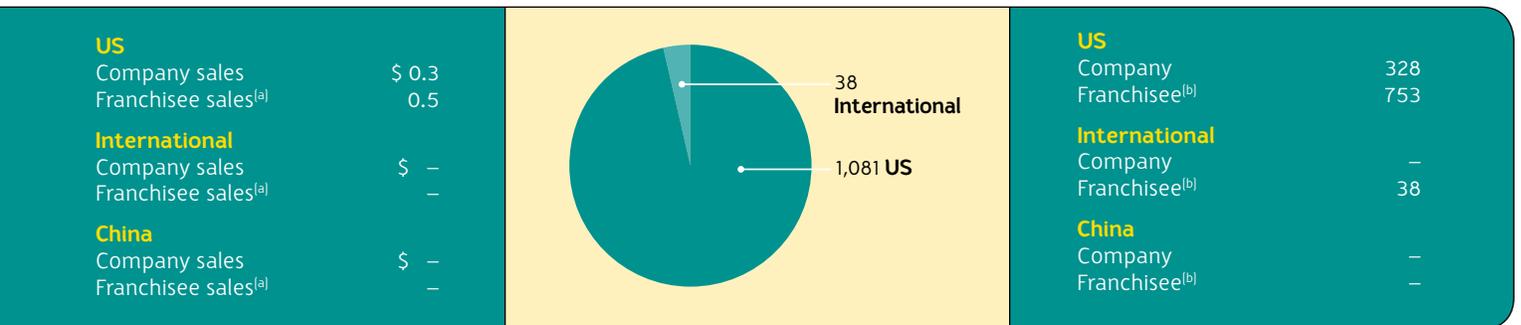
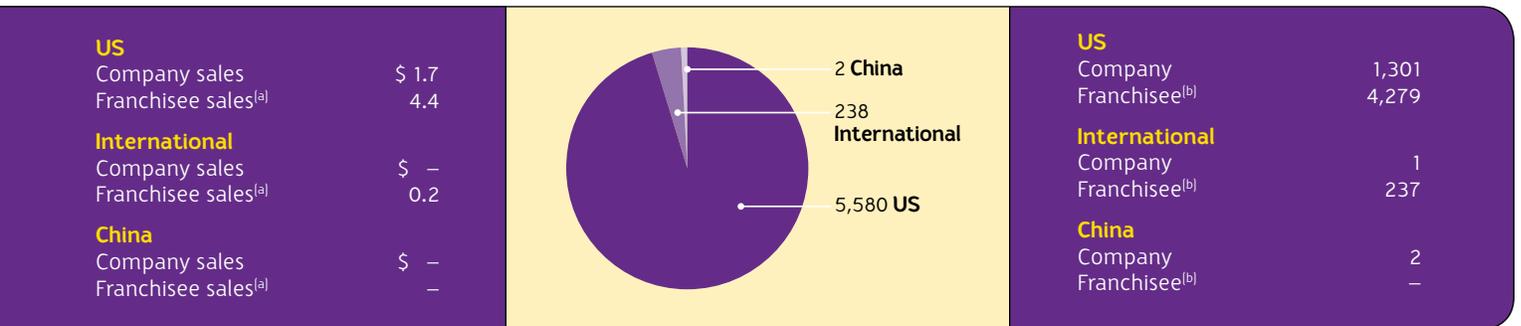
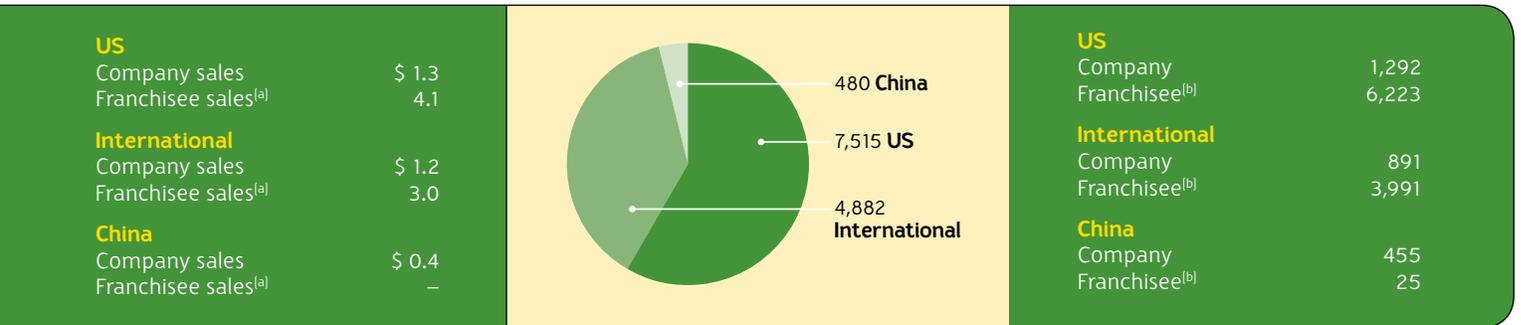
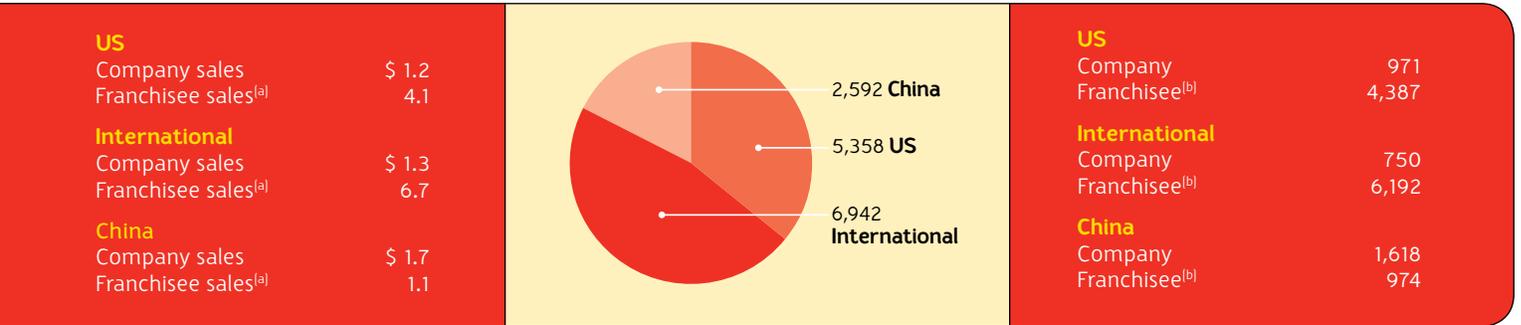
A&W® All American Food®, based in Louisville, Kentucky, is the longest-running QSR franchise chain in America, serving hometown favorites to friends and families for over 90 years. Since 1919, A&W All-American Food has offered its iconic, frosty mug root beer float with All-American pure-beef hamburgers and hot dogs. There are approximately 400 A&W All-American Food outlets in the U.S., more than 240 in 11 other countries, and 640 additional points of distribution in multibrand restaurants.



Sales (2007) *(in billions)*

Restaurant Locations (2007)

Units (2007)



[a] Franchisee sales represents the combined estimated sales of unconsolidated affiliate and franchise and license restaurants. Franchisee sales, which are not included in our Company sales, generate franchise and license fees [typically at rates between 4% and 6%] that are included in our revenues.

[b] Franchisee represents the combined units of unconsolidated affiliates and franchise and license restaurants.



## Our History and Culture

In October 1997, Yum! Brands was spun off from PepsiCo as Tricon Global Restaurants, Inc. At that moment we established a singular goal from which we've never wavered: To be the best in the world at building great brands and running great restaurants.

Over the past 11 years, our success has been driven by our focus on building leading brands in China in every significant category; driving aggressive, international expansion and building strong brands everywhere; dramatically improving U.S. brand positions, consistency and returns; driving industry-leading, long-term shareholder and franchisee value; and building a unique, fun culture led by people who love the restaurant business. Along the way, we also broadened our focus beyond our restaurants to important emerging issues of our global society such as our impact on people, communities and the environment. From the very beginning, we had a passion to create a company that would truly be great and lasting. We turned our passion into a roadmap,

one we call the Yum! Dynasty Growth Model, because dynasties endure and lead through the generations.

We believe that our customers' experience will never exceed that of our team members. For that reason, our Dynasty Model starts with our people. We know that people don't just play a role in our success – they are the reason for our success.

Our corporate values – what we call our How We Win Together Principles – are built around a "People Capability First" philosophy and lay the groundwork for the way we team together every day.

These Principles and our Dynasty Growth Model help guide and drive our CR work as well.

**how we win together** **Yum!**  
(hwwt)<sup>2</sup>

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

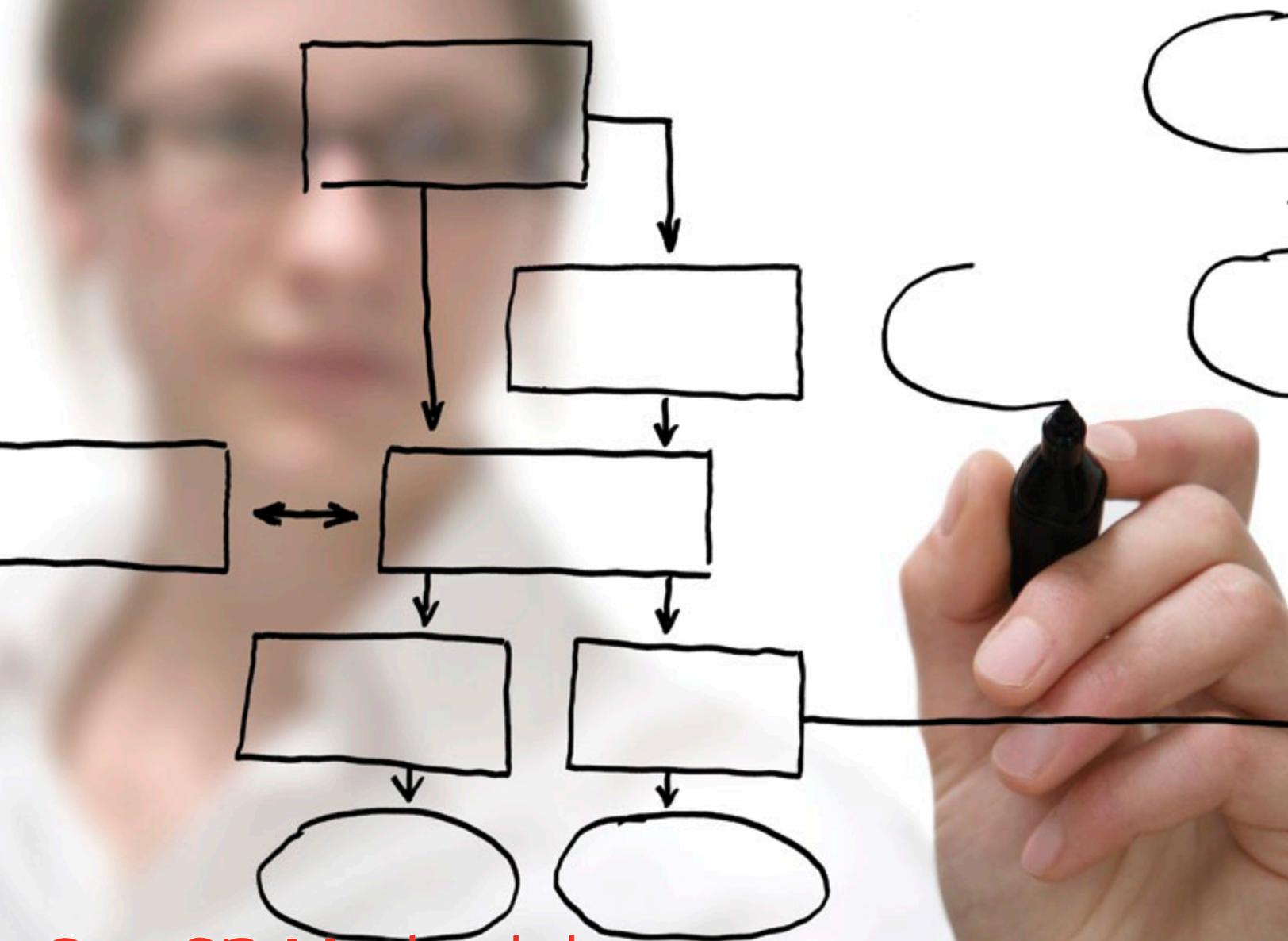
**we are customer maniacs**  
Customers rule. Every customer sees it, feels it and knows it in every restaurant. We make sure we have great RGMs who build great teams. 100% CHAMPS with a Yes Attitude is the expectation.

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

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

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

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



## Our CR Methodology

Our approach to CR is dynamic, global in focus, yet always rooted in a People-First philosophy. We have worked diligently to understand the many CR opportunities we have worldwide, and to develop a strategy and structure to address challenges and serve the world.

**Strategy.** Our ability to make a positive difference in the lives of people throughout the world is virtually unlimited, and it starts with a clear focus and commitment to getting better. We have chosen to leverage our clear strengths: our expertise – we like to call it know-how – and our people.

We believe that our strongest impact and contribution to sustainability lies in the critical parts of our business – feeding people, health and nutrition, the environment, community development, diversity improvements, animal welfare and our supply chain. These are the areas in which we are concentrating our efforts. We are also driving stakeholder engagement, systematically involving key internal and external stakeholders to support and execute our CR initiatives. Our next step is to put a more methodical process in place to engage a wider range of stakeholders as we measure and execute our CR plans.

We will direct our tactical efforts in four ways: raising awareness of key challenges; formal programs and initiatives to address pressing issues; encouraging and supporting volunteerism; and leading fundraising efforts wherever needed.

**Structure.** We've built an integrated, executive-level structure and process to assess, guide and oversee our worldwide CR activities. This ensures consistency in global CR standards and activities while allowing for local

### Key Stakeholders in the Yum! Family

Many of the important decisions and actions related to CR are made and taken by our key stakeholders, outside of the immediate control of the company, but within our system. Our franchisees are our most important partners in the implementation of practices regarding associates, sourcing and community impact.

Our existing structure for engaging this important group includes:

- **Unified Foodservice Purchasing Co-op (UFPC) Board of Directors**
- **Brand Franchise Associations/Board of Directors**

Over the past 11 years we have built strong relationships with franchise owners and leaders, who inform and challenge us. We are now expanding the team of stakeholders to include those with important perspectives in the areas related to our most important CR impacts and we intend to share our progress with these key stakeholders:

- **Hunger Relief**
- **Health and Nutrition**
- **The Environment**  
(e.g., energy use, climate impact, waste and packaging)
- **Community Development**
- **Diversity Outreach and Improvements**
- **Animal Welfare**
- **Supply Chain Innovation and Management**

adaptation to fit diverse cultural contexts and needs.

We engaged a number of internal and external stakeholders along the way and now plan to put a more systematic process in place to engage additional stakeholders as we manage CR's impact and opportunities.

Establishing this structure is an important first step. We will continue to refine it, as well as the ways in which we measure progress against our objectives, to enhance our CR capabilities and effectiveness.

### About This Report

To define the scope of our first Corporate Responsibility (CR) report, we examined the key areas of impact of our global business operations and where we have the strongest ability to play a role.

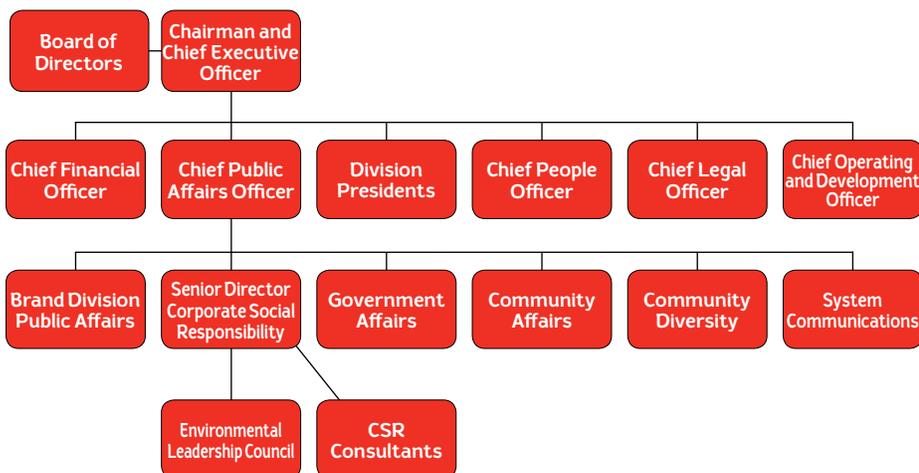
Our objectives for this Report, which can be found at [www.yum.com/responsibility/](http://www.yum.com/responsibility/) are fourfold:

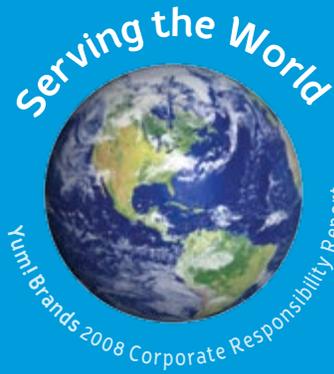
- 1. To publicly reinforce our global commitment to Corporate Responsibility;**
- 2. To report on our performance to date;**
- 3. To identify our future CR direction and goals; and**
- 4. To engage in constructive dialogue with our stakeholders.**

Our company has a large global footprint that continues to grow. We are excited about our business opportunities as we expand. At the same time we understand that we have a duty to improve society and a responsibility to be a good environmental steward.

Through this report we will engage internal and external stakeholders for their perspectives on our CR efforts and impact. These discussions will help shape our actions and communications.

### CSR Organizational Structure





**Yum! Brands, Inc.**  
1441 Gardiner Lane  
Louisville, KY 40213  
[www.yum.com](http://www.yum.com)

# Corporate Governance and Ethics

The business and affairs of Yum! Brands are managed under the direction of the Board of Directors. The Board believes that good corporate governance and high ethical standards are critical factors in achieving business success and in fulfilling the Board's responsibilities to shareholders.

The Board recognizes that its practices align management and shareholder interests: Board composition, independence, and diversity; corporate governance principles; executive compensation; ethics and compliance, and a worldwide code of conduct.

## Board Composition & Independence

Our Board of Directors is led by Yum! Brands CEO and Chairman, David Novak. Among the 13 directors on the Board, 10 are independent directors (based on New York Stock Exchange rules for director independence). The three non-independent directors are David Novak, CEO and Chairman; Jing-Shyh S. (Sam) Su, President of Yum! Brands China Division; and Jackie Trujillo, Chairman Emeritus of the Board of Harman Management Corporation, one of KFC's largest franchisees.

To view detailed profiles of our directors, please visit our website at [www.yum.com/investors/bod.asp](http://www.yum.com/investors/bod.asp).

The Board of Directors has established four committees.

- Audit Committee
- Compensation Committee
- Nominating and Governance Committee
- Executive/Finance Committee

Only independent directors serve on the Audit, Compensation, and Nominating and Governance Committees in accordance with our Corporate Governance Principles. The Executive/Finance Committee includes CEO and Chairman David Novak, along with independent directors J. David Grissom and Kenneth G. Langone.

To ensure continued strong performance, the Board has instituted an annual, self-evaluation process led by the Nominating and Governance Committee. This assessment focuses on the Board's contribution to the Company and emphasizes those areas in which a better contribution could be made. In addition, our Audit,

Compensation and Nominating and Governance Committees conduct similar self evaluations on an annual basis.

## Board Diversity

A diverse range of experiences and perspectives among our directors ensures the success of the Board in overseeing our complex, varied businesses. It also enhances long-term shareholder value.

When recruiting new directors, we look for leaders from different backgrounds that combine a broad spectrum of experience and expertise with a reputation for integrity. For complete selection criteria and policies, please see our Corporate Governance Principles at [www.yum.com/governance/principles.asp](http://www.yum.com/governance/principles.asp).

We're proud of the diversity of our Board. As of this writing, two women (Bonnie G. Hill and Jackie Trujillo) and three minorities (Ms. Hill, Robert Holland, Jr. and Jing-Shyh S. (Sam) Su) serve on our Board of Directors. Ms. Hill is President of B. Hill Enterprises LLC, a consulting company. She was first elected to our Board in 2003. Mr. Holland has maintained a consulting practice for strategic development assistance to senior management of Fortune 500 companies since 2001. From 2005 to 2007, he was a member of Cordova, Smart and Williams, LLC, an investment fund manager, and a limited partner of Williams Capital Partners Advisors, LP, a private equity investment firm. He was first elected to our Board in 1997. Mr. Su, a Taiwanese national and Chinese citizen, serves as Vice Chairman of the Board and is President of Yum! Brands China Division. He was first elected to our Board in 2008. The balance of our Board includes David W. Dorman, Massimo Ferragamo, J. David Grissom, Kenneth G. Langone, Jonathan S. Linen, Thomas C. Nelson, David C. Novak, Thomas M. Ryan, and Robert D. Walter.



## Corporate Governance Principles

Adopted in 2001 and amended in 2007 and 2008, our Corporate Governance Principles of the Board of Directors, along with the Company's articles and bylaws, committee charters and the Worldwide Code of Conduct, provide the framework for Yum! Brands, Inc. governance. The Principles set out guidelines to inform all aspects of Board operations, including:

- Board Membership and Director Qualifications
- Director Independence
- Board Performance and Compensation
- Board Conduct
- Board Committees
- Role of the Chairman

The Principles included a "majority voting" policy requiring any director who received a greater number of votes "withheld" from his or her election than votes "for" his or her election to promptly tender his or her resignation from the Board.

The Board reviews the Principles and other aspects of governance annually or more often, if necessary. The full text of the Corporate Governance Principles can be found at [www.yum.com/governance/principles.asp](http://www.yum.com/governance/principles.asp). These Principles are discussed

annually in our proxy statement which can be found at [www.yum.com/investors/proxy.asp](http://www.yum.com/investors/proxy.asp).

## Executive Compensation

Yum! Brands' executive compensation programs, overseen by the Compensation Committee of the Board ([www.yum.com/governance/committee.asp](http://www.yum.com/governance/committee.asp)), are designed to attract and retain highly qualified leaders through competitive compensation and benefit programs, to reward our associates for personal contributions that grow the business, and to maximize shareholder returns through pay-for-performance programs. Reviewed annually by the Committee, the program's intent is to:

- Reward performance and avoid entitlement;
- Pay our Restaurant General Managers and executives like owners;
- Design pay programs at all levels that align team and individual performance, customer satisfaction and shareholder return; and
- Emphasize long-term incentive compensation.

To strengthen the alignment between management and shareholder interests, the Compensation Committee has adopted formal stock-ownership guidelines, which



set minimum expectations for executive and senior management ownership of Yum! stock. We have created an ownership culture in which our officers, executives and senior managers hold Yum! stock well in excess of the guidelines.

A table detailing total compensation and stock-based awards paid, earned or awarded for fiscal year 2007 to our CEO and four other most highly compensated executive officers can be found in our 2007 Proxy Statement at [www.yum.com/investors/proxy.asp](http://www.yum.com/investors/proxy.asp).

## Ethics & Compliance

Yum! Brands' success is built on the integrity and high ethical standards of our associates. Our ethics and compliance program, based on our Worldwide Code of Conduct, ensures the highest ethical standards in all of our operations around the globe.

## Worldwide Code of Conduct

Yum!'s Worldwide Code of Conduct, adopted in 1997, is more than a document – it is the foundation for the way we conduct ourselves and do business throughout the world. It calls for the highest standards of ethical behavior from our Board members and one million-plus associates, and covers a variety of critical issues, including:

- Product Quality and Food Safety
- Relationship with Franchisees
- Employee Relations
- Relationships with Customers, Suppliers and Competitors
- Gifts and Entertainment
- Safety and Environmental Protection
- Political and Community Activities and Contributions
- Substance Abuse
- Conflicts of Interest
- Bribery and Corruption
- Insider Trading and Proprietary Information
- Accounts, Record Keeping and Disclosure of Financial Information

The Code is published in English, Spanish, Chinese and Korean. It can be found at [www.yum.com/governance/conduct.asp](http://www.yum.com/governance/conduct.asp).

To ensure compliance, we have developed a comprehensive program based on regular self-certification and continuing compliance training. Our Board of Directors and our most senior Company associates are also required to complete a conflict of interest questionnaire annually and certify in writing that they have read and understand the Code of Conduct.

We also know that, in any organization, raising an ethics concern – especially about a superior – can be difficult. So we have set up a system for associates to raise concerns through a safe, anonymous process. Using independent third parties, The Network, Inc., Deloitte Consulting, LLP and Employee Relations Strategies, Inc., we have opened local ethics hotlines in the U.S. and 19 countries that comprise our major markets. Our associates can use these hotlines 24 hours-a-day to anonymously raise a concern about possible Code violations or other ethical conflicts not covered by the Code. After a call, the independent third party relays the information to our management to investigate the concern.

The Audit Committee of our Board has established additional procedures for complaints and concerns of associates regarding accounting and auditing matters, including the confidential or anonymous submission of such complaints or concerns. More details on these procedures can be found at [www.yum.com/governance/complaint.asp](http://www.yum.com/governance/complaint.asp).

## Looking to the Future

We continually seek to strengthen our ethics program. We began using electronic compliance training methods for all of our associates working above the restaurant level in 2007, and we will add new, related courses on an ongoing basis.



## Public Policy and Government Affairs

We operate in a complex and dynamic public policy environment. To influence this environment, we conduct direct and indirect advocacy efforts with policymakers at national, state and local levels, both in the United States as well as in our international markets. We participate in many other ways, including through an associate Political Action Committee, and via our membership in several international, national and regional restaurant and retail associations.

### Key Areas of Importance

Our goal is to educate legislators and policymakers about our business and the issues that are important to us and our franchisees. In pursuit of an environment where our restaurants, franchisees, associates, and the communities we serve can thrive, we focus our public policy efforts and governmental partnerships on associate benefits, health and nutrition, tax policy, and trade policy.

### Associate Benefits

Our associates are our company's most important resource. And in the highly competitive environment in which we operate, we know that our success depends on our ability to attract and retain a diverse, empowered workforce. We support public policies that foster a business climate that is conducive to continuing our employment practices.

We participate in the U.S. Department of Labor's Work Opportunity Tax Credit (WOTC) program. We hire and train workers who are economically and physically disadvantaged, and we receive a tax credit for doing so. We use the program to provide thousands of first-time jobs to individuals around the country, many of whom were previously on public assistance. Through the WOTC program, we are able to provide valuable job training and skills to help them become productive members of the workforce. We have consistently advocated in Washington to have the WOTC program made a permanent part of the U.S. tax code, and to simplify it to make it more user-friendly for small employers such as our franchisees.

### Health and Nutrition

We have implemented a set of global nutrition guidelines that defines our proactive efforts to improve the nutrition profile of the foods we offer, while continuing to provide great taste, value, and convenience across our markets. We are also committed to educating our consumers and

encouraging them to adopt balanced, healthy lifestyles. We support policies that limit restrictions on consumer choice and we work with governments, industry associations, and others to promote an environment that fosters freedom of choice and innovation.

We have partnered with the U.S. government and dozens of leading U.S. food corporations on an initiative – the United States Department of Agriculture (USDA) MyPyramid Corporate Challenge – to help stem the tide of increasing weight and obesity among America's young people. As a charter member of the Corporate Challenge, we have committed to incorporating MyPyramid educational information in our in-restaurant marketing materials.

Our U.S. divisions of KFC, Taco Bell, Pizza Hut, Long John Silver's and A&W will become the first national restaurant chains to begin voluntarily placing individual serving size calorie information on their respective menu boards in company-owned restaurants nationwide by January 1, 2011.

Franchisees are encouraged to provide the same information on their menu boards. We are also calling on the U.S. Congress to enact federal pre-emptive legislation that would create uniform menu board guidelines for all who sell prepared food, providing a consistent way to educate the public about the nutritional value of the food they eat.

### Tax Policy

We work to maintain tax policies at the international, federal and state levels that foster competitiveness, productivity and fairness, while ensuring an appropriate tax level for the corporation.

### Trade Policy

We support trade policies, including bilateral and multilateral trade agreements, which allow for the free movement of commodities among international markets to provide access to the highest quality ingredients at the lowest price.





### **Our Associates' Voice – The Yum! Brands Good Government Fund**

We established an associate Political Action Committee (PAC) that supports candidates for political office in the U.S. whose positions align with our business strategies. The PAC is non-partisan and supports candidates from both major political parties.

Our associate PAC is dedicated to the election of pro-business candidates at the federal, state, and local levels of government. We follow the general guidelines of supporting the preservation and growth of the private enterprise system; electing candidates on a non-partisan basis, using business-related issues as the key benchmark; and emphasizing political races in areas where our associates live and work.

In 2006, the PAC doubled its contributions to \$67,250.00 due to the fact that it was an election year.

Contributions from the PAC during the 2006 election cycle totaled \$67,250 in support of the U.S. Presidential elections and other races. The PAC is projected to spend the same amount or slightly less during the 2008 election cycle.

In addition to an annual audit by Comerica Bank, our PAC is audited regularly by our internal audit team and is in compliance with all U.S. federal and state regulations. Our annual PAC report is provided to donors and interested parties at [www.fec.gov/finance/disclosure/srssea.shtml](http://www.fec.gov/finance/disclosure/srssea.shtml).

Trade associations enable us to join together with other companies in our industry to address common interests and issues. The associations act as a public advocate with the press and elected officials, develop research on relevant issues, and coordinate joint efforts to address issues and opportunities within the restaurant, retail and food industries.



## Our Memberships

Our primary method of engagement in the public policy arena is through our membership in many U.S. and international trade associations, including:

- European Modern Restaurant Association (EMRA)
- Food Processors Association/ Grocery Manufacturers Association (FPA/GMA)
- Food Packaging Association (FPA)
- International Franchise Association (IFA)
- National Council of Chain Restaurants (NCCR)
- National Restaurant Association (NRA)
- NFI National Fisheries Institute (NFI)
- World Federation of Advertisers (WFA)
- Various U.S. state retail and restaurant associations
- China Chain Stores and Franchise Association (Yum! China)
- China Cuisine Association (Yum! China)
- China Association of Enterprises with Foreign Investment (Yum! China)

## Looking to the Future

We will continue to engage in an ethical and legal manner with government officials in the U.S. and all other locations in which we do business. We will continue to participate in governmental programs that benefit our associates, franchisees and our customers, and look forward to having the breadth and depth of positive impact only a company with our size and influence can have.





## Our Associates

Our How We Win Together Principles (HWWT<sup>2</sup>) guide all aspects of our associates' daily work lives, professional and personal development and customer interactions. "Believe in All People" is the first of our HWWT<sup>2</sup> principles because we believe everyone has the potential to make a difference.

We know our greatest competitive strengths are our culture and our more than 1.4 million associates in our restaurants and our Restaurant Support Centers worldwide. We also recognize that for many of them, working in one of our restaurants is often their first job. This puts us in a unique position to help our people start their careers and develop their skills. We take this responsibility seriously. We are dedicated to teaching our front-line team members the life skills they need to be successful in whatever they do – from getting to work on time, teamwork and accountability to listening to our customers, and learning how to resolve issues and recover when mistakes are made.

Our business is diverse and complex. Over 80 percent of our restaurants are owned by franchisees or licensees. In our company-owned restaurants and Restaurant Support Centers, we directly employ only about 25 percent of the total number of Yum! associates. For that reason, we cannot oversee associate practices in all of our nearly 36,000 restaurants. We do, however, provide guidelines, coaching and training to encourage our franchisees and licensees to implement and manage best practices in accordance with our corporate goals and objectives.

The strength of our culture and commitment to associate growth is measured regularly. For example, in 2008 our U.S. company-owned

restaurants achieved an:

- 80 percent internal promotion rate for Restaurant General Managers (RGMs), and an
- 87 percent internal promotion rate for Shift Managers.

### Developing Our Talent Within the Yum! System

Our diversified, decentralized operations in over 110 countries and territories demand an approach to developing talent that is customized and highly interactive. We strive to create programs across the world that unlock individual talent and foster both business and personal growth.

Yum! University (YU) is a worldwide learning and development platform that offers courses and workshops designed to teach the skills and behaviors that continue to build the capability of above-restaurant leaders – franchise and company, field and RSC-based – around the world. Our classrooms are a forum where we can build new skills, share best practices, develop relationships, and learn together in a “one system” way – across all brands and geographies.

Our curriculum is centered on three core categories:

1. Functional Excellence;
2. Leadership and Management Excellence; and
3. Personal Excellence.



At Yum! we believe that our culture is our biggest competitive advantage. We have built a people-focused culture that is second-to-none, where everyone makes a difference, and everyone at every level has the responsibility of ‘walking the talk’ of our How We Win Together leadership principles. Each of us takes accountability for making a positive difference in our business and work environment. When we do the right things, the right things happen.

Anne Byerlein  
Yum! Chief People Officer



Within each of these areas of excellence, we have developed skill-building workshops and programs that are adaptable to local needs.

Yum! University offers Automated Degree Planning (AutoDP) as part of our ongoing commitment to building people capability and executing our education and training solutions. This service enables our associates and franchisees to apply for college credit for attending select Yum! training programs and YU courses. The AutoDP service is provided by the Virtual Counseling Center (VCC), an independent company that has been authorized by Yum! to assist corporate, franchise and joint-venture associates by guiding them to accredited degree programs delivered at a distance. Through the VCC staff, they can create individualized degree plans from colleges and universities offering cost-effective programs of study which maximize the application of all credit previously earned.

We want to make education and career development accessible to as many of our associates as possible. In the U.S., we provide salaried associates with tuition reimbursement for qualified undergraduate and graduate courses taken toward a job-related degree program at any accredited college or university, up to a maximum of \$4,000 per calendar year for certain graduate and undergraduate courses. We also award over \$500,000 in scholarships annually through our Andy Pearson Scholarship Program, established in memory of our founding Chairman. Since implementing the program in 2003, we have awarded over 1,000 scholarships to associates and their legal dependents.

Sixty-three percent of annual scholarships given to our associates or children of associates through the fund goes to students of color; 36 percent goes to female students.

As we continue to grow and drive international expansion, learning and mastering a second language can offer more opportunity globally. Full- and part-time associates receive up to \$1,000 reimbursement for job-related language training or English as a Second Language classes, books, or materials.

## Training Our Associates to be Customer Maniacs

We invest in delivering superior customer service and satisfaction, which we refer to as Customer Mania, in all our restaurants. We train our more than 1.4 million company and franchise associates around the globe to become Customer Maniacs, empowered to do whatever they can to serve and satisfy our customers. This makes business sense and helps our associates to build relevant business and customer-interaction skills.

Our focus on Customer Mania starts with our hiring philosophy – to take what our company stands for and use that to find the kind of people who have a strong chance of being happy, productive and successful working here. Because we have a consistent set of values, a well-defined and unique culture, and a clear mission for our business, we have the understanding and tools to make this philosophy work well. We call this “Smart with Heart,” and we use it to hire for every position within our system – hourly team members in our restaurants and accountants alike. Some of the underlying principles of Smart with Heart include hiring people who:

- Can inspire rather than manage;
- Are engaged rather than compliant;
- Will enable their teams rather than muscle them;
- Are connected rather than indifferent; and
- View Customer Mania as a passion, not a chore.

## Leadership Development focused on “Achieving Breakthrough Results”

A new, high-impact leadership and action-planning training program – Achieving Breakthrough Results (ABR) – is being offered by Yum! University. The objective of ABR is to provide the personal training and tools for individuals to raise the bar on their performance and achieve breakthrough results in and outside the workplace. The new program was introduced to our senior leadership in late 2007. We are now in the process of rolling out the program to all our franchisees and associates across the world, including Restaurant General Managers (RGMs), by 2009.

In ABR we begin by asking ourselves, “What can I do now to get breakthrough

“The single most important thing we can do every day is hire, retain and develop the right people, with diverse backgrounds and styles, who have the ability and attitude to be Customer Maniacs.”

David Novak,  
Chairman and CEO  
of Yum! Brands



results in my piece of Yum!?" This determined attitude, which we call "intentionality," drives step-change thinking. We imagine how big something can be and work "future-back": setting a vision for success, then working backward to develop the strategies and actions to achieve it, and always doing so with positive energy and personal accountability.

After completing the initial workshop, associates and franchisees are provided with four weeks of targeted coaching to help "make it stick" – integrating the concepts, tools and skills they learned into their day-to-day behavior.

The program has been very well received. We will continue to reinforce the tools and behaviors of ABR so it becomes our way of doing business, and sets us up to win in our second decade as a company.

### Training results

We seek to maximize training and development opportunities for our associates wherever we operate. We've made significant progress across our global markets, for example:

- In China, 98 percent of our more than 3,300 associates in the Restaurant Support Center participated in our internal training program in 2007. In total, 3,230 associates received 26,300 hours of corporate training, an average of eight hours per associate.
- In Australia, our training program qualifies Yum! as a Registered Training Organization. This certification recognizes our high training standards and allows us to assess associate skills and competencies in line with the government's TAFE (Technical and Further Education College) standards. Associates who participate are awarded with TAFE Certificates and Diplomas. The number of hours an associate spends training each year depends on his or her role and experience, ranging from two to 25 percent of his or her time.
- In Mexico, our associates participate in 65 – 130 hours of training per year, depending on their roles and positions.

- In France, team members receive 24 hours per year in training, while managers participate in 150 hours of training per year.

### Career Development

We offer a Career Development Program for all associates in which participants get a deeper insight into their career goals, develop their "personal brand," and learn how to relate their values and goals to the organization. Timing is key to making this intensive program effective. It is delivered during our mid-year process, when all above-restaurant associates have individual development and career discussions with their supervisors. These discussions start with a 360-degree feedback survey and culminate in an individualized development and career plan. Offering the Career Development Program at the same time enhances the quality and depth of the planning process.

### Coaching and Mentoring

We have formal and informal mentoring programs across Yum! Two years ago we initiated Mentorlink, an online tool that uses personality profiles, career goals and professional experience to bring our associates into a mentoring relationship to build professional and personal skills. To date, over 400 associates have taken advantage of this program and our goal is to make this available to all associates around the world.

In China, we have developed a mentoring program that enables our senior associates to guide, coach and support high-potential associates in order to develop and retain them. As a result, our operations staff in China, which represents about 90 percent of our entire China-based team, has been entirely developed and promoted from within.



By the end of 2008, the concepts and tools underlying the ABR approach are indistinguishable from the everyday language and behavior of Yum! Managers. Everyone is speaking the language, using the tools, and achieving breakthrough results in every part of Yum!.

Tim Galbraith, Yum! VP of People Development  
on ABR Vision

## Investing in Learning Technologies

Over the next few years, we expect to significantly reduce the paper-intensive training system currently used in our restaurants. We are rolling out technology-based, distance-learning methods such as self-paced online instruction and virtual classroom sessions, as well as social networks that will enable more informal learning and sharing of best practices. In addition, we plan to eliminate our paper-based standards manuals (as large as 3,100 pages per restaurant) as all of our brand restaurants come online. We are implementing these learning technologies into our restaurants across our entire global restaurant system between now and 2012.

## Providing Total Rewards to Yum! Associates

We provide a comprehensive, total-rewards package that helps us attract, retain and reward talented Customer Maniacs all around the world. Our programs are designed to:

- Reward individuals and our teams for driving great business results;
- Support our associates in caring for their health and preparing for their future; and
- Provide opportunities for personal and professional growth and development.

At the restaurant-associate level, the programs are available to our full-and part-time associates. As our associates grow with the company – from team member to restaurant general manager – so do their rewards. Our franchise owners develop and execute their own associate-rewards programs.

Our compensation rewards include competitive base pay, short-term bonuses to recognize immediate results and long-term incentives to build wealth and retention. For example, in the U.S. and in some of our larger international markets such as Australia, our restaurant managers receive YUMBUCKS stock appreciation rights, which allow them to share in the financial success of the company. Grants are given to new restaurant leaders on an annual basis to demonstrate our commitment to them as well as to existing leaders in recognition of achieving positive restaurant performance. By making each restaurant manager an owner of the company, we offer them a stake in the company's overall results, as well as his or her own restaurant's performance.

Our benefits packages are designed with the understanding that each of our associates is an individual with different needs and goals. Frequently offered benefit programs include:

- A variety of healthcare programs that allows the associate to choose the option that best fits his or her needs;
- Life insurance designed to protect our associates and their families in the event of an unexpected loss;
- Retirement benefits designed to allow our associates the opportunity to provide for their future financial security;
- Education benefits such as language reimbursement and scholarships to deliver on the promise of building people capability;
- Assistance programs to help support our associates in managing the demands of their daily work and home life; and
- Discounts for child care and auto purchases, using the company's buying power on behalf of associates.

We believe that we provide a rewarding workplace and working conditions, and that our compensation policies compare favorably with those of our principal competitors. The majority



of our restaurant associates are paid on an hourly basis and work on a part-time basis. In support of this, many of our benefits for entry-level associates are available within 60 days of employment without requiring a certain number of hours worked. We do have some variations in our benefits and compensation packages depending on the nature of the associate's employment.

For more information about the range of compensation and benefits available to our associates, please visit [www.yumsuccess.com/benefits.html](http://www.yumsuccess.com/benefits.html).

## How We Engage With our Associates

Everyone in our Restaurant Support Centers and restaurants is committed to sharing information about our business with one another. Our goal is to make our big company feel small. We actively encourage open dialogue across the whole organization. We place an intentional focus on face-to-face communication, especially in our restaurants. Our corporate operational and management teams seek continuous feedback from our restaurant owners. Finally, we ensure open dialogue between our senior leadership team and all associates through multiple communication channels. A few of the ways in which we achieve this level of engagement includes:

- Operations teams spend a considerable amount of time in our restaurants: a minimum of 80 percent of their time is spent in the restaurants, not in an office. This means that each member of the Operations team talks monthly to associates about their work, lives and the business.
- The Yum! and Brand/International Executive Teams also spend significant amounts of time in the restaurants observing and speaking directly with customers about their perspectives. They have roundtables with the Restaurant General Managers to talk about our business and get their ideas about how to make it better. These discussions often lead to improvements in associate programs and operations procedures, as well as new product innovations. They also listen in on toll-free customer calls to keep their fingers on the pulse of what our customers are saying.

- The senior leadership teams from each brand and international division conduct regular roundtables, team meetings, focus groups and conference calls. Chairman and CEO David Novak has quarterly "Talk to David" conference calls that any global associate or franchisee can call into, toll free, for updates about our business, to ask questions or provide feedback and ideas. David also has a global internal blog where he shares his personal thoughts on the business and seeks ideas and thoughts from others on the team on a frequent basis.

We also want to learn as much as we can from our associates about what we are doing well and where there is room to improve. We have a People Development team that regularly surveys associates to get formalized feedback on such things as associate satisfaction, benefits, operations procedures, and process improvements. These surveys are conducted via phone, intranet and focus groups. In addition to these ongoing surveys, two formal surveys exist.

1. The Founders Survey is conducted once a year and is distributed to all of our associates worldwide. The survey measures their satisfaction in areas such as communication and accessibility of senior leadership, work/life balance, personal and professional development opportunities, compensation and benefits, and overall job satisfaction. The 2007 results confirm that our associates are generally proud to be employed by us and feel their work contributes to the overall success of our business. Responses also indicate that we can make improvements in terms of compensation and benefits. While we rank well in wages and benefits on an industry average, we continue to work with our leaders to ensure that we are rewarding and recognizing our associates appropriately, especially our top-performers.
2. A weekly CHAMPS (Cleanliness. Hospitality. Accuracy. Maintenance. Product Quality. Speed of Service) survey is used by restaurant teams to gauge associate satisfaction with operations procedures, working conditions, support provided by our Restaurant Support Centers and general feedback.



Our commitment to consistent, open and accessible communications allows us to keep each and every one of our associates informed of, and engaged in, our business.

### Recognize! Recognize! Recognize!

Recognition is an integral part of our culture and linked to the values of our organization – we celebrate things big and small. In fact, “We love celebrating the achievement of others and have lots of fun doing it!” is one of our How We Win Together principles. It’s also the foremost reason our culture is brimming with positive energy, teamwork, dedication and fun.

Chairman and CEO David Novak personally models a recognition culture in a light-hearted way with his own “Yum! Award” — a set of chomping dentures with legs given to all those who “walk the talk” of leadership. All leaders in the company have their own personal

recognition awards, which has resulted in such highly prestigious honors as the “Big Cheese” hat recognition at Pizza Hut, the “Warp Speed” award at KFC, “Sauce Packet” at Taco Bell, and the “Big Leap Award” at Yum! Restaurants International.

Each year, the top-performing Restaurant General Managers (RGMs), Above-Restaurant Leaders and Franchisees at each brand are invited to join Senior Leadership for premier recognition and rewards celebrations. In our restaurants, recognition cards are displayed on special boards, and team members proudly wear recognition stickers and pins along with their name badges and uniforms. In each Restaurant Support Center, the recognition cards are displayed everywhere for all to see – office hallways, offices, bulletin boards, conference rooms, and even in our “Walk of Leaders” tunnel at our Louisville RSC.

Recognition has become such an essential part of our culture that

Recognition is very important at Yum! Brands and many leaders and associates give recognition awards including the “Community Mania Award”, the “Warp Speed Award”, the “Sauce Packet Award”, and Chairman and CEO David Novak’s chomping dentures with legs “Yum! Award” for walking the talk.



“ At Yum! Brands we believe in giving back to the communities in which we operate. And I was truly inspired when I recently heard about an initiative in this regard by our franchisee, Devyani International. They’ve opened a Kentucky Fried Chicken restaurant in Kolkata that is run by speech and hearing impaired employees. So, I went to see the restaurant and I was struck by what I saw. I was struck by the fact that we don’t really announce that this restaurant is different in any way; by the fact that the standards of the restaurant were second to none; and the sheer joy and pride on the faces of the employees there at the opportunity of working at our restaurants.

Niren Chaudhary  
Managing Director, Yum! Restaurants India

*The franchisee, Virag Joshi, President and CEO of Devyani International, Ltd. embarked on a journey to give back to the community of New Empire, Kolkata and employ a group of approximately 40 speech- and hearing-impaired associates in 2007 as part of the restaurant team. The management team spent almost six months refining the restaurant training materials and programs to engage the associates in executing world-class customer service at the restaurant. Devyani International plans to take this program across the Yum! India restaurant system leveraging the success of the program in the initial restaurant and the passion and pride of all associates involved in this initiative.*

associates receive training and a Guide to Recognition as part of their orientation. Feedback on giving recognition is also included as part of our 360-degree peer-review process.

Our people-first, recognition-driven culture has been benchmarked by other organizations and widely praised by business leaders, authors and lecturers. Numerous companies have worked with our Culture Team to share best practices surrounding recognizing and rewarding great performance and great associates. In addition, Ken Blanchard, the largest-selling business author in the world (“One Minute Manager”, “Raving Fans”, etc.) wrote a book about our journey to build a distinctive culture entitled, “Customer Mania: It’s Never Too Late To Build A Customer-Focused Company.”

### Diversity at Yum!

For us, diversity is not a target – it’s a way of life and a way of doing business. Everyone can and does make a difference in our organization. One of our HWWT<sup>2</sup> principles – Believe in All People – underscores the importance of actively seeking diversity in others; believing everyone has the potential to make a difference; and coaching and supporting every individual to grow to their full capacity. This adds perspective and depth to everything we do. We’ve also found that a diverse team makes for better problem solvers, services all our customers more effectively, and creates a richer culture for all of us to enjoy.

In our company-owned operations in the U.S. for example, about 30 percent of our associates are Caucasian and the remaining 70 percent are Hispanic, African American and/or Asian. Minorities and women made up 64 percent of our external management hires and 41 percent of internal management hires (promotions) in 2007.

We are also increasing the representation of African Americans, Hispanics and women among our key talent/decision makers, and growing the pipeline of diversity in our mid-level manager ranks.

All of our brands have leadership initiatives focused on high-potential diversity talent, and all leaders serve as mentors. In addition, last year each of the brand presidents went into their communities to provide business-growth coaching for local networks of minority businesses.

Making progress in diversity is a business priority and the work of everyone in our system. This commitment is reflected in David Novak’s annual goals, or “Blue Chips.” We also have a dedicated Global Diversity and Inclusion Officer who guides our strategy and a number of initiatives that enhance our inclusive workplace.

### Attracting Diverse Talent

In the U.S., we partner with a wide range of colleges and institutions to attract the best talent to our workplace,



including the National Hispanic and Black MBA Associations. We also train our managers in the leadership skills needed to foster an inclusive work environment that is built on everyone's contributions. In addition, our workforce sourcing objectives remain grounded in hiring the right people – those who reflect our customer base and the communities in which we operate – for the right jobs.

### Supplier and Franchisee Diversity Initiative in the U.S

We are extremely proud of the progress we have made, and continue to make, in promoting supplier diversity in the U.S. Led by our Unified FoodService Purchasing Co-op (UFPC) partners and our Support Educate Encourage Diversity (SEED) Team, our associate network focuses on building the impact of minority- and women-owned enterprises in vital areas of our business. In 2006, we asked our key suppliers to track and report their purchasing from minority-owned businesses. This resulted in an increase in our supplier diversity awareness and output to more than eight percent of our overall purchasing expenditures. Today we are on track to meet our goal of directing 10 percent of our purchasing expenditures to minority- or women-owned businesses by the year 2010.

We continue to increase our efforts in the recruitment of minority franchisees. We are playing a leadership role in the development and launch of the International Franchise Association's MinorityFran Program. MinorityFran is an initiative in partnership with community leaders such as the National Urban League, National Council of

LaRaza, the Association of Small Business Development Centers, and the US Pan-Asian American Chamber of Commerce, that provides a one-stop point of access for minority prospects who are exploring franchise opportunities.

We continue to strengthen our relationship with these and other minority organizations, and we plan to sponsor an NAACP executive-level leadership forum in 2008 to further recruit qualified minority franchise candidates.

### Engaging Our Partners in Diversity

We are among the first and largest supporters of the Women's Foodservice Forum (WFF), the Multicultural Foodservice and Hospitality Alliance (MFHA) and other organizations that support the personal and professional growth of our diverse, emerging leaders. We were the sole sponsor of the Women's Foodservice Forum/Gallup research on creating organizations where women thrive. In addition, we developed a unique retention and career development program as part of the 2005 Multicultural Foodservice and Hospitality Alliance Symposium.

Last year, our minority and women's affinity groups continued to play a key role in driving our culture by providing networking, mentoring, educational workshops and leadership development opportunities across our system and the communities in which we do business.

### Recognition for Diversity

We are routinely recognized for the diversity of our workplace:

Diversity, inclusion and engagement are simply part of our core values at Yum!. 'Believe In All People' means tapping into the diverse skills, cultures, perspectives and experiences of each of our associates to drive great marketplace performance. Our strategic diversity and inclusion vision is to grow leadership, franchisee and supplier pipelines that increasingly reflect our diverse customer and investor base.

Terrian Barnes  
Yum! Global Diversity and Inclusion Officer



- One of Fortune magazine’s “Top 50 Employers for Minorities” and “Top 50 Employers for Women”;
- Black Enterprise magazine’s “Top 40 Best Companies for Diversity” for the past four years; and
- Hispanic magazine’s “Corporate 100 Companies Providing Opportunities for Hispanics” and “Top 50 Corporations for Supplier Diversity”

## Associate Rights and Responsibilities

All our associates have the right to work in a fair and safe environment. Our Worldwide Code of Conduct holds all of us accountable for ensuring that we treat our colleagues with respect and fairness, allowing them to be recognized and rewarded based on their performance. For more information or to view the Worldwide Code of Conduct, please visit [www.yum.com/governance/conduct.asp](http://www.yum.com/governance/conduct.asp).

Our associates and franchisees are expected to comply with all applicable local labor laws regarding wages and working hours in every country in which we operate. There is no place in our organization for any type of harassment or discrimination because of age, gender, race, religion, national origin, sexual orientation, or physical abilities. The Network, our confidential integrity helpline, is available to all associates to raise questions or concerns 24 hours a day.

## Ensuring a Safe Working Environment

The safety of our associates is deeply embedded in our primary business objectives and in the activities of our global operations. Health and Safety is managed across all our strategic business units – the U.S., YRI, Yum! China and amongst our franchise owners. In the U.S., three Directors of Loss Prevention have annual performance goals heavily weighted on safety in company-owned restaurants. Our China and YRI businesses have similar safety goals. In addition, franchisees and licensees are provided with safety and security standards as well as training set forth in our operational policies and procedures.

Although all our operations around the world are compliant with local regulations regarding safety and injury tracking, a significant goal for our international operations is to develop a

## Lost Time Injury Rate

In the U.S., our performance in Health and Safety outranks the industry average. Between 2004 and 2006, our U.S. company-operated restaurants had a lower associate lost-time injury rate when compared to the industry average.

	2004	2005	2006	2007
Industry Average*	1.00	.90	1.00	N.A.
Yum! Brands, Inc.	.97	.83	.80	.66
<b>Difference</b>	<b>3% better</b>	<b>8% better</b>	<b>20% better</b>	

\* U.S. Bureau of Labor Statistics, Feb 8, 2008, “Food and Drinking Places”, Private industry, Number of cases with days away from work per 200,000 hours

standardized, injury-frequency tracking mechanism in our larger business units, namely the U.K., Australia, Mexico and China. Accurately measuring and understanding injury occurrences will highlight the best safety and security practices in our system, which we can then share with all associates and franchisees. Currently we are consolidating our global data for initial analysis.

We also have a number of programs in place to continuously improve our health and safety program, which includes safety reviews in all U.S. company restaurants. Members of our senior leadership team are also provided with safety and performance data each period, 13 times per year, for U.S. company operations.

## Safety Targets

Our goal is to continue to reduce the number of accidents and injuries in our restaurants across the world. Some of our major markets have succeeded in significantly reducing injury frequency rates. In the U.S. the injury frequency rates in our company-owned restaurants have declined by over 48 percent in the last 10 years. In Australia, the rate for lost time at work due to injuries improved by 50 percent in 2007.

In markets where we have seen an increase in the number of work-related accidents and injuries, we are working to implement programs that will address the areas of concern. For example, in South Korea the rate of lost time at work due to injuries increased slightly from 0.4 percent in 2005 and 2006 to 0.6 percent in 2007. While this rate remains low, we are taking appropriate measures to reduce these rates in the future. These measures include increased health and safety training and the implementation of specific programs to address the areas of concern.

## The Future – What Next?

Our approach to building a talented, diverse workforce is built on our major business principles. These principles emphasize the importance of investing in associate recruitment and advancement, both for individual development and for our overall success as a business.

As a global company with a diverse and ever-changing workforce, we face significant challenges. For example, our rapid growth in emerging markets like India and Russia requires us to adapt our policies to these markets, and to learn from our new partners. Building a diverse foundation at all of our brands gives us a competitive edge and helps us operate as a local business in international markets.

Part of our growth strategy will be to ensure that our leadership team, company workforce and culture are as diverse as our customers around the world.



## Keep it Balanced – Nutrition and Health for our Consumers

We are focused on improving the nutritional attributes of our menu, promoting physical activity programs and always providing great tasting food. The global debate regarding health and nutrition and the role of quick service restaurants has highlighted many challenges. We are committed to being a productive part of this debate and to helping identify solutions.

### Nutrition Task Force

We believe we can have the greatest impact in advancing our health and nutrition platform throughout our system and the industry with action-oriented change.

We formed an internal cross-functional Nutrition Task Force, led by our Chief Public Affairs Officer. The group is comprised of the Chief Food Innovation Officer from each brand, and senior Yum! executives including the Chief Operating Officer, the Chief Legal Counsel and the Vice President of Quality Assurance.

The Task Force is charged with developing and coordinating our overall nutrition policy, including development of our global nutrition guidelines, nutritional disclosure and marketing guidelines, and alternative product development. The Task Force monitors consumer trends, regulatory developments, relevant scientific research, and consults with our internal nutritionist as well as outside nutritional experts to ensure that our nutritional policies are sound and consistent with current trends and science.

### Global Nutrition Guidelines

We have established global nutritional guidelines for all our businesses.

- We recognize that eating habits vary from society to society based on differences in local food preferences and culture.

- We believe a balanced diet consists of a variety of foods from the recognized food groups such as grains/rice/cereals, vegetables, dairy, meat/beans, fats, fruits, and optional calories from sweets.
- We will strive to proactively improve the nutrition profile of our high quality food content, while always providing great taste, value and convenience.
- We offer a variety of menu options at each of our brands that can be part of a sensibly balanced diet.
- We will educate consumers about our product nutrition and support exercise programs.
- We want consumers to make informed choices about their balanced diets and incorporate exercise into a healthy lifestyle.
- We will become even more proactive in developing and offering nutritious options for our consumers across every brand in every country.

### Our Menu – more choice for our consumers

We always listen to the voice of the consumer, and it is telling us customers want greater choice and variety in the food we serve. So we have expanded our menu choices in all of our restaurants and, where appropriate, adapted some of our menu offerings to the different cultures we serve.



“ I congratulate KFC on its decision to switch to a zero trans fat cooking oil. Trans fat has been shown to increase the risk for heart disease. The good news is that people can reduce their threat for heart disease through good food choices and physical activity. I’m pleased that KFC is making significant changes to help Americans make healthier choices by providing menu options with zero grams of trans fat, and I encourage other companies to follow its lead.

Richard H. Carmona, M.D., M.P.H., F.A.C.S., (Retired)  
the 17th Surgeon General of the United States.



Today we offer a much broader selection of foods to meet customer needs and to ensure that we continue to be the restaurants of

choice for the billions of customers that visit us each year.

Here's a taste of some of the options our restaurants provide for consumers.



Fresco Menu Items

### Taco Bell

In the U.S., Taco Bell's Fresco Menu has nine items with nine grams of fat or less. Taco Bell® Fresco Menu items cut the fat, not the flavor, so they have the same great Taco Bell taste including grilled, marinated all-white-meat chicken, Carne Asada Steak and seasoned beef – with fewer calories and less fat.

For example, a Fresco Ranchero Chicken Soft Taco contains 170 calories and four total fat grams versus 270 calories and 14 total fat grams for the regular menu item.

Fresco Menu items replace cheese and sauce ingredients with daily-prepared fresh Fiesta Salsa, a zesty yet mild mix of chopped tomatoes, onions and cilantro, which contains only five calories and zero fat grams.



Fit 'N Delicious Pizza

### Pizza Hut

With more than 30,000 different topping combinations, pizza at Pizza Hut can be customized for individual preference, taste and lifestyle. For example, ordering a Thin 'N Crispy® Pizza with half the amount of cheese, extra sauce and choosing toppings that are lower in fat (lean meats such as chicken or ham and vegetable toppings), consumers can enjoy a great tasting pizza with 25% less fat than the regular Thin 'N Crispy® Pizzas. In some restaurants, this can be found on the menu as The Fit 'N Delicious Pizza™.

Pizza Hut will also be launching The Natural™ pizza nationally beginning in December. This pizza has a multigrain crust made with five different whole grains, natural Old World sauce and all natural whole milk mozzarella. In addition, Pizza Hut offers a variety of all natural toppings, including pepperoni made without added nitrite and nitrates, naturally-preserved Italian Sausage, fire-roasted red peppers, sliced Roma tomatoes marinated in a garlic-basil vinaigrette, as well as 100% beef with no fillers.



Kentucky Grilled Chicken

### KFC

Consumers can create a variety of meals with reduced-fat content from KFC's U.S. menu by removing the skin and breading on KFC's Original Recipe® chicken breast (2g of fat) and choosing two home-style sides, such as the 5.5 inch corn on the cob (1g of fat), mashed potatoes and gravy (4g of fat), green beans (1.5g of fat) or BBQ Baked Beans (1.5g of fat). Consumers can also select the Honey BBQ KFC® Snacker (3g fat) or the Honey BBQ Sandwich (4g fat), where available, with a side of long-grain rice (1g fat) and a side of southern-style green beans.

Select U.S. cities also now offer Kentucky Grilled Chicken, which has significantly fewer calories, fat and sodium than KFC's Original Recipe® Chicken. The grilled chicken has been in test for about two-and-a-half years and is expected to be launched nationally in 2009.



Grilled Salmon

### Long John Silver's

Consumers can enjoy a variety of great tasting meals with reduced-fat content from Long John Silver's new Freshside Grille menu, recently introduced in the U.S.

Freshside Grille focuses on non-fried entrees of less than ten grams of fat and zero grams trans fat. For example, the Grilled Tilapia & Shrimp Scampi entrees have only 115 calories and less than five grams of fat per serving. A serving of the Grilled Pacific Salmon entree has 150 calories and five grams of fat per serving. The new vegetable medley is also low in calories (60) and fat (2g) and a good source of dietary fiber (4g). Long John Silver's offers consumers a serving of corn on the cob without oil (3g of fat). All items are cooked using half the energy of traditional frying.



Grilled Chicken Sandwich

### A&W All American Food

In the U.S., A&W offers customers a grilled chicken sandwich made with all-white breast meat containing less than 138 calories and 3.1g of fat. A&W Root Beer® is made with pure cane sugar and is caffeine-free.



## Yum! China

In mainland China we offer more locally relevant, nutritionally balanced menu items than in any other international market. In 2003, KFC China introduced seasonal vegetables and corn salad, while fresh corn was launched before 2001. Winter soups now complement the regular egg and vegetable soup; and an entire line of delicious, healthy roasted foods. These include Roasted Chicken Leg Burger in a variety of local and international styles (Golden, New Orleans and Cumin); Roasted Wings (New Orleans, Tea-Flavor and Cumin); and local favorites with a distinctive, KFC twist such as Old Peking Chicken Roll, Gulao Chicken Roll, Gulao Pork and Chicken Roll, and Kimchi Pork Roll. We also offer a Western-style breakfast menu of congees.

- In China, our largest growth market, we have steadily increased the number of menu choices since the mid-1990s, when we formed a research and development team to understand local food choices and product formulation. Because of what we learned, more than 30 different vegetable options have been served in our China restaurants from 2001– exactly what our Chinese consumers tell us they prefer.
- Yum! China has published a white paper regarding nutrition and other ingredient-formulation topics. All U.S. brands intend to develop

their own nutrition white papers in 2009. The team in China has also developed a Health and Nutrition Advisory Committee, consisting of a panel of leading public health and nutrition specialists, to analyze trends and research in food and nutritional science. The team provides expert advice on product development to our brands, making sure we can bring to life our goal of improving the nutritional value of our products without compromising taste or economic value.

## Spice Up Your Plate – Local Choices in Our International Markets

Eating habits vary from society to society based on differences in local food preferences and culture. We are committed to serving our customers great tasting food in accordance with those preferences and within the context of those cultures. In our rapidly expanding international markets, we are adapting our food to local standards and tastes. For example, in India where we are the largest and fastest-growing restaurant company, we have created menus that appeal to local tastes such as Pizza Hut's Tandoori and Masala Pizzas, and KFC's vegetarian products. Overall, our brands in Yum! China and YRI average more than 20 new-product introductions every year, which are based on local consumer feedback.

## Improving the Formulation/ Nutritional Value of Our Products

Improving nutritional values while maintaining the great taste of our food is important to us. We plan to improve the formulation of our products by:

- **Converting to zero grams trans fats per serving** *(see call out, page 35)*. Health authorities worldwide recommend that consumption of trans fats be reduced to trace amounts. We have been proactively reducing artificial trans fats in our products. After more than two years of extensive testing, KFC, Taco Bell and WingStreet converted all U.S. restaurants to a zero grams trans fats per serving cooking oil in April 2007, among the very first chains to do so. In Canada, KFC and Taco Bell restaurants switched to a zero grams trans fat oil in January 2007.

International markets are also committed to minimize or eliminate artificial trans fatty acids in all restaurants, company or franchised. Over 80% of international restaurants have already achieved zero grams trans fatty acid status for frying oils. Plans are in place to convert the remaining restaurants over the next three years as supply logistics can be achieved.

In addition to frying oils, Pizza Hut, along with our other brands, has been reformulating various ingredients to remove or minimize partially hydrogenated vegetable oil in everything from seasonings and sauces to doughs and salad bar items. Over 60 ingredients have been reformulated at Pizza Hut alone.

## MENU BOARD LABELING IN THE UNITED STATES

In September, 2008, Yum! Brands became the first company to announce it will begin voluntarily placing product calorie information on menu boards in company-owned restaurants in the United States. Franchisees are encouraged to provide the same information on their menu boards.

All calorie information will be based on individual serving sizes and will be phased onto menu boards beginning in 2008 with completion by January 1, 2011. In addition, Yum! Brands has called for federal legislation using the recently enacted legislation in California as a model to establish

uniform guidelines for menu board labeling with calorie information.

The Center for Science in the Public Interest (CSPI) and the Department of Nutrition at Harvard University's School of Public Health praised Yum! Brands for adding calorie counts to its menu boards.

“ Yum! Brands' groundbreaking announcement that it will add calorie counts to its menu boards at KFC, Pizza Hut and Taco Bell is fabulous news for health conscious consumers. Yum! is leaping ahead of all its competitors by providing the one piece of nutrition information that consumers most want. We applaud this move and encourage other major chains to follow this bold example. Yum! has gone an important step further voicing its support for legislation that would require restaurants to list calories on menus and menu boards. ”

Michael Jacobson, Executive Director,  
Center for Science in the Public Interest,

“ This announcement that calories will be displayed on menu boards deserves loud applause. Yum! Brands call for national legislation to create uniform menu board guidelines on nutrition is greatly appreciated. It is exactly the kind of industry leadership we need. ”

Walter Willett, Chair of the Department of Nutrition  
Harvard University's School of Public Health

- Consistently reducing the level of sodium in our food. Sodium is a vital ingredient of the human diet, but too much of it could lead to health problems such as heart disease. Sodium reduction remains a major challenge to the food industry in terms of taste and formulation, as salt is a vitally important compound in cooking. We recognize that we have an opportunity and a responsibility to make our consumers aware of their sodium intake, and to offer food with lower sodium content.

Our leading brands in the U.S. – KFC, Pizza Hut, and Taco Bell – are working hard to reduce the sodium content in their product formulations. In our international restaurants, sodium reduction is also a key priority. KFC in the UK has reduced the amount of salt by over 85 tons per year. In Australia, we are in the early stages of consumer testing of products with reduced sodium content. In South Korea, our Pizza Hut restaurants are working to reduce the salt level of the pizza through the introduction of lower sodium cheese (25 percent lower sodium), pepperoni (40 percent lower sodium) and meat toppings (40 percent lower sodium). In Canada, KFC and Pizza Hut are engaged in consumer research surrounding sodium reduction.

### Other Ingredient Improvements

- In the U.S., Taco Bell formulated its newly introduced Frutista Freeze beverages to meet the emerging needs of its consumers. As such, all of the beverages are made without high fructose corn syrup and use only pure cane sugar, real strawberries and natural colors and flavors.
- In 2008, Taco Bell domestic plans to move to reduced fat sour cream, which will decrease total fat by six million pounds per year for the system.
- Pizza Hut is responding to consumer demands for more wholesome products by testing a variety of ingredient and product offerings that improve the wholesomeness and nutritional content of the overall

product including the upcoming launch of The Natural™ pizza. In the U.S., Pizza Hut has eliminated partially hydrogenated vegetable oils from pizza ingredients and is working toward reducing the overall sodium content of menu items yet still satisfying consumer demands for great tasting products.

### Keep it Balanced – Communication With Our Consumers

Our consumers rely on us to provide clear, truthful information about our food to help them make informed choices. We also want our consumers to enjoy an active, balanced lifestyle, because we believe it is important to mix a sensible diet with daily activity and a little fun.

We share these commitments with our consumers in many ways, including in our U.S. restaurants and through our “Keep it Balanced” website: [www.keepitbalanced.com](http://www.keepitbalanced.com). Several countries outside the U.S. – including the U.K., France, Australia, the Netherlands, Germany and China – provide nutrition information via their websites and other communications. Going forward, we are committed to working with our international franchisees to provide this information in all of our restaurants worldwide and on all of our websites.

In the U.S., we inform our customers about their choices in a number of ways.

- Our U.S. divisions of KFC, Taco Bell, Pizza Hut, Long John Silver’s and A&W intend to become the first national restaurant chains to begin voluntarily placing product calorie information on their respective menu boards (see call out, page 34) in company-owned restaurants nationwide. Franchisees will be encouraged to provide the same information on their menu boards. Calorie information will be based on individual serving sizes and was phased onto menu boards beginning in 2008 and will be completed by January 1, 2011. We are also calling for federal legislation to establish uniform guidelines for menu board labeling with calorie information.

### The Transition to Zero Grams Trans Fat Per Serving Cooking Oil at KFC, Taco Bell, Long John Silver’s and WingStreet Restaurants

It took KFC nearly two years and extensive testing, which included evaluating over 25 zero grams trans fat oils, before finding one that maintained taste and appearance and is available in the quantities needed to meet demand. By April 2007, every KFC restaurant in the United States began using zero grams trans fat soybean cooking oil. Pizza Hut’s WingStreet brand used the KFC research to introduce the same zero grams trans fat oil in their restaurants in April 2007.

Every Taco Bell restaurant is using zero grams trans fat per serving canola oil and reformulated ingredients to remove 16 million pounds of trans fat per year. Long John Silver’s will also be introducing zero gram trans fat cooking oil to its system in the near future.



The American Heart Association believes that trans fat contributes to heart disease risk and recommends that Americans reduce trans fat in their diets. That's why we're pleased to know that KFC is making the switch to zero trans fat, giving Americans even more choice for great tasting food with zero trans fat. We hope other restaurant and food companies follow this important lead.

Robert Eckel, President,  
American Heart Association



- Each brand's nutrition website lists ingredients for each of its permanent menu items, nutritional values of average portions for all food items, and potential food allergens and sensitivities. Customers can also use the nutrition calculator found on each site to customize an order and learn about the nutrition information of their orders.
- All brands make nutrition brochures readily available to consumers in their restaurants with information on ingredients and menu options that can fit into a balanced diet. Alternatively, this information is available on trayliners in some restaurants.
- As part of a broader Health and Wellness effort across the United States, Yum! has made a decision not to advertise its

products on television programs specifically aimed at children under 12 years old.

### Healthy Lifestyles – Increasing Physical Activity

Regular exercise is an important part of a healthy lifestyle. We provide information and tips on how to increase physical activity as part of daily life on our brand websites and on our Keep It Balanced website, and through our engagements in the communities we serve.

We intend to launch exercise programs across the globe to help educate consumers about the importance of "energy in and energy out." Our goal is to increase understanding and awareness of the importance of incorporating activity in our customers' lifestyles. For example, we are looking to implement national exercise programs for consumers online and with nationally renowned University of Louisville men's basketball Coach Rick Pitino in an effort to educate consumers about maintaining a balanced lifestyle.

Obesity rates have increased and we are determined to take a leadership role by implementing programs that stimulate youth to boost their activity levels. In 2004, KFC in China launched a national youth three-on-three basketball tournament, the largest corporate-sponsored sports program in Chinese history. The program started with 48,000 participants representing 640 restaurants from 172 cities. Today this program, in its fifth season, is now the world's largest grassroots basketball program anywhere.

### Yum! China is deeply engaged in children's activity programs, developed by Yum! China leaders and operated by restaurant associates

**THE HAPPY CAMP** – Designed to teach children the benefits of exercise and healthy foods, more than 1.2 million children attend Happy Camp every year. They learn important concepts such as "Breakfast is the most important meal of the day," "The secrets of fruit," "Milk is healthy food," and more.

**DANCING AT THE RESTAURANTS** – Restaurant Associates lead children in dance activities in each restaurant three to four times a week.

#### SCHOOL PROGRAMS:

In collaboration with an educational organization consists of the following:

- **The Happy Classroom/ Chicky Educational Course** – A community program aimed at enriching primary school students' extra-curricular activities. The program includes education on nurturing good eating and exercising habits among children and other topics important to this age group. In 2008, this program has been rolled out in 40 cities across China.
- **Chicky Sports Game** – Started in Shanghai in 2003, the program is designed to help children develop exercise habits and adopt a healthy lifestyle. Since 2003, 1.2 million students in 2400 schools in five cities have participated in the program.

With more than 1,900 leagues, that's 24,000 teams across 400 plus cities. We are thrilled with this growth and look forward to replicating the event internationally.

### Providing a Smoke-Free Environment for our Customers and Associates

In 1994, our U.S. Taco Bell restaurants went "smoke-free". Our domestic KFC, Pizza Hut, Long John Silver's and A&W Restaurants became smoke-free in 2005. Our restaurants also are smoke-free in many of the international markets in which we operate.

### Listening to our Partners

Addressing the world's obesity challenge is daunting. We cannot do it alone. We need to enroll our partners in the effort to drive true and lasting change, as well as citizens' organizations, academicians, and specialists who deal with the potential negative impacts of an unbalanced diet.

We are an active participant in the Obesity Committee and the Sodium Task Force of the International Food Information Council (IFIC), as well as its Board of Directors. IFIC is deeply involved in all levels of policy and legislative activity. Our presence brings an industry perspective to the decision making process. It also gives us access to information that helps us formulate company-specific as well as coalition-oriented strategies that are based on consumer and scientific research.

We take part in the American Heart Association Industry Nutrition Advisory Panel (INAP). INAP is a partnership between the American Heart Association (AHA) Nutrition Committee and food industry leaders, providing a platform for sharing information and planning cooperative programs in the areas of diet/nutrition and cardiovascular disease. The panel brings together industry and science representatives to exchange information in areas of mutual interest pertaining to nutrition. Other benefits

include networking, relationship building, education on relevant topics from nutrition, physical activity, metabolism and obesity, and an opportunity to provide input to AHA regarding statements and positions.

We are members of the American Dietetic Association's Exhibitor Advisory Council. The Council was created to represent ADA's exhibiting companies, act as advisers to share information with management regarding rules and procedures, and to keep ADA updated on industry trends and issues.

**"We applaud the decision made today by Kentucky Fried Chicken and Pizza Hut to put the health of their associates and customers first and institute smoke-free policies in all their restaurants nationwide. Smoke knows no bounds and secondhand smoke is a known health hazard. The vast majority of Americans support smoke-free policies. This decision mirrors those feelings, and will most certainly save lives."**

Carolyn D. Runowicz, MD,  
President-elect, American Cancer Society, 2005

### Where Do We Go From Here?

We have taken significant steps to replace our cooking oil, provide healthier menu options and encourage our customers to live a balanced lifestyle that also incorporates regular physical activity.

In the near term we will continue to improve the formulation of our food products while educating our customers and associates about the ways in which they can enjoy our many delicious menu choices while living healthier lifestyles.

Given the capacity and reach of our system, we believe it's our responsibility to take a long-term leadership role in addressing the global obesity issue. We plan to develop a Plan of Action that may include these actions:

1. Clear positions on Menu Labeling, Kids Advertising, Kids Meal Standards and Product Package Labeling;
2. A global advocacy coalition that includes stakeholders, third-party advocates, and industry competitors;
3. A physical exercise plan for our associates; and
4. A Nutrition Task Force for public policy.



## Environment

We care about the impact of our global environmental footprint and we believe it is our responsibility to understand and minimize the impacts of our business on the environment.

**Our challenges include:**

- Energy usage in our restaurants
- Waste management
- Packaging
- Sustainable building design

We are proactively exploring the ways in which we can reduce our impact on the environment without compromising operational standards or shareholder value. Over the past two years, our U.S. company-owned restaurants aggressively worked to reduce our energy consumption. We achieved total annualized savings of 60,000 metric tons of CO<sub>2</sub>, about 18 percent above our goal of 51,000 metric tons. The savings – equivalent to 10,700 cars being taken off the road or eliminating the energy use of 4,400 households – benefited shareholders as well because we saved \$17 million in energy costs.

In 2006, we took this commitment to a new level when we established the Environmental Leadership Council (ELC), our leadership team for great environmental stewardship. The ELC helps set environmental leadership strategies for Yum! and identifies beneficial environmental opportunities, then designs, tests and deploys programs to deliver on them.

Our system is focused on finding ways in which we can reduce our worldwide environmental impact, including:

- Equipment retrofits and energy efficient innovations;
- Better energy management systems;
- Behavioral changes related to use of energy, waste management in our restaurants including the spent grease from our fryers, and water reduction;
- Recycling paper and other restaurant packaging;
- Material selection and use in our building design and retrofits.

## Innovating With the Environmental Leadership Council

The ELC is a catalyst for change in our global infrastructure, building consistency among business units and coordinating efforts for maximum effectiveness. It is chaired by our Senior Director of Global Engineering, with strategic oversight by our Senior Director of Corporate Social Responsibility. The Council has executive sponsorship by our Chief Public Affairs Officer and Chief Operating Officer.

We have defined seven areas of strategic focus for the Company and the ELC has established sub-teams for each. Led by experts from our U.S., YRI and China operations as well as Unified Foodservice Purchasing Co-op (UFPC), these seven are:

1. Energy – Including Efficiency, Reduction and Procurement;
2. Waste;
3. Packaging;
4. Building Environmental Sustainability Team (BEST);
5. Equipment/Back Of House (our kitchens and other non-customer areas of the restaurant);
6. Restaurant Education/Communication;
7. Monitoring and Reporting.

### 1. Energy Efficiency and Reduction

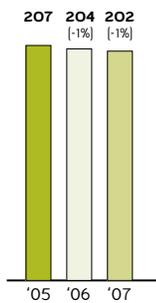
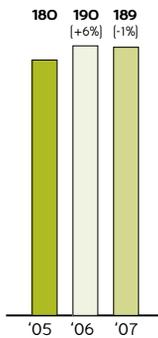
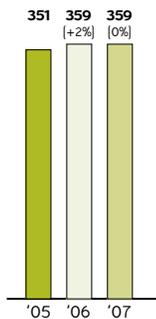
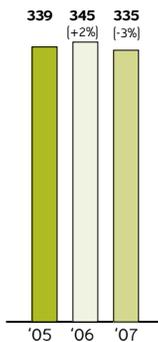
We believe energy reduction is the number one area of greatest environmental opportunity and highest cost benefit. Our top priority in the coming years is to reduce our energy usage by 12 percent by 2010 in U.S. company-owned restaurants, and by 10 percent by 2012 in YRI company-owned restaurants.

Our dedication to green development is evidenced by our constant pursuit of innovative, effective strategies and solutions to reduce our global footprint. Only if the project, and the savings it achieves, meets our high standards do we incorporate it into our operations. Projects we are working on include:



## Electricity – U.S.

kWh/Restaurant/Year ('000s)\*



\* Company-owned restaurants

## Lighting

The linear fluorescent bulbs used in most U.S. KFC and Taco Bell restaurants have been converted to more efficient models, which has resulted in a carbon reduction of almost 2.4 metric tons per restaurant per year. Pizza Hut restaurants will finish conversion by the end of 2008.

In all new U.S. restaurants, compact-fluorescent lamps (CFLs) are used wherever feasible. We expect to save 0.21 metric tons of carbon per year for every incandescent lamp replaced with a CFL.

We regularly evaluate new lighting technologies such as light-emitting diode (LED) to understand their potential application in our restaurants and impact on the environment.

The majority of our new and existing U.S. restaurants use Energy Management Systems (EMS) to efficiently control the operating hours of inside and outside lights. Motion sensors are used in most of the restrooms and we are evaluating their use in walk-in coolers to control the operation of the lights.

## Air Conditioning

For all new restaurants or for replacements in existing restaurants in the U.S., we use high-efficiency air conditioners.

All new air conditioning units use programmable thermostats to optimize comfort and minimize energy use. In addition, over 1,500 thermostats, each saving over 4,500 kWh per year, have been installed in existing company-owned restaurants in the U.S. This delivers a reduction of 4,100 metric tons of carbon.

We are currently evaluating devices that increase the efficiency of air conditioning evaporators and refrigeration systems in our U.S. restaurants. Based upon our estimations, we anticipate a reduction in 2008 of over 15,000 metric tons of carbon emissions per year due to our installation of these devices.

We are pursuing additional energy and cost saving opportunities through the use of more efficient kitchen equipment as detailed in the Equipment/Back of House section on page 44.

## ENERGY REDUCTION EFFORTS AROUND THE WORLD

We continuously look for ways to further reduce our energy use in all of our markets. We have markets leading the way in our system in this area including:

### Australia

We have completed a comprehensive measurement of our energy and water usage at three typical KFC restaurants to establish a baseline to determine average usage and prioritize areas for further reductions.

We have also been testing the use of natural gas open fryers in place of electric fryers. Natural gas produces 75 percent less greenhouse gas than the fossil fuels burned to generate most of Australia's electricity.

All of our buildings have been fully insulated, and all glassed areas are now shaded to reduce solar heat gain and lessen the need for air conditioning.

All new U.S. restaurants feature compact fluorescent lamps (CFLs) where feasible as shown in this KFC restaurant.



**Mexico**

- Start-up protocols for equipment and lights have been put in place to reduce voltage peaks.
- We have introduced high pressure gas systems to improve burning efficiency, which further reduces energy consumption.
- We offer continuous training to our distributors' delivery drivers on energy saving open/close procedures, during loading and unloading, in both trailers and restaurant freezers and refrigerators.
- We have implemented an air conditioning management program to reduce our electricity consumption.

**U.K. KFC**

- In 2006 we engaged the Carbon Trust, a governmental body that assists companies in managing their carbon emissions. A baseline assessment was completed in 2007 and a plan was established to reduce emissions by 10 percent by 2012.
- We are currently testing multiple energy conservation technologies.
- Low energy internal light fittings and LED signage are now being installed in all new and remodeled restaurants.
- Waste oil is now being recycled into biodiesel.
- A cardboard recycling system is in pilot test, as well as an in-restaurant, consumed meals packaging test to reduce waste.

In addition to the markets noted above we are also measuring our energy consumption in Germany and the Netherlands so we can better understand our environmental impacts in those markets.

**Energy-Procurement Team**

An average Yum! restaurant emits over 200 metric tons of CO<sub>2</sub> annually from energy use. We are committed to exploring the options available to us to reduce our emissions. Our U.S. energy procurement team, led by our energy purchasers at UFPC, is working to identify and potentially procure renewable energy resources in order to reduce our reliance on fossil fuels.

In pursuit of this, we have met with various renewable energy marketing companies and governmental agencies in the U.S. We view these partnerships as an opportunity to learn from experts, as well as to participate in an increasingly important conversation.

We are also proud of our current achievements in the UK, where our Pizza Hut restaurants already purchase 16 percent of their electricity from renewable energy sources, and where 39 percent of our KFC restaurants' electricity is derived from alternative energy. We look forward to exploring energy sourcing possibilities such as these in many more regions around the globe.

**2. Waste Management**

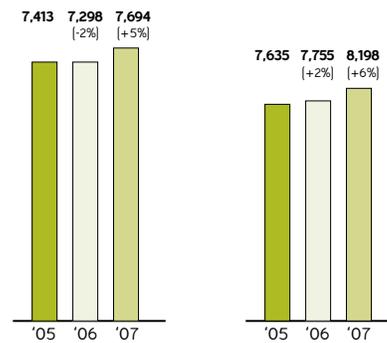
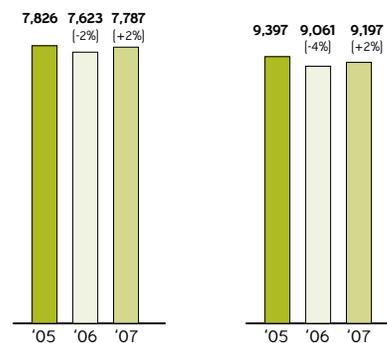
Reducing the amount of waste from restaurant operations is one of our major environmental challenges. Our waste reduction efforts take into account both restaurant level operations as well as waste at our Restaurant Support Centers (RSCs). While each of these areas of operation have different primary waste streams, our Waste Management Program enables us to increase recycling and renewable efforts and reduce solid waste volume across our system.

In our RSCs, these efforts are focused on recycling office paper, glass and plastic. To encourage RSC associates' understanding of and commitment to this effort, we have established an internal recycling website where we answer questions, offer advice, and take suggestions from our associates on how we can do better.

In our restaurants, our waste programs are focused on exploring how to both reduce and exploit our waste streams. Restaurant waste falls into several main categories: food, spent cooking oil, grease traps and packaging. We currently recycle at 62 percent of our U.S. restaurants, and expect to recycle at all other restaurants where possible. We are also exploring grease trap and spent fryer grease recycling, as well as back-of-house food waste recycling opportunities at various U.S. restaurant locations.



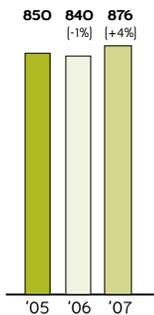
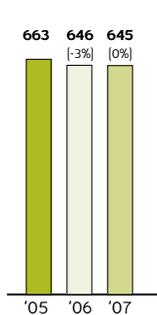
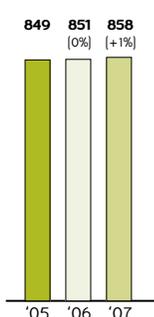
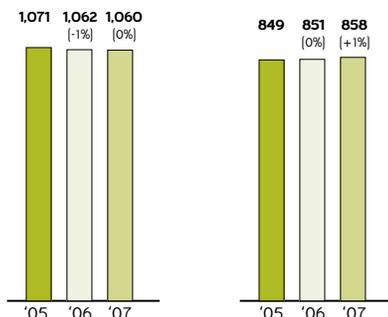
**Natural Gas – U.S.**  
*Therms/Restaurant/Year\**



\* Company-owned restaurants

## Trash - U.S.

Cubic Yards/Restaurant/Year\*



\* Company-owned restaurants

### Spent Oil Conversion to Biodiesel

One area we are particularly excited about is the conversion of waste cooking oil to biodiesel. Our restaurants consume significant amounts of cooking oil. For example, the average KFC produces about 500 pounds of spent cooking oil per month. Currently, our restaurants work with waste haulers or others in their communities who may benefit from the spent grease for feedstock, glycerin, or other products, including biodiesel.

Because the grease is also a good source for biofuel (see U.K. case study), we are working on broad scale programs to convert our grease into alternative fuels. We will update you on the progress of this initiative in our next CR report. One of our franchisees is already making the best of this opportunity – Sol Yoshida's KFC in Nagano City, Japan is the first biodiesel-powered restaurant in the world, acquiring significant amounts of energy from its own purified waste oil. He is a pioneer in this area – he began converting spent grease to biodiesel more than ten years ago.

In China, all spent grease is provided to local government authorized recycling facilities.

### 3. Packaging

Our ability to serve food quickly and conveniently is dependent upon our use of disposable packaging and we strive to ensure that all our meals are delivered to customers in safe and convenient packaging. Throughout the quick service restaurant industry, the way in which we package food has been consistent with the standardized packaging available in the industry. We continue to review our packaging as new biodegradable and compostable materials become available.

Our philosophy is simple: *Reduce-Reuse-Recycle in existing and new packaging whenever possible.*

We are working with our suppliers and UFPC to increase recycled content in our packaging. We consistently explore packaging materials that are

more readily recycled and packaging design options and biodegradable materials to improve recyclability.

Our U.S. brands use napkins made from 100 percent recycled content, have molded fiber drink cup carriers that are 100 percent recycled content and use trayliners with 40 percent recycled content.

In 2008, Taco Bell in the U.S. reduced the material used in its packaging by redesigning 2 sizes of plastic cups and 7 different paper wraps and eliminating trayliners. In 2008, the company will reduce paper usage by 3.2 million pounds and plastic by 4.6 million pounds.

Pizza Hut recently launched a pizza box with 75 percent recycled content. WingStreet has completely converted from foam packaging to corrugated packaging that contains up to 45% recycled material in each clamshell.

In April 2008, KFC introduced in some U.S. regions a reformulated "bucket," with 10 percent post-consumer recycled content in the container's bottom and launched nationwide corrugated bucket lids with 10 percent post-consumer recycled content. Other KFC "Reduce-Reuse-Recycle" items include: paper carryout bags (35 percent recycled content), plated meal lids (15 percent recycled content) and the potato wedge container (40 percent recycled content).

We are working to minimize the impact of manufacturing our packaging while maximizing its recyclability. We will continue to work within packaging content regulations to ensure customer and food safety, and to retain functionality. Though limited availability of suitable recycled fiber restricts our access to the supply of these materials in some geographical areas, we will do our best to innovate sustainable practices into all of our wrappers, napkins, and containers worldwide.

### Packaging Around the World

Our efforts in packaging reduction around the world include the following examples:

- In Australia, we have begun a closed loop recycling test, with plans to expand the test to our restaurants in most metropolitan areas. In this market, 100 percent of all pizza boxes and 30 percent of KFC boxes come from recycled fiberboard. In addition, 100 percent of waste oil is recycled.
- In Mexico, 50 percent of our Pizza Hut pizza boxes and 30 percent of our KFC boxes are made from recycled carton material.
- In Pizza Hut South Korea, 100 percent of outer material in Pizza Hut pizza delivery boxes is made of recycled paper.
- In China, KFC consumable plastic and paper packaging materials meet all current state and national regulations regarding specifications and raw material content.

#### 4. Sustainable Building Design

Our Building Environmental Sustainability Team (BEST) is committed to learning how we can build the most efficient, environmentally sustainable quick-service restaurants in the world. We have started by “getting greener” at existing restaurants with innovations such as high efficiency heating and cooling systems, ice machines, fryers, and cool roofs. We are continuing to make these improvements while exploring possibilities for a green “Restaurant of the Future.”

#### E3 PROJECT – ENERGY, ENVIRONMENT AND ECONOMICS

In Northampton, Massachusetts, an ambitious building exploration is underway. Yum! is constructing its

first green building and its first effort to pursue certification under the United States Green Building Council's LEED (Leadership in Energy and Environmental Design) program. With the assistance of some of the leading sustainability and restaurant experts, our team has carefully studied the environmental performance of the existing multi-brand KFC-Taco Bell restaurant design and through the application of an integrated approach, a green transformation has occurred. Highlights of the resulting design can be categorized by four key aspects:

#### 1. Reducing Carbon Footprint

- Use of solar energy to preheat fresh air coming into the building to avoid using natural gas
- More energy efficient kitchen and building equipment
- Purchased renewable energy credits

#### 2. Water Conservation and Quality

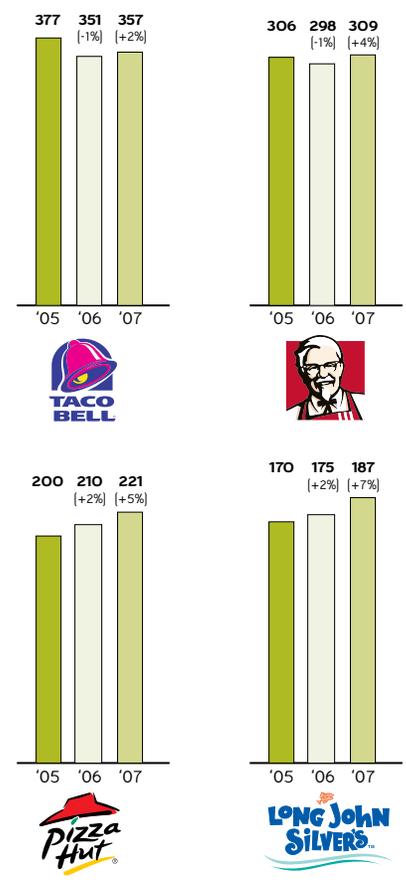
- Harvested rainwater for irrigation and indigenous plantings to reduce use of potable water
- Fixtures with lower water consumption rates
- Rain garden and filters to improve storm water quality

#### 3. Sensible Building Materials and Resources Use

- Building materials with recycled content
- Sustainably harvested wood (FSC [Forest Stewardship Council] certified)
- Composting and recycling of waste including enhanced cooking oil reclamation

### Recycling - U.S.

Cubic Yards/Restaurant/Year\*



\* Company-owned restaurants

### UK Biodiesel Case Study

Each year KFC U.K. purchases approximately 11.8 million liters of low trans fat vegetable oil for use in its restaurants. After use, approximately 7,702,667 liters of used cooking oil remains. KFC U.K. has recently entered into a nationwide contract with its logistics provider, 3663, to collect

used oil from restaurants, refine it into biodiesel and use the biodiesel to power 3663's delivery vehicles. This closed loop system will generate the fuel for deliveries to all restaurants in the U.K., capitalizing on a waste stream and eliminating the delivery vehicle reliance on fossil fuels.

#### 4. Lighting Efficiency

- Use of sunlight to reduce the need for artificial lighting
- LED lighting technology for parking lots, general lighting, and signage

This restaurant (E3.1) is the first of a series of building projects under our E3 Initiative. Together they are the primary exploration vehicle to test and evaluate green building methodologies for BEST. Each will require monitoring over time as we continue to learn about the environmental performance of our restaurants and opportunities for improvement. E3 is integrally joined with the greening of our existing buildings, planned prototypes, and eventual development of restaurants of the future. Becoming green is not an event, but a process. There are many reasons for innovating in this area – environmental stewardship, customer well being, associate engagement, and cost savings. This is a substantial challenge, but well worth the benefits to our customers, associates, and shareholders.

#### DELIVERING SUSTAINABLE GROWTH THROUGH NEXT-GENERATION RESTAURANTS

In Australia, we are embarking on one of our most progressive pilots – building KFC's next generation, energy efficient restaurants. These restaurants will be designed to use less energy and water to reduce their carbon footprint. Fifteen will be built in our test market in Newcastle.

We conducted research with our consumers and learned that environmental responsibility is a key driver for current and future dining decisions. As a result, we set targets in three areas for the pilot restaurants:

- 1. Energy:** Upgrade our energy management system to balance restaurant load and reduce usage; install refrigeration efficiency technology on refrigeration and air conditioning to reduce energy usage by 15 percent; and measure our carbon footprint by gathering information from all restaurants on their full energy consumption at the macro level over time.

- 2. Water:** Install rain water collection tanks for use on gardens and in restrooms; install dual flush toilets; and place flow restrictors on all our faucets.

- 3. Recycling:** Continue to reduce our reliance on plastics by switching to paper bags; partner with a local providers to recycle 85 percent of all waste from our restaurants; and achieve an 85 percent recycling target by using closed loop waste recycling.

Our Restaurant of the Future project goes far beyond incorporating environmental considerations in the building and systems management. It is an integrated approach, taking into consideration all aspects around design, menu innovation to expand and provide healthier options, team engagement through our E-team and information technology, systems and service innovation. By integrating these multiple touch points in our overall concept for the next-generation restaurant, we seek to approach sustainable development as an integral part of our business strategy. What we learn in the test market will enable us to replicate these green restaurants in other locations throughout the world.

#### 5. Equipment / Back-Of-House Team

Our Back-of-House Team is working to improve restaurant equipment design and sourcing to ensure that we are maximizing both energy and cost savings in our restaurants. Some examples of where we are looking to make these changes are in our ice makers, exhaust fans, fryers, and ovens. Recent kitchen equipment improvements include:

- Taco Bell in the U.S. recently introduced a new "Grilled to Order" system that saves over 30,000 kWh per year per restaurant and conserves about 300 million gallons of water per year systemwide.
- Pizza Hut in the U.S. is installing the latest high efficiency Energy Star fryers in all new and existing U.S. WingStreet restaurants.



E-3 Project – Energy, Environment and Economics. Rendering of the KFC-Taco Bell restaurant project underway in Massachusetts, U.S.

- Pizza Hut in the U.S. is utilizing a new pizza oven with an EMS that reduces gas usage up to 15 percent. When combined with an oven ventilation hood, energy consumption is reduced by more than 400 metric tons per year.
- KFC in the U.S. has recently developed a new oven that has the highest energy efficiency of any available on the market today.
- All U.S. restaurants use Energy Star appliances where feasible and high efficiency water heaters.

### 6. Restaurant Education Team

Our overall environmental management strategy is guided by the ELC and its teams, but implementation requires engagement with our restaurant managers, franchisees, and Restaurant Support Center associates. Our Restaurant Education Team communicates best practices across our system for new equipment news and operating procedure improvements; identifies recycling programs and opportunities; and encourages effective water management and waste reduction.

In 2008 at our U.S. Restaurant Support Centers, our associates

participated in a week-long program surrounding Earth Day. Associates received daily emails with knowledge building information including details about how one can make changes in the office and at home surrounding recycling, energy use and water use. Lunch-and-Learn sessions were offered and a "Talk Green" conference call was conducted with ELC members, who talked about current global "green" activities and took questions from associates.

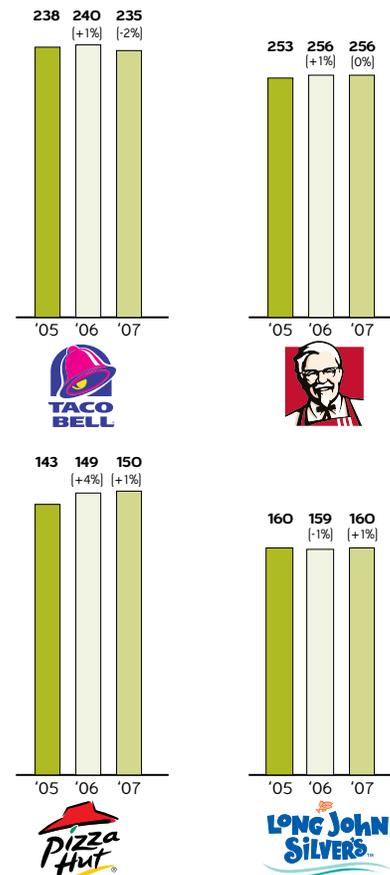
### 7. Monitoring and Reporting Team

We believe that we need to measure our impacts before we can take action. Over the past two years, our Monitoring and Reporting Team performed an initial review of our most significant impacts in our U.S. operations – energy use per transaction, greenhouse gas emissions, percent of recycled content in packaging, cubic yards of trash and recycling, pounds of spent grease, gallons of water, and renewable energy credits.

### Engaging Our Partners

We regularly collaborate with our franchisees, UFPC, our suppliers and consultants to help us better manage our environmental programs and responsibilities.

### CO<sub>2</sub> – U.S. Metric Tons/Restaurant/Year\*



\* Company-owned restaurants

## The Future - Our Challenge, Our Advantage

Our focus thus far has been centered primarily on electrical energy conservation because it represents the greatest amount of energy consumed in our restaurants and our largest source of CO<sub>2</sub> emissions. We recognize the need to broaden our scope to include rigorous measurements and reductions in our natural gas, solid waste, and oil impacts. Plans are being developed to evaluate conservation opportunities in these areas in 2009. We are also committed to exploring our use and disposal of water, and how we can reduce both our consumption and our water based effluents.

Climate change is one of the most important issues now facing the world, and we are aware of the urgency for action. We feel that we have only just begun to unleash the potential of our business to make a positive impact on the environment. We're moving forward and aggressively working to determine the fastest way to accomplish our goals.



## Supply Chain

We are committed to providing our customers with safe, delicious meals and operating restaurants that meet the highest food safety standards. This commitment is at the heart of our operations and our supply chain management, and is evident in every aspect of our business – from raw material procurement, including livestock and produce, to our restaurant food preparation and delivery.

We operate in a complex global business environment. We seek to incorporate social and environmental principles in our sourcing and manufacturing practices within the context of the varying government, consumer, regulatory and infrastructure dynamics that exist around the world.

### Food Safety and Quality

Food safety is the top priority at Yum!. We actively work with our suppliers to raise industry standards because we insist that our products are safe and of superior quality.

Our supplier approval system is rigorous. Suppliers have stated that our approval process is one of the most thorough and challenging systems they have experienced. We are proud of that.

### Characteristics of Our Global Food Sourcing

Unified Foodservice Purchasing Co-op, LLC (UFPC) manages the supply chain for all corporate and most franchise-owned restaurants in the United States, including A&W All-American Food, KFC, Long John Silver's, Pizza Hut and Taco Bell restaurants. UFPC negotiates volume purchases of equipment, food, packaging, and other supplies from manufacturers and suppliers for our system.

#### Yum! China

The Yum! China Division operates its own independent supply chain system, working with 500 suppliers to provide Yum! China restaurants with goods and services.

#### Yum! Restaurants International (YRI)

In our global Yum! Restaurants International (YRI) markets we have approximately 1,400 suppliers, including U.S.-based suppliers that export to many countries.

### Qualifying Our Suppliers

Our suppliers are selected, assessed and rewarded through the Supplier Tracking and Recognition (STAR) system. It is a rigorous, industry-recognized audit system that sets and monitors standards for all of our brands' key suppliers. All of our restaurants, regardless of their ownership structure or location, must adhere to our strict food quality and safety standards. The guidelines are translated to local market requirements and regulations where appropriate and without compromising the standards.

In selecting a supplier we look for key performance indicators around pest control, sanitation, operations and facility management, good manufacturing practices and product protection, recovery and food security. In addition to measuring and testing food safety and security practices, we look for outstanding performance in quality control, not just of our product formulations, but in suppliers' management processes as well.

Our suppliers are classified by food safety risk from one to four; Class One is highest risk and Class Four is lowest. The categories are determined by a combination of scientific validation of risk and our experience with the product.

### Yum!'s Global Monitoring System – Supplier Tracking And Recognition (STAR)

Our STAR supply chain monitoring systems incorporate supplier compliance in the areas of food safety and quality. STAR-certified third party auditors conduct our supplier audits. Each brand's quality assurance team is responsible for managing our suppliers' food safety and quality assurance monitoring in our supply chain, at our processing facilities, and in our restaurants worldwide.



The frequency of audits is determined by the size, risk factors related to the products and manufacturing process, and strategic importance of the supplier. Our most strategic suppliers are audited every year (Class One through Three) and other suppliers are monitored with frequency relative to the size and degree of risk associated with the product. Once qualified and engaged in active sourcing contracts, suppliers are subject to regular audits.

While we operate and manage a global compliance system for all our suppliers, each international region sets its own targets and implementation goals in line with local conditions and criteria and Yum! quality assurance standards. In emerging markets such as India and Russia, we are adapting the global supply chain monitoring system to local legislation while maintaining our high standards.

Due to the varying dynamics in our global supply chain, a complete rollout of the supply chain monitoring system will take longer in these markets than in the U.S. Until recently, most information on monitoring performance has been managed and owned by the brands and licensees. Our goal is to have a web-based monitoring system fully functional for the entire Yum! system by mid-2009.

### Results for Our Quality System and Food Safety Audits

We currently monitor all of our suppliers in the U.S. using the STAR system at about 1,200 supplier locations in total. The number is smaller for YRI markets. We currently conduct at minimum STAR Food Safety Audits at approximately 85 percent of our Class I and II suppliers in the YRI System. We look to increase this number as we introduce our global supply chain monitoring program to all suppliers in our system throughout 2008 and 2009.

In China, all of our suppliers are monitored for food safety and

quality using either the global STAR system or the "Precheck" system, which is used only for new suppliers that provide products with limited time offerings. The STAR audit is conducted annually for China's Class One through Three suppliers, and every two years for Class Four suppliers.

### Continuously Improving Our Audit Results

Where issues arise, our internal auditors immediately respond and, along with the Quality Assurance Team, work with the supplier to create an action plan to materially improve over a specified period of time. If a supplier fails an audit, the brand Product Manager or Technical Manager decides the course of action to remedy the failure. For our first-tier suppliers we work with the supplier on a continuous improvement program that is developed and measured for that specific facility.

### Managing Food Safety Risks in Our Supply Chain

#### Food Standards Council

Nothing is more important to us than protecting our consumers and our valuable brand reputation by preventing health risks from arising in our restaurants. Our primary objective is to keep our customers safe. The nature of our business demands that we are constantly aware of, and respond to, potential health and safety issues related to the food we serve.

In order to maintain a rigorous and consistent focus on the dynamic challenges in this area, we created the Food Standards Council in 2005. The council works to continuously improve our food safety practices and minimize the risk of future safety issues from ingredients or the operation of our restaurants. Key areas of corporate oversight are food safety, nutrition and regulatory compliance. The council also identifies internal and external global resources to review our Supply and Restaurant Food Safety Standards,

ensure compliance and share best practices. Yum!'s Vice President of Global Quality Assurance heads up the council. Executive sponsors are the Chief Legal Officer, the Chief Operating Officer and the Chief Public Affairs Officer. Each brand has a representative on the council, its Chief Food Innovation Officer.

Food-borne diseases can pose a significant risk to our supply chain and in our restaurants. There unfortunately have been a limited number of instances where food-related health issues have arisen in our supply chain or our restaurants. We have acted immediately and decisively, and equally important, we have implemented a strategic, long-term approach that will help us to prevent and manage these issues in the future.

### Emerging Issues Program

Our global Emerging Issues Program [EIP] is a new accountability framework to help protect us from the negative impacts of rising food issues. The program helps us anticipate local, regional and global emerging issues, and work in partnership with our Crisis Management Program if an issue becomes an actual threat.

EIP is implemented by the Emerging Issues Council. The council is comprised of leaders who are responsible for making sure that we are aware of, and able to respond to, any potential food safety risk related to food borne disease and illness, regulatory issue, or health and nutrition concerns such as allergens. The council has interconnected Food Safety and Regulatory Affairs teams in the U.S., YRI, and Yum! China. The council is led and overseen by a steering committee of senior executives from our Quality Assurance, Legal, Public Affairs and Health and Nutrition functions. Members of the council are responsible for day-to-day monitoring of issues and reporting potential threats back to the council. Members have been trained on a robust

response workflow to ensure correct action and rapid communication when significant threats are identified.

### Avian Influenza Response

According to the World Health Organization, CDC, U.S.D.A. and U.S. Health and Human Services, properly cooked chicken is safe to eat. Nevertheless, we have taken added precautions with a rapid and active response plan in the event that an external disease threatens to enter our food supply. In 2005, we developed an aggressive global plan after several outbreaks of Avian Influenza *(see call out, page 50)* impacted our supply chain.

Our successful response proved to be a model of success and has been lauded by the industry and global food regulators. We now have the processes and tools in place to make every effort to prevent the disease from entering our supply chain, to work with our poultry supply chain partners to adhere to stricter guidelines, and to make sure the disease does not manifest itself in our restaurants. Some of our measures include:

- Strict guidelines for raising, handling and processing of poultry before it enters our supply chain. One hundred percent of the poultry we purchase in China and in the U.S. is "under cover", which means it is not in contact with migratory birds, thus minimizing the risk of infection.
- All U.S. suppliers have biosecurity measures in place; all are required to test their flocks and comply with all federal and state regulations.
- Routine quality and food safety audits of all U.S. suppliers. We are also progressively working to implement these audits with more of our suppliers around the globe to ensure that soon 100 percent of our suppliers in our global markets will be audited.



## Avian Influenza Case Study

In the autumn of 2004 we, along with the rest of the world, confronted the threat of highly pathogenic Avian Influenza (AI). As the world's largest chicken restaurant company, we have a global responsibility and duty to be fully prepared for any eventuality. We immediately sprang into action, rolling out educational and response programs throughout our system and beyond.

We created a global AI Booster Team, consisting of a cross-functional leadership team including quality assurance leaders from each of our brands, our communications team, and all our poultry suppliers. With this

team, we developed stringent "Farm to Table" safeguards and an aggressive global plan for addressing AI in our supply chain. We immediately held a supplier summit and mandated that this plan be implemented by all of our poultry suppliers. We also engaged with many governmental and global health organizations – including the World Health Organization, the U.S. Centers for Disease Control and Prevention, the U.S. Department of Agriculture, and the U.S. Health and Human Services Department. All of this was accomplished before the U.S. government had formalized a response plan.

Seeing the threat of AI as a non-competitive issue that required strong collaboration, we sponsored an AI summit for the restaurant industry, and asked the U.S. National Restaurant Association to convene it. Through this process, we created relationships with global AI experts who we can now turn to at any moment should the issue arise again. We also developed our own internal expertise. We consider our response to AI an example of our ability to successfully engage our global system in the face of threats to our business.

- All poultry suppliers that process poultry for our system do so under strict sanitary guidelines that ensure safety and quality, including strict temperature controls.
- Maintaining strict hygiene and cooking standards in our restaurants

We have also created a Global Food Safety Task Force, led by members of our senior executive team, with responsibility for addressing key food safety issues in our supply chain and restaurants. The primary goal of the task force is to drive improvements and to prevent reoccurrences of food safety incidents. The task force initiates programs to seek and promote best practices in managing food related health issues and works in conjunction with the Food Standards Council.

### **E. coli Response**

In the winter of 2006, our Taco Bell restaurant chain removed lettuce from its 5,800 U.S. restaurants after several people became ill. Epidemiological data from the U.S. Centers for Disease Control and Prevention suggested that lettuce supplied to us may have been contaminated with the E. coli bacterium.

In response, our Global Food Safety Task Force worked with our suppliers and launched a new safety program purely focused on fresh produce. We now take an active leadership role

to help minimize the chances that our produce could be contaminated. Our activities since early 2007 include:

- Field inspections of our produce suppliers that focus on water testing for E. coli;
- Pre-planting inspections to help ensure that only low-risk fields are used;
- Pre-harvest testing for E. coli and Salmonella pathogens of produce, including iceberg lettuce, cilantro, romaine lettuce, cabbage and tomatoes;
- Collaboration with the U.S. Centers for Disease Control and Prevention and the U.S. Food and Drug Administration to proactively share information on the issue;
- Training programs to certify supplier staff and third-party auditors on criteria for pre-planting and pre-harvesting risk assessments;
- Sponsorship of a summit with key growers, suppliers and users to gain alignment on produce safety; and
- Multiple joint-produce safety meetings on testing and best practices with industry leaders, including other major quick-service restaurants, retailers and distributors.



## Responsible Sourcing

Even prior to the formation of Yum!, our brands have focused on optimizing our agriculture supply chain. Along the way we have become more aware of, and attentive to, our social and environmental impact. We have been responsive to these issues as they arise, yet we cannot always control or avoid them at every stage of the supply chain. We work closely with food processors and, where possible, with those who raise the livestock and grow our produce to work in environmentally responsible ways. We have made great progress in a number of areas where we feel we can have the greatest and most significant impact. Our key programs in responsible sourcing are aimed at:

- Improving animal welfare;
- Sustainable seafood sourcing; and
- Labor practices in our supply chain.

## Animal Welfare

As a major purchaser of food products, Yum! has the opportunity and responsibility to influence the way animals supplied to us are treated. We take that responsibility very seriously and monitor our suppliers on an ongoing basis to determine whether our suppliers are using humane procedures for caring for and handling animals they supply to us. As a consequence, it is our goal to only deal with suppliers who promise to maintain our standards and share our commitment to animal welfare.

## Animal Welfare in the United States

### KFC Animal Welfare Advisory Council

We have a track record of leadership in animal welfare. Our U.S. animal welfare leadership program began with the formation of KFC's Animal Welfare Advisory Council. The Council, which also provides advice to our other brands, helps us to continuously research new methods for both welfare advancement and viability that will ultimately determine the adoption of improved practices. For example, through The Council,

stun methodology and technique are constantly being reevaluated. Our suppliers are also an integral part of this collaborative study and evaluation.

The Council was also instrumental in developing the Guiding Principles for our Animal Welfare Program. These Principles, which apply to all Yum! poultry suppliers across the U.S., focus on:

- Animal treatment;
- Partnership with industry experts;
- Ongoing training and education;
- Performance quantification and supplier improvement;
- Communication with industry leaders; and
- Funding of research.

### External Consultation

While our standards for animal welfare are high, we always seek knowledge from external sources to improve our practices where appropriate. In the U.S., KFC has enlisted the assistance of the American Association of Avian Pathologists (AAAP) in an effort to clarify and further define poultry welfare criteria, policy and audit points. Yum! serves on two AAAP Welfare subcommittees, exploring questions concerning poultry welfare. We were also a prominent player in the joint effort conducted by the National Council of Chain Restaurants and the Food Marketing Institute to develop comprehensive guidelines for all species of farm animals. We also have a veterinarian on staff in the U.S. who provides oversight on animal welfare practices.

### Supplier Audits

Our goal is to work with suppliers who maintain our high standards and share our commitment to animal welfare. We monitor our suppliers on a continuous basis through audits to determine whether they are using procedures that ensure respectful caring for, and handling of, animals they supply to us. Audits are conducted at two levels:

## Pest Management Case Study

In 2007, one of our franchise restaurants in New York City became the focus of a highly publicized infestation as a result of after-hours construction on the building. The infestation, and the attendant sensationalized publicity, was unacceptable and embarrassing.

Our response was immediate and intense; we:

- Retained a world-renowned pest expert to review our pest control programs and standards;
- Defined and implemented best-in-class pest management guidelines and vendor pest management specifications;
- Pest-proofed all company restaurants;
- Identified qualified pest control providers to provide pest control services to all restaurants, company-owned and franchised;
- Closed the restaurant under construction; and
- Retrained restaurant teams on proper pest management procedures.

- **Farm level** – In the U.S., KFC manages a farm-level audit program for the breeding, hatching and raising of poultry. The program exceeds the standards set by the U.S. Chicken Council and the Food Marketing Institute. Beginning in 2005, all of our suppliers completed farm-level audits. This marked the beginning of a continuous, bi-annual audit program for all supplier locations in the U.S. based on standards developed by leading animal welfare experts at the direction of the National Council of Chain Restaurants and the Food Marketing Institute.
- **Processing level** – In 2000, KFC adopted specific, comprehensive welfare performance standards for processing chickens and audits its suppliers against those standards. The processing guidelines and audits are designed to monitor and manage each step of the process to determine whether the birds supplied to us are handled humanely and their suffering is minimized. KFC audits its suppliers for compliance, with non-compliance potentially resulting in termination of the supplier’s contract. We have engaged the Professional Animal Auditors Certification Organization (PAACO) to enhance our auditing standards systemwide in our processing facilities. It is our goal to conduct 100-percent external PAACO audits of our poultry processing facilities in the U.S. in 2008.

For more information on our animal welfare programs, please visit [www.kfc.com/about/animalwelfare\\_principles.asp](http://www.kfc.com/about/animalwelfare_principles.asp).

**Academic Development**

Our influence has contributed to increased interest in welfare training and curricula at U.S. universities. For example, KFC has been invited to participate in both extension and undergraduate curriculum design for animal welfare modules at two leading Poultry Science Land Grant institutions.

**Animal Welfare in the United Kingdom**

Our YRI markets operate under international guidelines that are similar to U.S. guidelines and allow for local customization by our global markets. The implementation and auditing of these guidelines is the responsibility of each of our brands in these markets.

In the U.K., KFC has developed our most comprehensive monitoring program in accordance with more stringent and specific local regulations and requirements. The U.K. has been at the forefront of the development of animal welfare legislation in the European Union and is an example of how we can successfully engage with stakeholders on sensitive issues such as this.

**Collaboration on Animal Welfare Issues in the U.K.**

In the U.K. we have made considerable progress over the last 10 years in establishing and improving our animal welfare standards. The U.K. has a long history of animal welfare regulation and regulation in the U.K. is generally stricter than EU regulations.

We actively engage in open dialogue with our suppliers in the animal welfare process, and we conduct audits on the entire chicken supply chain, starting where the eggs are laid. Every 15 months we conduct seven different audits with a total of 15 suppliers, each with their own facilities. Every year we bring

“ There is a positive dynamic with a free exchange of ideas and views among the Animal Welfare Advisory Council members in an effort to enhance the welfare of poultry. ”

Dr. Paul B. Siegel, PhD  
 University Distinguished Professor Emeritus,  
 Department of Animal and Poultry Sciences, Virginia Polytechnic Institute and State University, Member of KFC AWAC

## Yum! China Food Safety White Paper

The **Yum! China Food Safety White Paper** was written by the Yum! China's Food Safety Office and Quality Assurance team and published in March, 2008. The document was drafted with the advice and suggestions of Yum! China's Food Safety advisors and other food safety professionals in China. The report focused on the analysis of the food safety situation in China and detailed Yum! China's measures and programs to improve food safety practices and our commitment to our consumers.

The white paper received positive feedback from both media and the government which has been encouraging companies to raise their food safety standards.

### Summary of the Food Safety White Paper:

**Chapter I** includes a brief introduction to Yum! Brands Inc., Yum! China Division, highlighting the rapid growth of the China business, and the active commitment to contributing back to Chinese society.

**Chapter II** focused on the Present Situation of Food Safety, including the rapid growth of the Chinese food industry, and some serious problems on food quality and safety in China.

**Chapter III** described Yum! China's Complete Management System of its Food Supply Chain, and introduces our STAR system (Supplier Tracking and Recognition).

**Chapter IV** detailed the Yum! China's Food Safety Policies. All our policies are based on the risk assessment theory, HACCP system (Hazard Analysis Critical Control Point) and traceability system. These key measures are:

- (1) Enhance the food safety leading group and establish a Food Safety Office not in existence in other Yum! markets;
- (2) Enhance and improve food safety assurance system;
- (3) Establish and improve all specifications of raw materials and products;
- (4) Strictly control the entering conditions of suppliers, and enhance the audit and training of suppliers;
- (5) Establish Yum! China's logistics system, and improve facilities and enhance the facility management programs;
- (6) Establish a strict food safety management system for restaurants and our home service;

- (7) Establish collaborative analyses efforts with Shanghai Food and Drug Institute of Control, and conduct random testing on all raw materials;
- (8) Collect new information and trends on food safety and address potential risks;
- (9) Establish and develop a relationship with the government, societies and associations to engage in ongoing discussions;
- (10) Actively participate in the formulation and revision of the Chinese food regulations/standards;
- (11) Establish and operate a Food Safety Expert Advisory Committee; and
- (12) Compile and issue Yum! China's White Paper on Food Safety Policy.

**Chapter V** described Yum! China's measures to handle several 'hot topics' on food safety, including food-borne disease, acrylamide, trans fatty acid, residue of pesticides, residue of veterinary drugs, and GMO foods.

**Conclusions:** This white paper is expected to raise the awareness and understanding of common food safety problems, and give our consumers the assurance along with our commitment that we will keep the safest food supply and products in China. It is also intended to improve the overall food safety of our suppliers.

our core suppliers together to review standards and to recognize suppliers which have performed well in responsible animal welfare management. We believe it is vital to maintain relationships that are built on trust and active engagement, especially in times when suppliers are worried about potential inflationary pressures on food prices and the effect on their businesses.

In June 2007 we set up our first meeting with Compassion in World Farming (CIWF) to explore collaborative opportunities. Our decision to work with CIWF was based on two considerations: 1) it is a global organization based in the U.K.; and

2) its organizational approach seeks industry engagement.

Our initial steps to reach out to a wider community of experts have been successful. Going forward, our collaboration with CIWF is focused on ongoing dialogue about our challenges in meeting some of the high standards of CIWF. We will also leverage other industry partners' relationships at our supplier facilities to create more effective and long-term change and improvement in animal welfare practices.

## Managing Animal Welfare in Our Other Global Markets

We are also making significant advances in animal welfare programs and practices in other markets.

For example:

- In Mexico, we implemented an animal welfare audit program with our chicken suppliers and, going forward, we plan to audit chicken suppliers once per year.
- In South Africa, we are conducting a set of pilot animal welfare audits based on the U.K. model, and our goal is to design a plan to introduce a program nationally.
- In Australia, we support the Animal Welfare Standards of the Australia Chicken Meat Federation.

Our long term goal is to consolidate our animal welfare practices across the globe to establish a baseline for animal welfare, while allowing our global markets to adapt their

policies and guidelines to local needs and regulations. We also plan global coordination of knowledge sharing and guidance on animal welfare issues through our Animal Welfare Advisory Council and other stakeholder initiatives and platforms around the world.

## Sustainable Seafood Sourcing

Seafood is one of our key food product categories, especially for our Long John Silver's brand in the U.S. and to a lesser extent, KFC. Our impact and influence in this area are significant. Our commitments and approach in advancing sustainable seafood sourcing practices have been developed over a long period of time and demonstrate the importance of this issue to our business, our fisheries, and the broader community of stakeholders.



After occasional interactions with KFC representatives beginning in 2001, my activity as an advisor to the KFC animal welfare program started seriously when Yum! formed its KFC Animal Welfare Advisory Council (AWAC) in 2003. The Council is comprised of scientific experts such as myself, representatives of poultry companies that supply product to KFC, and personnel from various sectors of the Yum!/KFC organizations.

At first, Yum! needed to learn a lot about poultry production and about the chicken because it had never dealt with live production before. Since 2003, the AWAC has expanded the scientific disciplines represented by its expert advisors to include animal behavior, breeding and genetics, avian physiology, and veterinary medicine. Many of the poultry company representatives on the Council have also had advanced training in relevant disciplines such as poultry nutrition and veterinary medicine. Yum! took another important step by hiring a KFC Manager of Poultry Health and Welfare to coordinate the activities of the Council and implement KFC's animal welfare program.

The reason I have been willing to serve on the AWAC is that I am convinced that KFC is committed to achieving feasible, knowledge-based, animal welfare advances in the care and management of the poultry flocks from which its products are sourced. The AWAC seeks to advise KFC on animal welfare-related matters in a way that reflects the consensus of society regarding the ethics of farm-animal care. It does not embrace the extreme views of animal activists; nor does it consider the status quo an option. I have always been impressed by the candor, knowledge and understanding of my fellow AWAC members. The AWAC has helped KFC define its animal welfare audit program and to engage its suppliers to effect meaningful improvements in poultry welfare. I am confident that this process will continue.

Dr. Bruce Webster, University of Georgia,  
Member KFC Animal Welfare Advisory Council



Over a decade ago we came to the realization that, in order to ensure a lasting and diverse supply chain for seafood, we needed to make certain that our seafood sourcing practices are sustainable. We carefully selected fisheries and aquaculture operations in the world that are considered to be sustainable. We made a conscious effort to source our seafood from fisheries that work to protect our valuable seafood resources.

Our sourcing strategy is rooted in a philosophy that fisheries need careful maintenance and preservation in order to sustain over time. To that end, in the early 1990s we began engaging experts from the fisheries where we source. For example, we have been actively engaged with the North Pacific Fishery Management Council (NPFMC), which is responsible for managing the ground fish resources off Alaska. We also work with the At-Sea Processors Association (APA). The APA's mission is to work with fishery managers, scientists, environmentalists and members of the fishing industry to ensure the continued health and sustainability of the North Pacific ground fish resources.

What makes us unique in our approach is that we actively engage with the biologists that manage the fisheries from which we source. We vigorously seek relationships with those parties who, like us, have a vested interest in protecting the valuable seafood resources. Finally, we obtain our seafood as close to the source as possible. We buy our fish directly from the fisheries rather than through intermediaries.

Moving away from potentially unsustainable fisheries made common business sense to us. Since 1993, long before the issue of sustainable fisheries became popular, more than 99 percent of the whitefish purchased by Long John Silver's and the UFPC for the battered fish program has been from three sources: Eastern Bering Sea for Alaska pollock, New Zealand

for hoki and South Africa for hake. These three fisheries have been certified as sustainable by the largest independent, credible non-governmental organization engaged in sustainable certification for wild fisheries. The New Zealand hoki fishery was certified as sustainable in 2001, the South African hake fishery in 2004 and the Bering Sea/Aleutian Island pollock fishery in 2005. Since November, 2004, 100 percent of battered whitefish has been sourced from the Eastern Bering Sea Alaska pollock fishery.

When sourcing from regions outside of the U.S. we try to ensure that the seafood is produced to recognized standards as well. Shrimp, the second greatest volume of seafood sourced for Long John Silver's, is produced primarily by plants in China and Ecuador. All but one of the plants that supply battered shrimp to Long John Silver's have attained certification by an independent entity, and the other is in the process and likely to be certified by late 2008-early 2009. All shrimp used in Long John Silver's popcorn shrimp comes from a plant that has been certified. In addition, our purchasing co-op in the U.S. spends a considerable amount of time looking at the best possible source for shrimp from overseas markets.

### Responsible Labor Practices In Our Supply Chain

Our Supplier Code of Conduct sets forth our expectations and minimum standards for all suppliers and subcontractors in our U.S. market. The code addresses working hours and conditions, non-discrimination, child labor, and forced or indentured labor. We require suppliers to conduct audits and inspections to verify compliance with the code. In addition, we reserve the right to conduct unannounced audits and inspections of supplier facilities. Violations lead to disciplinary action, including termination of the supplier relationship for repeated violations or noncompliance. In 2008 we are



photo courtesy At-Sea Processors Association



The robust and healthy Alaska pollock fishery, one of the world's largest, is recognized internationally for being well managed and sustainable. Long John Silver's commitment to sourcing whitefish exclusively from this sustainable fishery demonstrates its commitment to the environment. Long John Silver's has gone well beyond sustainable sourcing, however. The company is unique among major whitefish buyers for its active participation over the past two decades in the public fishery management process, promoting conservative harvest quotas and a forward-looking management regime that has benefited fishermen and consumers.



Jim Gilmore  
a representative of the At-Sea Processors Association

collecting information from our U.S. suppliers on implementation of the supplier code of conduct. We intend to conduct a similar assessment in our other international markets (YRI).

The supplier code of conduct is listed on our website at [www.yum.com/responsibility/suppliercode.asp](http://www.yum.com/responsibility/suppliercode.asp).

### **Tomato Suppliers in the U.S.**

Another example of our engagement with our stakeholders was our response to concerns regarding the working conditions on tomato farms in Florida. In March 2005, Taco Bell reached an agreement with the Coalition of Immokalee Workers (CIW), an organization that represents farm workers in Florida. Under the agreement, Yum! Brands pledged to work with CIW to improve wages and working conditions on Florida's tomato farms. Specifically, we agreed to subsidize a penny-per-pound "pass through" arrangement for tomato farmers. Under this arrangement, Taco Bell restaurants would require its tomato suppliers to increase compensation to farm workers by a penny per pound of tomatoes picked.

In May 2007, we announced that we would extend the agreement to all of our brands. As of April 2007, we owned five of the six fast-food chains that were supporting the CIW.

### **Manufacturing For Yum!'s Kids Meals**

Kids Meals are not a major focus for Yum! and represent a miniscule percent of our business. We insist on only using toys that have been fully tested and meet regulatory standards for safety in our Kids Meals. We have implemented a global monitoring program for our suppliers of toys used in Kids Meals, that is managed by a dedicated Yum! resource and monitored by external STAR-certified monitoring firms. The program is based on zero-tolerance safety requirements that cover all facets of the process that present risk. Initiated in 1999, the program meets or exceeds all regulatory standards to ensure the safety of those consumers purchasing these products.

We employ three separate audits to ensure safety, product quality and social compliance, all conducted by pre-approved, third-party monitoring firms:

1. A facility audit that measures adherence to pest control, sanitation, operations and facility management, good manufacturing practices, product protection, product recovery and food security.
2. An in-process audit that measures adherence to the production quality assurance plan on a program-by-program basis.
3. A Code of Conduct monitoring program comprised of social compliance criteria that relate to worker health and safety, along with other working conditions in the factory.

As a high-risk category of business, all suppliers in this category are monitored, and we have not encountered any serious incidents to date.

## Genetically Modified Foods

Perceptions of the risks and benefits of Genetically Modified Foods (GMOs) vary from market to market around the globe and we strictly follow all government regulations wherever we operate. In North America, GMOs are generally accepted, whereas in Europe consumers are more resistant to GMOs. Where resistance to GMOs exists, Yum! Restaurants International requires all its suppliers to provide non-GMO ingredients. For example:

- In the U.K., the Netherlands, Germany and Australia, we do not source from suppliers who use GMOs or growth hormones in chicken.
- In China, we follow Chinese regulations regarding GMO ingredients and require statements from suppliers regarding their GMO content.
- In South Africa, no GMOs or growth hormones are used by any of our suppliers.

## The Future of our Supply Chain

We are dedicated to increasing our efforts in responsible supply chain practices. We have made considerable progress in a number of key areas that are a priority for us, given the nature of our global food business and position in the food-value chain.

Our goal in the coming years is to standardize our global guidelines in food safety and animal welfare across our entire system. We will begin by convening a task force of key leaders in our sourcing system to identify the most important issues, then develop an action plan to cascade consistent standards worldwide.

We will also increase transparency of our labor code of conduct guidelines to our suppliers, and stimulate them to proactively implement and monitor the code.

We recognize that our decentralized business model, with predominantly franchised restaurants in over 110 countries and territories as well as manufacturing and processing plants in even more countries, will require a customized approach in our international markets. We seek to build a globally consistent and rigorous program that will reflect our rapid international growth, with a keen eye on emerging markets. We will work collaboratively with our suppliers, business partners and local stakeholders to ensure that we adapt our business and social requirements to local markets.



## Community Engagement – Our Values and Commitments

We believe in giving back to the communities in which we work and live, making a positive difference in the lives of our customers and associates and their families. We provide financial support to charities across the world, and our more than 1.4 million associates systemwide, as well as our franchisees, give to their local communities everyday – through meals, monetary donations and personal time. We know that as individuals and as a system we can make this world a better place.

As a global food company, we believe that we can make the greatest contribution and impact by making food accessible to the less fortunate in the world. We are in the business of feeding people – whether it's the six billion customers who visit our restaurants each year or those we feed through community hunger relief initiatives. We also give back with programs that focus on college scholarships, reading incentives and mentoring at-risk teens. Business Week named Yum! one of the magazine's "Top 15 Most Generous In-Kind Givers" for 2006 and 2007.

## Our Community Programs and Philanthropic Focus

### Yum! Brands Foundation

The Yum! Brands Foundation supports charities working in the areas of hunger relief, youth, education, and the arts through annual unrestricted and restricted grants. The Foundation Matching Gift Program in the U.S. supports and encourages associates to contribute financially to non-profit organizations in their communities by matching dollar-for-dollar gifts by associates to qualified non-profit groups, up to \$10,000 per associate per year. The Foundation Board Support Program encourages associates to engage in their communities by providing financial support to non-profit organizations with boards on which our associates actively serve.

### Dare to Care Food Bank

We are a global company with far-reaching community programs, but we remain dedicated to solving issues at home as well. In Louisville, Kentucky, home of Yum! and our U.S. KFC Restaurant Support Center, one in five children is at risk of going to bed hungry each night. Since 2002, Yum! and its associates have committed over \$7 million to end hunger in the Kentucky/Indiana area through our partnership with the



*Yum! associates in Louisville, Kentucky, volunteer at the Dare To Care Food Bank, sorting non-perishable food items to later be distributed to area hunger relief agencies.*

Dare to Care Food Bank, Louisville's largest hunger relief organization. Recently in recognition of World Hunger Relief, our associates volunteered at the Dare to Care Food Bank to pack a record-breaking 60,000 pounds of food to meet the demand for food for children when school is out and they are not able to receive subsidized breakfast or lunch.

Our support has enabled Dare to Care to expand the number of Kids Cafés, after-school programs that provide a nutritious meal to children in the local community along with adult-supervised activities including homework clubs. This brings the total number of meals served to at-risk youth in Louisville to nearly 100,000 annually. It has also allowed for the creation of the "Patrol Against Hunger" program, a unique partnership with the Louisville Metro Police Department that provides food to housebound elderly. The program is the first of its kind in the nation and is considered a model for other communities.

## Investment In Our Communities

We also invest in the diversity of our communities via our philanthropic programs. We have giving partnerships with the following:

- American Indian College Fund
- League of United Latin American Citizens
- MultiCultural Foodservice and Hospitality Alliance
- NAACP
- National Council of LaRaza
- National Urban League
- Organization of Chinese Americans
- Women's Foodservice Forum

See our complete list of sponsored national community organizations (U.S.) at: [www.yum.com/responsibility/div\\_community.asp](http://www.yum.com/responsibility/div_community.asp).

### **YUMeals**

We're also addressing hunger across the U.S. through our YUMeals program. Since its launch over a decade ago, YUMeals has become the largest prepared-food donation program in the world. Through YUMeals, in 2007 we donated nearly 11 million pounds of wholesome food, with a fair market value of \$45 million, to needy families and children. Since creation of the program, we've donated over 105 million pounds of food, with a value of \$403 million, to those at risk of hunger. The food is distributed through a network of over 3,000 hunger relief organizations in hundreds of communities across the U.S. We are exploring initiating this program in other countries in 2008 and 2009.

### **Taco Bell Foundation for Teens**

The Taco Bell Foundation for Teens is committed to helping teens become successful and productive leaders in their communities. In 1995, the Foundation partnered with the Boys & Girls Clubs of America on teen-focused initiatives designed to build self esteem, leadership skills and values. Since the establishment of this partnership, Taco Bell, its franchisees and customers have been

the largest donor to the Boys & Girls Club, giving over \$22 million for teen programming. The partnership has also created 2,000 TEENSupreme® Centers, which provide safe, positive environments for at-risk teenagers. Taco Bell has also launched the Teen Hero Awards with MTV in 2008, recognizing 39 teens for their outstanding community service work with \$225,000 in grants.

### **KFC Colonel's Scholars**

KFC's Colonel's Scholars Foundation is empowering students to improve their lives with scholarship resources to attend an accredited college within their state of residence. KFC Colonel's Scholars enables high school students with entrepreneurial drive, strong perseverance and demonstrated financial need to pursue up to four years of study at an accredited institution in the state they reside. The scholarship provides funding for tuition, fees, books and room and board, up to \$5,000 per year. Since the program started in 2006, the Foundation has awarded scholarships to 200 students.

### **Pizza Hut BOOK IT!® Program**

Since 1985, Pizza Hut has been making reading fun for more than 22 million children per year through the BOOK IT! Reading Incentive Program. The Pizza Hut BOOK IT! Program has become the largest reading-motivation program in the U.S., with currently active participation in more than 900,000 classrooms. Pizza Hut has invested nearly one-half billion dollars in it, and has awarded more than 183 million Personal Pan Pizzas to students who have met their monthly BOOK IT! reading goals.



*David Novak (above) and members of his executive team (right) host a special lunchtime Kids Café event at Neighborhood House in Louisville, Kentucky.*



## World Hunger Relief – From Hunger to Hope

As we approached our 10th anniversary in 2007, we decided to align our system around a large scale crisis that we are well positioned to address – hunger relief. We developed an annual initiative that we call “World Hunger Relief,” leveraging the power of our global restaurant system to address hunger through awareness, volunteerism and fundraising. In October 2007, our associates, franchisees, and suppliers in 100+ countries joined forces to bring awareness and action to this global crisis. It became the world’s largest private sector hunger relief effort in history, and we plan to repeat it every year from this point forward.

### Here’s what we accomplished.

- ▶ Saved 1.6 million people from starvation.
- ▶ Drove awareness of the hunger issue among 1.5 billion people around the globe, reaching 95 percent of the world’s countries through online, broadcast and viral marketing campaigns.
- ▶ Enlisted one million of our associates, franchisees and their families who volunteered approximately four million hours – valued at \$75 million in donated time – to aid hunger relief efforts in communities worldwide, making this the world’s largest volunteer effort in support of hunger relief.
- ▶ Raised more than \$16 million for hunger relief agencies around the globe. The primary beneficiary of these funds was the United Nations World Food Programme (WFP), the world’s leading humanitarian agency feeding more than 80 million people, including nearly 60 million children, in the world’s least developed nations. Other hunger relief organizations also received funds in countries where the WFP has no structured organizations.
- ▶ Donated the equivalent of \$187 million through marketing awareness efforts, volunteerism, cash and food contributions.

The funds raised for the WFP were given by us as unrestricted donations with the caveat that WFP use the funds toward “greatest needs” around the globe, allowing WFP the flexibility to get food and resources where they are most needed. We also covered the funding of WFP’s not-for-profit, industry-low administrative fees (approximately seven percent) associated with the program with a gift from the Yum! Foundation. This ensured that all funds donated by consumers went directly to hunger relief actions around the globe.

### The Impact

The impact of the dollars contributed from World Hunger Relief was astounding.

**School Feeding.** Over 41,000 children were fed more than 8.2 million meals at school for one year in the following countries: Guatemala, El Salvador, Rwanda, Lesotho, India, Sri Lanka, Indonesia. In Ethiopia, WFP’s school feeding program was able to remain operational for an additional year, making a life saving difference to 438,000 primary school-age children. According to the WFP, without our intervention this program would have been shut down.

**Emergency Relief.** World Hunger Relief and the Yum! Brands’ donation aided in

the following emergency operations:

**Myanmar:** 6673 metric tons of rice were purchased to feed 750,000 survivors of Cyclone Nargis;

**Bolivia:** 100,000 people affected by floods were fed and a pipeline break in the project was closed;

**Somalia:** 1.2 million people imperiled by civil conflict were given 685,000 fortified corn-soya blend rations;

**Pakistan:** 132,000 flood victims were provided fortified corn-soya blend rations;

**Peru:** 7,500 survivors of a devastating earthquake were given rice; and

**Bangladesh:** 209,000 wheat soya blend rations were delivered to victims of Cyclone Sidr.

World Hunger Relief is our annual global initiative to fight hunger. By engaging our system, our associates, and our customers in the movement, we know we’re helping move people from hunger to hope. We look forward to sharing future growth of the program and the life-saving work the WFP is able to do because of it.

More about World Hunger Relief can be found on our website at [www.fromhungertogether.com](http://www.fromhungertogether.com).

Photo Credit – WFP/Julia Stewart



## Giving Metrics – Yum! Foundation (U.S.)

Total 2007 giving:	\$ 4,835,000
Total Arts:	\$ 184,000
Total Community:	\$ 2,381,550
Total Higher Education:	\$ 80,000
Total Lower Education:	\$ 229,000
Total Health:	\$ 138,155
Total Diversity:	\$ 340,250

Over 25 percent of Yum!'s U.S. annual corporate giving goes to support predominantly minority communities.

63 percent of annual scholarships given to Yum! associates or children of associates through the Andy Pearson Memorial Scholarship Fund goes to students of color; 36 percent goes to female students.

Total Dare to Care:	\$ 1,000,000
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[Note: All contributions to Dare to Care Food Bank are distributed through Metro United Way of Louisville. Total yearly contribution to Dare to Care is \$1 million when totaled with associate contributions.]

Total Associate Giving Match:	\$ 843,467
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### YUMeals Donations in 2007:

3,271 participating restaurants

- 10,057,289 pounds of food donated
- \$45.4 million, value of food donated

Total YUMeals 2003-2007: 51,455,266 lbs.

Total YUMeals prior to 2003: 49,349,964 lbs.

Total YUMeals since start in 1992: 100,805,230 lbs.

## Charitable Contributions Around the World

Our impact stretches far beyond the U.S. We are deeply committed to making positive changes in all the countries in which we operate. Here are just a few examples:

### CHINA

KFC China and the China Youth Development Foundation (CYDF) established The KFC China First Light Foundation in 2002 to help students in need. This scholarship fund is the first of its kind in the country and introduces recipient students to three aspects of “help” – receiving help via the scholarship money and opportunities, engaging in self-help via work-study employment opportunities with Yum!, and helping others in social service. The project has been funded for 10 years with an investment of \$4.7 million US dollars. It will provide financial aid to students at approximately 40 colleges and universities in 15 cities including Tianjin, Guangzhou, Shenzhen, Chengdu and Wuhan, at an average of \$620 US dollars per year per student. To date, an equivalent of 2,820 (annualized) students have received this scholarship.

### YUM! RESTAURANTS INTERNATIONAL

#### UK

ChildLine, the official charity of KFC U.K., is a free, 24-hour help-line for children and young people in the U.K. who are in trouble or danger. Trained volunteer counselors comfort, advise and protect children and young people who feel they have nowhere else to turn.

#### Australia

YRI Australia's two major community activities are The Millennium Foundation and Reach.

The Millennium Foundation raises funds in support of critical medical research at one of Australia's largest teaching hospitals and research

facilities. YRI Australia is directly involved in several fundraising initiatives throughout the year that include suppliers, franchisees, customers and associates. In 2002, YRI Australia was recognized by the Foundation for achieving the \$1 million fundraising milestone in its 10-year association. To date, YRI Australia has raised more than \$7 million for medical research.

Reach is an organization targeted at reducing youth suicide by providing peer-group support and teaching life skills to teenagers. In the past four years, KFC Victoria has supported Reach with fundraising activities, including encouraging associates to volunteer to help run and facilitate many of the specific youth-orientated programs.

### Additional Market Initiatives

We support many other worthy causes financially and through associate volunteerism all around the globe. For example, KFC and Pizza Hut Thailand are building new elementary schools in impoverished villages across the Kingdom.

In South Africa, we financially support the SOS Children's Villages, which runs home-based villages for children from disadvantaged communities. In 2007 we donated Rand 1,365,674.00.

In South Korea, the “Pizza Hut Korea Sharing Love Trailer” program has been feeding 50 to 100 children and disabled people per month since May 2004. The program is run out of a large mobile kitchen that tours, on average, four times per month and brings food and games to people throughout South Korea. The trailer is staffed by Pizza Hut associates.

### Disaster Relief

On May 12, 2008, a 7.9 magnitude earthquake struck the Sichuan Province of China. Officials estimate the number of dead at around 60,000 and over 100,000 injured. Over 70 Yum! China restaurants were

affected, most of which closed in the aftermath of the earthquake, but have now begun to reopen to serve our customers a warm meal and offer a friendly and inviting safe haven in the stressful environment.

The Yum! Foundation and the Yum! China Division have donated \$2.3 million US dollars to the "Yum! Family Fund" to help assist our teammates in China who were affected by this disaster. We want to help them rebuild their lives as quickly as possible with money for food, shelter and clothing.

In May 2008, we contributed \$450,000 to the Cyclone Nargis relief efforts in Myanmar through our partnership with the United Nations World Food Programme.

In addition, in 2005, our associates and franchisees donated nearly \$6 million to aid victims of the Southeast Asia tsunami, the Pakistan earthquake and Hurricane Katrina in the U.S.

## Associate Volunteering

Our associates are champions for our customers and for the communities in which they live. We support our associates' volunteer efforts, and associates are encouraged to work with their supervisors on volunteer opportunities.

Outstanding associate volunteers are recognized with our Community Mania Award, presented to select U.S. associates for their outstanding commitment of time to a local non-profit. Each May and October, one or two associates are recognized at the All Team Meeting in Louisville. As part of the Award, we sponsor a 30-second commercial spot on a TV station local to the associate which features the associate and the agency for which the associate volunteers. We also present a \$10,000 check to the non-profit in support of the associate's dedication and commitment to the organization.



*A group of kids enjoy a hot and delicious KFC meal at a Louisville-based Kids Café. The Yum! Brands Foundation supports numerous Kids Café locations in Louisville and Southern Indiana, providing meals to over 100,000 children each year.*

## The Future of Giving at Yum!

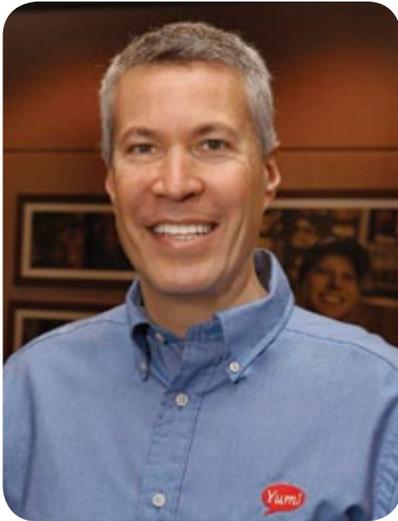
We believe that giving back and making a difference in the lives of the less fortunate is our privilege and our responsibility. The charitable spirit and culture of Yum! directs our efforts around the globe.

World Hunger Relief is our signature global program to address hunger and hopelessness. Our partnership with the U.N. World Food Programme has succeeded in ways we never imagined possible. Through it we have gone beyond making a contribution to relieving hunger and we have built momentum for ongoing volunteerism and community engagement globally by giving our associates the tools, opportunities and encouragement to place themselves at the heart of pressing societal issues.

It is not an easy task to rally our 1.4 million associates across the world around a single cause. Our work in 2007 was a great start, but more can and must be done. We have set a goal for 2008 of 100 percent systemwide participation, 5 million volunteer hours and a minimum \$1,000 USD raised by every company and franchise restaurant in our system. In addition, we've taken our program to an even higher level by engaging in and making a global commitment at the Clinton Global Initiative held in late September, 2008 in New York City. Yum! Brands committed to raising and donating \$80 million in cash over five years to help the WFP and other hunger relief agencies provide 200 million meals to school children in the areas of greatest need around the globe.

We will look to this flagship program as a best practice and example for our future global initiatives.

## Letter from the Chief Public Affairs Officer



**Jonathan Blum**  
Senior Vice President,  
Chief Public Affairs Officer,  
Yum! Brands, Inc.

“ We plan to expand our movement year over year to help wipe out hunger in impoverished parts of the world where they’ve never even heard of our restaurant brands. ”

Dear Stakeholders,

Thank you for your interest in our first Corporate Responsibility Report. We hope you find it informative and useful. In the spirit of transparency, we attempted to provide you with an overview of the many areas in which we are practicing social responsibility and Serving the World.

I recognize that our accomplishments will exceed some people’s expectations, while at the same time, may fall short of others. We are proud of the CR progress we have made in our first eleven years as a public company. By anyone’s measure, our impact on world hunger, through our partnership with the United Nations World Food Programme and other hunger relief agencies, is something we believe is both a privilege, and a responsibility. We plan to expand our movement year over year to help wipe out hunger in impoverished parts of the world where they’ve never even heard of our restaurant brands. We have a longstanding commitment to give back to the communities in which we operate, too, and believe strongly in nourishing the minds, bodies and spirits of those less fortunate.

We believe our community support, with hunger relief as our primary cause, is and will increasingly become a hallmark of our great company. At the same time, we fully recognize our responsibility to be stewards of the environment, through energy savings, use of recycled materials and innovative ways to preserve our planet.

Equally important is our commitment to health and nutrition. In early 2007, both KFC and Taco Bell in the U.S. were pioneers in switching to cooking oils with zero grams trans fat per serving. Each of the company’s brands around the globe already offer “Better For You” options, and are looking at ways to reduce sodium and make continuous improvements to the nutritional profile of their products. This year, we were proud to announce that we will be the first in the U.S. to voluntarily place calories on the menu boards of our company-owned restaurants, and will encourage our franchisees to do the same. This will be completed by January 1, 2011. At the same time, we will continue to make full nutritional information about our products available on our websites and in restaurant brochures.

Additionally in the United States, the Company will launch on-line exercise programs to help educate consumers about maintaining a balanced lifestyle, and voluntarily agreed to eliminate advertising on television programs specifically aimed at children under 12 years old. In China, our team has created the world’s largest 3-on-3 basketball tournament, with 24,000 teams participating in 400 plus cities. We are exploring similar exercise program opportunities in other countries.

All food can be part of a healthy diet, if eaten sensibly and balanced with exercise. It’s all about energy in – energy out, and a matter of personal accountability and common sense. We are committed to continue to offer Better For You options, educate consumers about the foods they eat, and promote exercise so they can maintain a balanced lifestyle.

We expect to publish a Corporate Responsibility Report every other year so you can measure the progress we are making on a number of fronts. While we may not be perfect in all that we do, we have set our sights on nothing short of excellence. We have a long way to go, but we’re proud of all the work we’ve accomplished thus far and hope you will feel free to share your ideas, thoughts and perspectives with us so that we may continue to get better and better at corporate responsibility.

Thank you again for your interest in our Corporate Social Responsibility.

Best regards,

Jonathan Blum  
Senior Vice President,  
Chief Public Affairs Officer

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Chief People Officer

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Senior Vice President, General Counsel, Secretary and Chief Franchise Policy Officer

### Richard T. Carucci

Chief Financial Officer

### Greg Creed

President and Chief Concept Officer, Taco Bell

### Roger Eaton

President and Chief Concept Officer, KFC

### Timothy P. Jerzyk

Senior Vice President, Investor Relations and Treasurer

### Ted F. Knopf

Senior Vice President, Finance and Corporate Controller

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Chief Operating Officer, Pizza Hut, U.S.A.

### Rob Savage

Chief Operating Officer, Taco Bell, U.S.A.

### Samuel Su

Vice Chairman, President, Yum! Restaurants China

## Trademarks

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

## Verification

Yum! Brands Corporate Responsibility Report contains information about pertinent aspects of our business related to our products, our associates, the environment, our relationship with suppliers and communities we serve. Forward-looking statements included in the report reflect management's expectations regarding future events and future performance. Yum! continues to launch new initiatives and make changes to our business. These developments, together with the uncertainties inherent in forward-looking statements, mean that programs and results may differ from those described when the report was first issued.

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