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6.25%

5.00%

5.50%

5.30%

Long-term rate of return on plan assets

8.00%

8.50%

8.50%

6.70%

7.00%

7.00%

Rate of compensation increase

3.75%

3.75%

3.75%

3.85%

4.00%

4.00%

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

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Plan Assets

Our pension plan weighted-average asset allocations at the measurement dates, by asset category are set forth below:

Asset Category	U.S. Pension Plans 2006	U.S. Pension Plans 2005	International Pension Plans 2006	International Pension Plans 2005
Equity securities	70%	71%	80%	77%
Debt securities	30	29	20	23
Total	100%	100%	100%	100%

Our primary objectives regarding the Plan s assets, which make up 85% of pension plan assets at the 2006 measurement dates, are to optimize return on assets subject to acceptable risk and to maintain liquidity, meet minimum funding requirements and minimize plan expenses. To achieve these objectives, we have adopted a passive investment strategy in which the asset performance is driven primarily by the investment allocation. Our target investment allocation is 70% equity securities and 30% debt securities, consisting primarily of low cost index mutual funds that track several sub-categories of equity and debt security performance. The investment strategy is primarily driven by our Plan s participants ages and reflects a long-term investment horizon favoring a higher equity component in the investment allocation.

A mutual fund held as an investment by the Plan includes YUM stock in the amount of $0.3 million at September 30, 2006 and 2005 (less than 1% of total plan assets in each instance).

Benefit Payments

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

Year ended:	U.S. Pension Plans	International Pension Plans
2007	$ 22	$ 2
2008	25	2
2009	29	2
2010	32	2
2011	39	2
2012 - 2016	279	10

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

Postretirement Medical Benefits

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

At the end of 2006 and 2005, the accumulated postretirement benefit obligation is $68 million and $69 million, respectively. The unrecognized actuarial loss recognized in Accumulated other comprehensive loss is $4 million at

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the end of 2006. The net periodic benefit cost recorded in 2006, 2005, and 2004 was $6 million, $8 million and $8 million, respectively, the majority of which is interest cost on the accumulated postretirement benefit obligation. The weighted-average assumptions used to determine benefit obligations and net periodic benefit cost for the postretirement medical plan are identical to those as shown for the U.S. pension plans. Our assumed heath care cost trend rates for the following year as of 2006 and 2005 are 9.0% and 10.0%, respectively, both with an expected ultimate trend rate of 5.5% reached in 2012.

There is a cap on our medical liability for certain retirees. The cap for Medicare eligible retirees was reached in 2000 and the cap for non-Medicare eligible retirees is expected to be reached in 2010; once the cap is reached, our annual cost per retiree will not increase. A one-percentage-point increase or decrease in assumed health care cost trend rates would have less than a $1 million impact on total service and interest cost and on the post retirement benefit obligation. The benefits expected to be paid in each of the next five years are approximately $5 million and in aggregate for the five years thereafter are $28 million.

Note 16 Stock Options and Stock Appreciation Rights

At year-end 2006, we had four stock award plans in effect: the YUM! Brands, Inc. Long-Term Incentive Plan (1999 LTIP), the 1997 Long-Term Incentive Plan (1997 LTIP), the YUM! Brands, Inc. Restaurant General Manager Stock Option Plan (RGM Plan) and the YUM! Brands, Inc. SharePower Plan (SharePower). Under all our plans, the exercise price of stock options and stock appreciation rights (SARs) granted must be equal to or greater than the average market price of the Company's stock on the date grant.

We may grant awards of up to 29.8 million shares and 45.0 million shares of stock under the 1999 LTIP, as amended, and 1997 LTIP, respectively. Potential awards to employees and non-employee directors under the 1999 LTIP include stock options, incentive stock options, SARs, restricted stock, stock units, restricted stock units, performance shares and performance units. Potential awards to employees and non-employee directors under the 1997 LTIP include restricted stock and performance restricted stock units. Prior to January 1, 2002, we also could grant stock options, incentive stock options and SARs under the 1997 LTIP. Through December 30, 2006, we have issued only stock options and performance restricted stock units under the 1997 LTIP and have issued only stock options and SARs under the 1999 LTIP. While awards under the 1999 LTIP can have varying vesting provisions and exercise periods, previously granted awards under the 1997 LTIP and 1999 LTIP vest in periods ranging from immediate to 2010 and expire ten to fifteen years after grant.

We may grant awards to purchase up to 15.0 million shares of stock under the RGM Plan. Potential awards to employees under the RGM Plan include stock options and SARs. RGM Plan awards granted have a four year vesting period and expire ten years after grant. Certain RGM Plan awards are granted upon attainment of performance conditions in the previous year. Expense for such awards is recognized over a period that includes the performance condition period.

We may grant awards to purchase up to 14.0 million shares of stock under SharePower. Potential awards to employees under SharePower include stock options, SARs, restricted stock and restricted stock units. SharePower awards granted subsequent to the Spin-off Date consist only of stock options and SARs to date, which vest over a period ranging from one to four years and expire no longer than ten years after grant. Previously granted SharePower awards have expirations through 2016.

We estimated the fair value of each award made during 2006, 2005 and 2004 as of the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	2006	2005	2004
Risk-free interest rate	4.5%	3.8%	3.2%
Expected term (years)	6.0	6.0	6.0
Expected volatility	31.0%	36.6%	40.0%
Expected dividend yield	1.0%	0.9 %	0.1 %

In connection with our adoption of SFAS 123R in 2005, we determined that it was appropriate to group our awards into two homogeneous groups when estimating expected term. These groups consist of grants made primarily to restaurant-level employees under the RGM Plan, which typically cliff vest after four years, and grants made to executives under our other stock award plans, which typically have a graded vesting schedule and vest 25% per year over four years. We use a single-weighted average expected term for our awards that have a graded vesting schedule as permitted by SFAS 123R. Based on analysis of our historical exercise and post-vesting termination behavior we have determined that six years is an appropriate term for both awards to our restaurant-level employees and awards to our executives.

Prior to the adoption of SFAS 123R in 2005 we have traditionally based expected volatility on Company specific historical stock data over the expected term of the option. Subsequent to adoption, we revaluated expected volatility, including consideration of both historical volatility of our stock as well as implied volatility associated with our traded options.

A summary of award activity as of December 30, 2006, and changes during the year then ended is presented below.

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value (in millions)
Outstanding at the beginning of the year	31,719	$ 25.75		
Granted	4,183	49.25		
Exercised	(6,830)	20.82		
Forfeited or expired	(1,770)	36.84		
Outstanding at the end of the year	27,302	$ 29.86	5.70	$ 790
Exercisable at the end of the year	16,454	$ 22.14	4.20	$ 603

The weighted-average grant-date fair value of awards granted during 2006, 2005 and 2004 was $17.05, $17.78 and $15.11, respectively. The total intrinsic value of stock options exercised during the years ended December 30, 2006, December 31, 2005 and December 25, 2004, was $215 million, $271 million and $282 million, respectively.

As of December 30, 2006, there was $114 million of unrecognized compensation cost, which will be reduced by any forfeitures that occur, related to unvested awards that is expected to be recognized over a weighted-average period of 2.7 years. The total fair value at grant date of awards vested during 2006, 2005 and 2004 was $57 million, $57 million and $103 million, respectively.

Cash received from stock options exercises for 2006, 2005 and 2004, was $142 million, $148 million and $200 million, respectively. Tax benefits realized from tax deductions associated with stock options exercised for 2006, 2005 and 2004 totaled $68 million, $94 million and $102 million, respectively.

The Company has a policy of repurchasing shares on the open market to satisfy award exercises and expects to repurchase approximately 7.7 million shares during 2007 based on estimates of stock option and SARs exercises for that period.

Note 17 Other Compensation and Benefit Programs

Executive Income Deferral Program (the EID Plan)

The EID Plan allows participants to defer receipt of a portion of their annual salary and all or a portion of their incentive compensation. As defined by the EID Plan, we credit the amounts deferred with earnings based on the investment options selected by the participants. In 2004, these investment options were limited to cash and phantom shares of our Common Stock. In 2005, we added two new phantom investment options to the EID Plan, a Stock Index Fund and the Bond Index Fund. Additionally, the EID Plan allows participants to defer incentive compensation to purchase phantom shares of our Common Stock at a 25% discount from the average market price at the date of deferral (the Discount Stock Account). Deferrals to the Discount Stock Account are similar to a restricted stock unit award in that participants will forfeit both the discount and incentive compensation amounts deferred to the Discount Stock Account if they voluntarily separate from employment during a vesting period that is generally two years. We expense the intrinsic value of the discount and, beginning in 2006, the incentive compensation over the requisite service period which includes the vesting period. Investments in cash, the Stock Index fund and the Bond Index fund will be distributed in cash at a date as elected by the employee and therefore are classified as a liability on our Consolidated Balance Sheets. We recognize compensation expense for the appreciation or depreciation of these investments. As investments in the phantom shares of our Common Stock can only be settled in shares of our Common Stock, we do not recognize compensation expense for the appreciation or the depreciation, if any, of these investments. Deferrals into the phantom shares of our Common Stock are credited to the Common Stock Account.

As of December 30, 2006 total deferrals to phantom shares of our Common Stock within the EID Plan totaled approximately 3.3 million shares. We recognized compensation expense of $8 million, $4 million and $3 million in 2006, 2005 and 2004, respectively, for the EID Plan.

Contributory 401(k) Plan

We sponsor a contributory plan to provide retirement benefits under the provisions of Section 401(k) of the Internal Revenue Code (the 401(k) Plan) for eligible U.S. salaried and hourly employees. Participants are able to elect to contribute up to 25% of eligible compensation on a pre-tax basis. Participants may allocate their contributions to one or any combination of 10 investment options within the 401(k) Plan. We match 100% of the participant s contribution to the 401(k) Plan up to 3% of eligible compensation and 50% of the participant s contribution on the next 2% of eligible compensation. We recognized as compensation expense our total matching contribution of $12 million in 2006, $12 million in 2005 and $11 million in 2004.

Note 18 Shareholders Rights Plan

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

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Agreement) to purchase, at the right s then current exercise price, YUM Common Stock and thereafter if we are acquired in a merger or other business combination, each right will entitle its holder to purchase, at the right s then current exercise price, Common Stock of the acquiring company having a value of twice the exercise price of the right.

This description of the right is qualified in its entirety by reference to the original Rights Agreement, dated July 21, 1998, and the Agreement of Substitution and Amendment of Common Share Rights Agreement, dated August 28, 2003, between YUM and American Stock Transfer and Trust Company, the Right Agent (both including the exhibits thereto). On February 9, 2007 our Board of Directors approved a second Amendment to the original Rights Agreement which accelerated the expiration of the rights from July 21, 2008 to March 1, 2007.

Note 19 Shareholders Equity

The Company initiated quarterly dividend payments to our stockholders in 2004. In 2004, the Company declared three cash dividends of $0.10 per share of Common Stock. In 2005, the Company declared one cash dividend of $0.10 per share of Common Stock and three cash dividends of $0.115 per share of Common Stock. In 2006, the Company declared one cash dividend of $0.115 per share of common stock, three cash dividends of $0.15 per share of common stock and one cash dividend of $0.30 per share of common stock. The Company had dividends payable of $119 million and $32 million as of December 30, 2006 and December 31, 2005, respectively.

Under the authority of our Board of Directors, we repurchased shares of our Common Stock during 2006, 2005 and 2004. All amounts exclude applicable transaction fees.

	Shares Repurchased (thousands)			**Dollar Value of Shares Repurchased**		
Authorization Date	2006	2005	2004	2006	2005	2004
September 2006	528			$ 31	$	$
March 2006	10,073			500		
November 2005	9,564	644		469	31	
May 2005		10,140			500	
January 2005		9,963			500	
May 2004		534	5,953		25	275
November 2003			8,072			294
Total	20,165	21,281	14,025	$ 1,000 [a]	$ 1,056	$ 569

(a) Amount includes effects of $17 million in share repurchases (0.3 million shares) with trade dates prior to the year end but cash settlement dates subsequent to year end.

As of December 30, 2006, we have $469 million available for future repurchases (includes the impact of shares repurchased but not yet cash settled above) under our September 2006 share repurchase authorization. Based on market conditions and other factors, additional repurchases may be made from time to time in the open market or through privately negotiated transactions at the discretion of the Company.

<u>Accumulated Other Comprehensive Income (Loss)</u> Comprehensive income is net income plus certain other items that are recorded directly to shareholders equity. Amounts included in other accumulated comprehensive loss for the Company s derivative instruments, minimum pension liability and unrecognized actuarial losses are recorded net of the related income tax effects. Refer to Note 15 for additional information about our pension accounting and Note 14 for additional information about our derivative instruments. The following table gives further detail regarding the composition of other accumulated comprehensive income (loss) at December 30, 2006 and December 31, 2005.

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	2006	2005
Foreign currency translation adjustment	$	$ (59)
Minimum pension liability adjustment, net of tax		(110)
Unrecognized actuarial losses, net of tax	(160)	
Unrealized losses on derivative instruments, net of tax	4	(1)
Total accumulated other comprehensive loss	$ (156)	$ (170)

Note 20 - Income Taxes

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

	2006	2005	2004
Current: Federal	$ 181	$ 241	$ 78
Foreign	131	113	79
State	2	11	(13)
	314	365	144
Deferred: Federal	(33)	(66)	41
Foreign	(13)	(20)	67
State	16	(15)	34
	(30)	(101)	142
	$ 284	$ 264	$ 286

Included in the federal tax provision above for 2005 and 2004 is approximately $20 million current tax and $6 million deferred tax, respectively, provided on $500 million of earnings in our foreign investments which we repatriated to the U.S. in 2005. We made the determination to repatriate such earnings as the result of The American Jobs Creation Act of 2004 which became law on October 22, 2004 (the Act). The Act allowed a dividend received deduction of 85% of repatriated qualified foreign earnings in fiscal year 2005. The federal and state tax provision for 2006 includes $4 million current tax benefit as a result of the reconciliation of tax on repatriated earnings as recorded in our Consolidated Statements of Income to the amounts on our tax returns.

Total changes in valuation allowances were increases of $109 million and $86 million in 2006 and 2004, respectively, and a decrease of $36 million in 2005. The deferred tax provision includes $4 million and $47 million of expense in 2006 and 2004, respectively, and $39 million of benefit in 2005 for changes in valuation allowances due to changes in determinations regarding the likelihood of use of certain deferred tax assets. The deferred tax provisions also include $72 million, $26 million and $12 million in 2006, 2005 and 2004, respectively, for increases in valuation allowances recorded against deferred tax assets generated during the year. Additionally, currency translation and other adjustments contributed to the fluctuations. See additional discussion of federal valuation allowances adjustments in the effective tax rate discussion below.

The 2006 state deferred tax provision includes $12 million ($8 million, net of federal tax) expense for the impact of state law changes. The 2005 state deferred tax provision includes $8 million ($5 million, net of federal tax) expense for the impact of changes in state statutory tax rates. The deferred foreign tax provision includes $2 million expense and $1 million benefit in 2006 and 2004, respectively, for the impact of changes in statutory tax rates in various countries.

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

	2006	2005	2004
U.S.	$ 626	$ 690	$ 690
Foreign	482	336	336
	$ 1,108	$ 1,026	$ 1,026

The above U.S. income includes all income taxed in the U.S. even if the income is earned outside the U.S.

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

	2006		2005		2004	
U.S. federal statutory rate	35.0	%	35.0	%	35.0	%
State income tax, net of federal tax benefit	2.0		1.6		1.3	
Foreign and U.S. tax effects attributable to foreign operations	(7.8	)	(8.4	)	(7.8	)
Adjustments to reserves and prior years	(3.5	)	(1.1	)	(6.7	)
Repatriation of foreign earnings	(0.4	)	2.0		0.5	
Non-recurring foreign tax credit adjustments	(6.2	)	(1.7	)		
Valuation allowance additions (reversals)	6.8		(1.1	)	5.7	
Other, net	(0.3	)	(0.5	)	(0.1	)
Effective income tax rate	25.6	%	25.8	%	27.9	%

The 2006 tax rate was favorably impacted by the reversal of tax reserves in connection with our regular U.S. audit cycle, as well as certain out-of-year adjustments to reserves and accruals that lowered our effective income tax rate by 2.2 percentage points. The reversal of tax reserves was partially offset by valuation allowance additions on foreign tax credits of approximately $36 million for which, as a result of the tax reserve reversals, we currently believe we are not likely to utilize before they expire. We also recognized deferred tax assets for the foreign tax credit impact of non-recurring decisions to repatriate certain foreign earnings in 2007. However, we provided full valuation allowances on such assets as we do not believe it is currently more likely than not that they will be realized. The 2005 tax rate was favorably impacted by the reversal of valuation allowances and the recognition of certain non-recurring foreign tax credits that we were able to substantiate during 2005. The 2004 adjustment to reserves and prior years were primarily driven by the reversal of reserves associated with audits that were settled.

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

The details of 2006 and 2005 deferred tax liabilities (assets) are set forth below:

	2006	2005
Intangible assets and property, plant and equipment	$ 150	$ 169
Other	55	62
Gross deferred tax liabilities	$ 205	$ 231
Net operating loss and tax credit carryforwards	$ (331)	$ (234)
Employee benefits	(174)	(132)
Self-insured casualty claims	(85)	(84)
Lease related assets and liabilities	(72)	(50)
Various liabilities	(92)	(151)
Deferred income and other	(70)	(49)
Gross deferred tax assets	(824)	(700)
Deferred tax asset valuation allowances	342	233
Net deferred tax assets	(482)	(467)
Net deferred tax (assets) liabilities	$ (277)	$ (236)
Reported in Consolidated Balance Sheets as:		
Deferred income taxes - current	$ (57)	$ (181)
Deferred income taxes long-term	(305)	(225)
Other liabilities and deferred credits	77	111
Accounts payable and other current liabilities	8	59
	$ (277)	$ (236)

We have not provided deferred tax on the undistributed earnings from our foreign subsidiaries as we believe they are indefinitely reinvested. This amount may become taxable upon an actual or deemed repatriation of assets from the subsidiaries or a sale or liquidation of the subsidiaries. In 2006 we recorded the impact of $48 million of excess foreign tax credits to be generated from decisions to repatriate foreign earnings; however, these benefits are fully offset by a valuation allowance. We estimate that our total net undistributed earnings upon which we have not provided deferred tax total approximately $830 million at December 30, 2006. A determination of the deferred tax liability on such earnings is not practicable.

Foreign operating and capital loss carryforwards totaling $467 million and state operating loss carryforwards of $1.1 billion at year end 2006 are being carried forward in jurisdictions where we are permitted to use tax losses from prior periods to reduce future taxable income. These losses will expire as follows: $13 million in 2007, $1.2 billion between 2007 and 2026 and $395 million may be carried forward indefinitely. In addition, tax credits totaling $127 million are available to reduce certain federal and state liabilities, of which $121 million will expire between 2007 and 2026 and $6 million may be carried forward indefinitely.

See Note 22 for further discussion of certain proposed Internal Revenue Service adjustments.

Note 21 Reportable Operating Segments

We are principally engaged in developing, operating, franchising and licensing the worldwide KFC, Pizza Hut and Taco Bell concepts, and since May 7, 2002, the LJS and A&W concepts, which were added when we acquired YGR. KFC, Pizza Hut, Taco Bell, LJS and A&W operate throughout the U.S. and in 101, 91, 13, 5 and 10 countries and territories outside the U.S., respectively. Our five largest international markets based on operating profit in 2006 are China, United Kingdom, Asia Franchise, Australia and Mexico. At December 30, 2006, we had investments in 6 unconsolidated affiliates outside the U.S. which operate principally KFC and/or Pizza Hut restaurants. These unconsolidated affiliates operate in China and Japan.

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

	Revenues		
	2006	2005	2004
United States	$ 5,603	$ 5,929	$ 5,763
International Division[a]	2,320	2,124	2,128
China Division[a]	1,638	1,296	1,120
	$ 9,561	$ 9,349	$ 9,011

	Operating Profit; Interest Expense, Net; and Income Before Income Taxes		
	2006	2005	2004
United States	$ 763	$ 760	$ 777
International Division[b]	407	372	337
China Division[b]	290	211	205
Unallocated and corporate expenses	(229)	(246)	(204)
Unallocated other income (expense)[c]	6	9	(2)
Unallocated refranchising gain (loss)[d]	24	43	12
Wrench litigation income (expense)[e]		2	14
AmeriServe and other (charges) credits[e]	1	2	16
Total operating profit	1,262	1,153	1,155
Interest expense, net	(154)	(127)	(129)
Income before income taxes	$ 1,108	$ 1,026	$ 1,026

	Depreciation and Amortization		
	2006	2005	2004
United States	$ 259	$ 266	$ 267
International Division	115	107	99
China Division	95	82	69
Corporate	10	14	13
	$ 479	$ 469	$ 448

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	Capital Spending 2006	2005	2004
United States	$ 329	$ 333	$ 365
International Division	118	96	121
China Division	165	159	118
Corporate	2	21	41
	$ 614	$ 609	$ 645

	Identifiable Assets 2006	2005	2004
United States	$ 2,909	$ 3,118	$ 3,316
International Division[(f)]	2,100	1,536	1,441
China Division[(f)]	869	746	613
Corporate[(g)]	475	397	326
	$ 6,353	$ 5,797	$ 5,696

	Long-Lived Assets[(h)] 2006	2005	2004
United States	$ 2,604	$ 2,800	$ 2,900
International Division[(i)]	1,357	804	904
China Division[(i)]	595	517	436
Corporate	84	103	99
	$ 4,640	$ 4,224	$ 4,339

(a) Includes revenues of $673 million, $483 million and $467 million for entities in the United Kingdom for 2006, 2005 and 2004, respectively. Includes revenues of $1.4 billion, $1.0 billion and $903 million in mainland China for 2006, 2005 and 2004, respectively.

(b) Includes equity income of unconsolidated affiliates of $10 million, $21 million and $25 million in 2006, 2005 and 2004, respectively, for the International Division. Includes equity income of unconsolidated affiliates of $41 million, $30 million, and $32 million in 2006, 2005 and 2004, respectively, for the China Division.

(c) Includes net gains of approximately $2 million and $11 million in 2006 and 2005, respectively, associated with the sale of our Poland/Czech Republic business. See Note 8.

(d) Refranchising gain (loss) is not allocated to the U.S., International Division or China Division segments for performance reporting purposes.

(e) See Note 4 for a discussion of AmeriServe and other (charges) credits and Note 4 for a discussion of Wrench litigation.

(f) Includes investment in unconsolidated affiliates of $64 million, $117 million and $143 million for 2006, 2005 and 2004, respectively, for the International Division. Includes investment in unconsolidated affiliates of $74 million, $56 million and $51 million for 2006, 2005 and 2004, respectively, for the China Division.

(g) Primarily includes deferred tax assets, property, plant and equipment, net, related to our office facilities and cash.

(h) Includes property, plant and equipment, net, goodwill, and intangible assets, net.

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(i) Includes long-lived assets of $813 million, $271 million and $295 million for entities in the United Kingdom for 2006, 2005 and 2004, respectively. Includes long-lived assets of $495 million, $430 million and $342 million in mainland China for 2006, 2005 and 2004, respectively.

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

Note 22 Guarantees, Commitments and Contingencies

Lease Guarantees and Contingencies

As a result of (a) assigning our interest in obligations under real estate leases as a condition to the refranchising of certain Company restaurants; (b) contributing certain Company restaurants to unconsolidated affiliates; and (c) guaranteeing certain other leases, we are frequently contingently liable on lease agreements. These leases have varying terms, the latest of which expires in 2026. As of December 30, 2006 and December 31, 2005, the potential amount of undiscounted payments we could be required to make in the event of non-payment by the primary lessee was $418 million and $374 million, respectively. The present value of these potential payments discounted at our pre-tax cost of debt at December 30, 2006 was $336 million. Our franchisees are the primary lessees under the vast majority of these leases. We generally have cross-default provisions with these franchisees that would put them in default of their franchise agreement in the event of non-payment under the lease. We believe these cross-default provisions significantly reduce the risk that we will be required to make payments under these leases. Accordingly, the liability recorded for our probable exposure under such leases at December 30, 2006 and December 31, 2005 was not material.

Franchise Loan Pool Guarantees

We had provided approximately $16 million of partial guarantees of two franchisee loan pools related primarily to the Company s historical refranchising programs and, to a lesser extent, franchisee development of new restaurants, at December 30, 2006 and December 31, 2005. In support of these guarantees, we posted letters of credit of $4 million. We also provide a standby letter of credit of $18 million under which we could potentially be required to fund a portion of one of the franchisee loan pools. The total loans outstanding under these loan pools were approximately $75 million and $77 million at December 30, 2006 and December 31, 2005, respectively.

Any funding under the guarantees or letters of credit would be secured by the franchisee loans and any related collateral. We believe that we have appropriately provided for our estimated probable exposures under these contingent liabilities. These provisions were primarily charged to net refranchising loss (gain). New loans added to the loan pools in 2006 were not significant.

Unconsolidated Affiliates Guarantees. From time to time we have guaranteed certain lines of credit and loans of unconsolidated affiliates. At December 30, 2006 and December 31, 2005 there are no guarantees outstanding for unconsolidated affiliates. Our unconsolidated affiliates had total revenues of over $1.1 billion for the year ended December 30, 2006 and assets and debt of approximately $583 million and $29 million, respectively, at December 30, 2006.

Insurance Programs

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

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exceed the self-insurance per occurrence or aggregate retention. The insurers maximum aggregate loss limits are significantly above our actuarially determined probable losses; therefore, we believe the likelihood of losses exceeding the insurers maximum aggregate loss limits is remote.

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

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

Change of Control Severance Agreements

The Company has severance agreements with certain key executives (the Agreements) that are renewable on an annual basis. These Agreements are triggered by a termination, under certain conditions, of the executive s employment following a change in control of the Company, as defined in the Agreements. If triggered, the affected executives would generally receive twice the amount of both their annual base salary and their annual incentive, at the higher of target or actual for the preceding year, a proportionate bonus at the higher of target or actual performance earned through the date of termination, outplacement services and a tax gross-up for any excise taxes. These Agreements have a three-year term and automatically renew each January 1 for another three-year term unless the Company elects not to renew the Agreements. If these Agreements had been triggered as of December 30, 2006, payments of approximately $45 million would have been made. In the event of a change of control, rabbi trusts would be established and used to provide payouts under existing deferred and incentive compensation plans.

Litigation

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

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

In November 2005, the parties agreed to a settlement, which we provided for in our 2005 Consolidated Financial Statements. The Court granted preliminary approval of the settlement on June 28, 2006. Final approval of the settlement was granted on October 5, 2006, and payment was made during the quarter ended December 30, 2006.

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

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

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

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

Arbitrations under LJS s DRP, including the Cole Arbitration, are governed by the rules of the AAA. In October 2003, the AAA adopted its Supplementary Rules for Class Arbitrations (AAA Class Rules). The AAA appointed an arbitrator for the Cole Arbitration. On June 15, 2004, the arbitrator issued a clause construction award, ruling that the DRP does not preclude class arbitration. LJS moved to vacate the clause construction award in the United States District Court for the District of South Carolina. On September 15, 2005, the federal court in South Carolina ruled that it did not have jurisdiction to hear LJS s motion to vacate. LJS appealed the U.S. District Court s ruling to the United States Court of Appeals for the Fourth Circuit.

On January 5, 2007, LJS moved to dismiss the clause construction award appeal and that motion was granted by the Fourth Circuit on January 10, 2007. LJS had also filed a motion to vacate the clause construction award in South Carolina state court, which was stayed pending a decision by the Fourth Circuit. LJS has agreed to dismiss the motion to vacate the clause construction award and has also agreed not to oppose claimants cross-motion to confirm that award by the South Carolina court. While judicial review of the clause construction award was pending in the U.S. District Court, the arbitrator permitted claimants to move for a class determination award, which was opposed by LJS. On September 19, 2005, the arbitrator issued a class determination award, certifying a class of LJS s RGMs and ARGMs employed between December 17, 1998, and August 22, 2004, on FLSA claims, to proceed on an opt-out basis under the AAA Class Rules. That class determination award was upheld on appeal by the United States District Court for the District of South Carolina on January 20, 2006, and the arbitrator declined to reconsider the award. LJS has appealed the ruling of the U.S. District Court to the United States Court of Appeals for the Fourth Circuit. LJS has also filed a motion to vacate the class determination award in South Carolina state court, which has been stayed by the South Carolina court pending a decision by the Fourth Circuit in the class determination award appeal. Oral argument in the Fourth Circuit was heard on January 31, 2007.

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

On September 2, 2005, a collective action lawsuit against the Company and KFC Corporation, originally styled Parler v. Yum Brands, Inc., d/b/a KFC, and KFC Corporation, was filed in the United States District Court for the District of Minnesota. Plaintiff alleges that he and other current and former KFC Assistant Unit Managers (AUMs) were improperly classified as exempt employees under the FLSA. Plaintiff seeks overtime wages and liquidated damages. On January 17, 2006, the District Court dismissed the claims against the Company with prejudice, leaving KFC Corporation as the sole defendant. Notice was mailed to current and former AUMs advising them of the litigation and providing an opportunity to join the case if they choose to do so. Plaintiff amended the complaint on September 8, 2006, to add related state law claims on behalf of a putative class of KFC AUMs employed in Illinois, Minnesota, Nevada, New Jersey, New York, Ohio, and Pennsylvania. On October 24, 2006, plaintiff moved to decertify the conditionally certified FLSA action, and KFC Corporation did not oppose the motion. In January, 2007 the magistrate recommended that the motion for decertification be granted.

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

On August 4, 2006, a putative class action lawsuit against Taco Bell Corp. styled Rajeev Chhibber vs. Taco Bell Corp. was filed in Orange County Superior Court. On August 7, 2006, another putative class action lawsuit styled Marina Puchalski v. Taco Bell Corp. was filed in San Diego County Superior Court. Both lawsuits were filed by a Taco Bell RGM purporting to represent all current and former RGMs who worked at corporate-owned restaurants in California from August 2002 to the present. The lawsuits allege violations of California s wage and hour laws involving unpaid overtime and meal and rest period violations and seek unspecified amounts in damages and penalties. As of September 7, 2006, the Orange County case was voluntarily dismissed by the plaintiff and both cases have been consolidated in San Diego County.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. However, in view of the inherent uncertainties of litigation, the outcome of this case cannot be predicted at this time. Likewise, the amount of any potential loss cannot be reasonably estimated.

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the United States District Court for the Northern District of California styled Moeller, et al. v. Taco Bell Corp. On August 4, 2003, plaintiffs filed an amended complaint that alleges, among other things, that Taco Bell has discriminated against the class of people who use wheelchairs or scooters for mobility by failing to make its approximately 220 company-owned restaurants in California (the California Restaurants) accessible to the class. Plaintiffs contend that queue rails and other architectural and structural elements of the Taco Bell restaurants relating to the path of travel and use of the facilities by persons with mobility-related disabilities (including parking spaces, ramps, counters, restroom facilities and seating) do not comply with the U.S. Americans with Disabilities Act (the ADA), the Unruh Civil Rights Act (the Unruh Act), and the California Disabled Persons Act (the CDPA). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either $4,000 under the Unruh Act or $2,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class. For themselves, the four named plaintiffs have claimed aggregate minimum statutory damages of no less than $16,000, but are expected to claim greater amounts based on the number of Taco Bell outlets they visited at which they claim to have suffered discrimination.

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

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

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

According to the Centers for Disease Control (CDC), there was an outbreak of illness associated with a particular strain of E. coli 0157:H7 in the northeast United States during November and December 2006. Also according to the CDC, the outbreak from this particular strain was associated with eating at Taco Bell restaurants in Pennsylvania, New Jersey, New York and Delaware. The CDC concluded that the outbreak ended on or about December 6, 2006. The CDC has confirmed 71 cases of persons who became ill from this particular strain of E. coli 0157:H7 in the above-mentioned area during the above time frame, and that no deaths have been reported.

On December 6, 2006, a lawsuit styled Tyler Vormittag, et. al. v. Taco Bell Corp, Taco Bell of America, Inc. and Yum! Brands, Inc. was filed in the Supreme Court of the State of New York, County of Suffolk. Mr. Vormittag, a minor, alleges he became ill after consuming food, which was allegedly contaminated with E. coli 0157:H7, purchased from a Taco Bell restaurant in Riverhead, New York. Subsequently, ten other cases have been filed naming the Company, Taco Bell Corp. and/or Taco Bell of America and alleging similar facts on behalf of other customers.

According to the allegations common to all the Complaints, each Taco Bell customer became ill after ingesting contaminated food in late November or early December 2006 from Taco Bell restaurants located in the northeast states implicated in the outbreak. As these lawsuits are new, no discovery by any party has been undertaken. However, the Company believes, based on the allegations, that the stores identified in at least five of the Complaints are in fact not owned by the Company or any of its subsidiaries. As such, the Company believes that at a minimum it is not liable for any losses at these stores. We have provided for the estimated costs of this litigation, based on a projection of potential claims and their amounts as well as the results of settlement negotiations in similar matters. But in view of the inherent uncertainties of litigation, there can be no assurance that the outcome of the litigation will not result in losses in excess of those currently provided for in our Consolidated Financial Statements.

Proposed Internal Revenue Service Adjustments

Recently, the Internal Revenue Service (the IRS) informed the Company of its intent to propose certain adjustments based on its position that the Company did not file Gain Recognition Agreements (GRAs) on a timely basis in connection with certain transfers of foreign subsidiaries among its affiliated group. The Company plans to seek clarification of the IRS position. Based on the Company s current understanding of the IRS position, the Company believes that the filing of GRAs in this matter was not required; and it further believes that, even if required, the Company would be granted relief for a later filing. Although the Company believes that the IRS position will not be upheld, if the IRS were to prevail, the Company could be required to make incremental tax payments that would be material in amount. The Company intends to vigorously contest the IRS position and does not believe that the resolution of this matter will have a material adverse impact on the Company s financial results or condition.

Obligations to PepsiCo, Inc. After Spin-off

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

Under terms of the agreement, we have indemnified PepsiCo for any costs or losses it incurs with respect to all letters of credit, guarantees and contingent liabilities relating to our businesses under which PepsiCo remains liable. As of December 30, 2006, PepsiCo remains liable for approximately $23 million on a nominal basis related to these contingencies. This obligation ends at the time PepsiCo is released, terminated or replaced by a qualified letter of credit. We have not been required to make any payments under this indemnity.

Under the Separation Agreements, PepsiCo maintains full control and absolute discretion with regard to any combined or consolidated tax filings for periods through October 6, 1997. PepsiCo also maintains full control and absolute discretion regarding any common tax audit issues. Although PepsiCo has contractually agreed to, in good faith, use its best efforts to settle all joint interests in any common audit issue on a basis consistent with prior practice, there can be no assurance that determinations made by PepsiCo would be the same as we would reach, acting on our own behalf. Through December 30, 2006, there have not been any determinations made by PepsiCo where we would have reached a different determination.

Note 23 - Selected Quarterly Financial Data (Unaudited)

	2006 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 1,819	$ 1,912	$ 1,989	$ 2,645	$ 8,365
Franchise and license fees	266	270	289	371	1,196
Total revenues	2,085	2,182	2,278	3,016	9,561
Restaurant profit	284	301	321	365	1,271
Operating profit	282	307	344	329	1,262
Net income	170	192	230	232	824
Diluted earnings per common share	0.59	0.68	0.83	0.83	2.92
Dividends declared per common share	0.115	0.15		0.60	0.865

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	2005 First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Revenues:					
Company sales	$ 1,810	$ 1,902	$ 1,975	$ 2,538	$ 8,225
Franchise and license fees	244	251	268	361	1,124
Total revenues	2,054	2,153	2,243	2,899	9,349
Restaurant profit	259	266	294	336	1,155
Operating profit	251	261	308	333	1,153
Net income	153	178	205	226	762
Diluted earnings per common share	0.50	0.59	0.69	0.77	2.55
Dividends declared per common share	0.10	0.115		0.23	0.445

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

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Management s Responsibility for Financial Statements

To Our Shareholders:

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

We maintain a system of internal control over financial reporting, designed to provide reasonable assurance as to the reliability of the financial statements, as well as to safeguard assets from unauthorized use or disposition. The system is supported by formal policies and procedures, including an active Code of Conduct program intended to ensure employees adhere to the highest standards of personal and professional integrity. We have conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation, we concluded that our internal control over financial reporting was effective as of December 30, 2006. Our internal audit function monitors and reports on the adequacy of and compliance with the internal control system, and appropriate actions are taken to address significant control deficiencies and other opportunities for improving the system as they are identified.

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

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

Although no cost-effective internal control system will preclude all errors and irregularities, we believe our controls as of December 30, 2006 provide reasonable assurance that our assets are reasonably safeguarded.

Richard T. Carucci
Chief Financial Officer

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

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

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

Management s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) under the Securities Exchange Act of 1934. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 30, 2006. Our management s assessment of the effectiveness of our internal control over financial reporting as of December 30, 2006 has been audited by KPMG LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Changes in Internal Control

There were no significant changes with respect to the Company s internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended December 30, 2006.

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

Information regarding Section 16(a) compliance, the Audit Committee and the Audit Committee financial expert, the Company s code of ethics and background of the directors appearing under the captions Stock Ownership Information, Governance of the Company, Executive Compensation and Election of Directors is incorporated by reference from the Company s definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 30, 2006.

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

Item 11. Executive Compensation.

Information regarding executive and director compensation and the Compensation Committee appearing under the captions Governance of the Company and Executive Compensation is incorporated by reference from the Company s definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 30, 2006.

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

Information regarding equity compensation plans and security ownership of certain beneficial owners and management appearing under the captions Executive Compensation and Stock Ownership Information is incorporated by reference from the Company s definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 30, 2006.

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

Information regarding certain relationships and related transactions and information regarding director independence appearing under the caption Governance of the Company is incorporated by reference from the Company s definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 30, 2006.

Item 14. Principal Accountant Fees and Services.

Information regarding principal accountant fees and services and audit committee pre-approved policies and procedures appearing under the caption Item 2: Ratification of Independent Auditors is incorporated by reference from the Company s definitive proxy statement which will be filed with the Securities and Exchange Commission no later than 120 days after December 30, 2006.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) (1) Financial Statements: Consolidated financial statements filed as part of this report are listed under Part II, Item 8 of this Form 10-K.

(2) Financial Statement Schedules: No schedules are required because either the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the financial statements or the related notes thereto filed as a part of this Form 10-K.

(3) Exhibits: The exhibits listed in the accompanying Index to Exhibits are filed as part of this Form 10-K. The Index to Exhibits specifically identifies each management contract or compensatory plan required to be filed as an exhibit to this Form 10-K.

SIGNATURES

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

Date: February 27, 2007

YUM! BRANDS, INC.

By: /s/ David C. Novak

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

Signature	Title	Date
/s/ David C. Novak David C. Novak	Chairman of the Board, Chief Executive Officer and President (principal executive officer)	February 27, 2007
/s/ Richard T. Carucci Richard T. Carucci	Chief Financial Officer (principal financial officer)	February 27, 2007
/s/ Ted F. Knopf Ted F. Knopf	Senior Vice President Finance and Corporate Controller (principal accounting officer)	February 27, 2007

/s/ David W. Dorman	Director	February 27, 2007
David W. Dorman		
/s/ Massimo Ferragamo	Director	February 27, 2007
Massimo Ferragamo		
/s/ J. David Grissom	Director	February 27, 2007
J. David Grissom		
/s/ Bonnie G. Hill	Director	February 27, 2007
Bonnie G. Hill		

/s/ Robert Holland, Jr.	Director	February 27, 2007
Robert Holland, Jr.		
/s/ Kenneth G. Langone	Director	February 27, 2007
Kenneth G. Langone		
/s/ Jonathan S. Linen	Director	February 27, 2007
Jonathan S. Linen		
/s/ Thomas C. Nelson	Director	February 27, 2007
Thomas C. Nelson		
/s/ Thomas M. Ryan	Director	February 27, 2007
Thomas M. Ryan		
/s/ Jackie Trujillo	Director	February 27, 2007
Jackie Trujillo		
/s/ Robert J. Ulrich	Director	February 27, 2007
Robert J. Ulrich		

YUM! Brands, Inc.

Exhibit Index

(Item 15)

Exhibit **Number**	**Description of Exhibits**
3.1	Restated Articles of Incorporation of YUM, which are incorporated herein by reference from Exhibit 3.1 to YUM s Quarterly Report on Form 10-Q for the quarter ended September 3, 2005.
3.2	Amended and restated Bylaws of YUM, which are incorporated herein by reference from Exhibit 3.2 on Form 8-K filed on May 17, 2002.
4.1*	Indenture, dated as of May 1, 1998, between YUM and J.P. Morgan Chase Bank, National Association, successor in interest to The First National Bank of Chicago, pertaining to 7.65% Senior Notes due May 15, 2008, 8.5% Senior Notes and 8.875% Senior Notes due April 15, 2006 and April 15, 2011, respectively, and 7.70% Senior Notes due July 1, 2012, which is incorporated herein by reference from Exhibit 4.1 to YUM s Report on Form 8-K filed on May 13, 1998.
	(i) 6.25% Senior Notes due April 15, 2016 issued under the foregoing May 1, 1998 indenture, which notes are incorporated by reference from Exhibit 4.2 to YUM s Report on Form 8-K filed on April 17, 2006.
4.2	Rights Agreement, dated as of July 21, 1998, between YUM and BankBoston, N.A., which is incorporated herein by reference from Exhibit 4.01 to YUM s Quarterly Report on Form 10-Q for the quarter ended June 13, 1998.
4.3	Agreement of Substitution and Amendment of Common Share Rights Agreement, dated as of August 28, 2003, by and between YUM! Brands, Inc. (fka Tricon Global Restaurants, Inc.) and American Stock Transfer & Trust Company, which is incorporated herein by reference from Exhibit 4.03 to YUM s Quarterly Report on Form 10-Q for the quarter ended September 6, 2003.
4.4	Second Amendment to Rights Agreement, dated as of February 9, 2007, by and between YUM and American Stock Transfer & Trust Company, which is incorporated herein by reference from Exhibit 4.1 to YUM s Report on Form 8-K filed on February 12, 2007.
10.1	Separation Agreement between PepsiCo, Inc. and YUM effective as of August 26, 1997, and the First Amendment thereto dated as of October 6, 1997, which is incorporated herein by reference from Exhibit 10.1 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.2	Tax Separation Agreement between PepsiCo, Inc. and YUM effective as of August 26, 1997, which is incorporated herein by reference from Exhibit 10.2 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.5	Amended and Restated Sales and Distribution Agreement between AmeriServe Food Distribution, Inc., YUM, Pizza Hut, Taco Bell and KFC, effective as of November 1, 1998, which is incorporated herein by reference from Exhibit 10 to YUM s Annual Report on Form 10-K for the fiscal year ended December 26, 1998, as amended by the First Amendment thereto, which is incorporated herein by reference from Exhibit 10.5 to

YUM s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.

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10.6	Amended and Restated Credit Agreement, dated September 7, 2004 among YUM, the lenders party thereto, JP Morgan Chase Bank, as Administrative Agent, and Citicorp N.A., as Syndication Agent, which is incorporated herein by reference from Exhibit 10.6 to YUM s Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.7	YUM Director Deferred Compensation Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.7 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.8	YUM 1997 Long Term Incentive Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.8 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.9	YUM Executive Incentive Compensation Plan, which is incorporated herein by reference from Exhibit A of YUM s Definitive Proxy Statement on Form DEF 14A for the Annual Meeting of Shareholders held on May 20, 2004.
10.10	YUM Executive Income Deferral Program, as effective October 7, 1997, and as amended through May 16, 2002, which is incorporated herein by reference from Exhibit 10.10 to YUM s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.13	YUM Pension Equalization Plan, as effective October 7, 1997, which is incorporated herein by reference from Exhibit 10.14 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.16	Form of Directors Indemnification Agreement, which is incorporated herein by reference from Exhibit 10.17 to YUM s Annual Report on Form 10-K for the fiscal year ended December 27, 1997.
10.17	Amended and restated form of Severance Agreement (in the event of a change in control), which is incorporated herein by reference from Exhibit 10.17 to YUM s Annual Report on Form 10-K for the fiscal year ended December 30, 2000.
10.18	YUM Long Term Incentive Plan, as Amended through the First Amendment, as effective May 20, 1999, which is incorporated herein by reference from Exhibit B to YUM s Definitive Proxy Statement on Form DEF 14A for the Annual Meeting of Shareholders held on May 15, 2003.
10.19	Employment Agreement between YUM and Christian L. Campbell, dated as of September 3, 1997, which is incorporated herein by reference from Exhibit 10.19 to YUM s Annual Report on Form 10-K for fiscal year ended December 26, 1998.
10.20	Amended and Restated YUM Purchasing Co-op Agreement, dated as of August 26, 2002, between YUM and the Unified FoodService Purchasing Co-op, LLC, which is incorporated herein by reference from Exhibit 10.20 to YUM s Annual Report on Form 10-K for the fiscal year ended December 28, 2002.
10.22	YUM Restaurant General Manager Stock Option Plan, as effective April 1, 1999, and as amended through June 23, 2003, which is incorporated herein by reference from Exhibit 10.22 to YUM s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

10.23	YUM SharePower Plan, as effective October 7, 1997, and as amended through June 23, 2003, which is incorporated herein by reference from Exhibit 10.23 to YUM s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.
10.24	Employment agreement between YUM and David C. Novak, dated as of September 24, 2004, which is incorporated herein by reference from Exhibit 10.24 on Form 8-K filed on September 24, 2004.
10.25	Form of YUM Director Stock Option Award Agreement, which is incorporated herein by reference from Exhibit 10.25 to YUM s Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.26	Form of YUM 1999 Long Term Incentive Plan Award Agreement, which is incorporated herein by reference from Exhibit 10.26 to YUM s Quarterly Report on Form 10-Q for the quarter ended September 4, 2004.
10.27	YUM! Brands, Inc. International Retirement Plan, as in effect January 1, 2005, which is incorporated herein by reference from Exhibit 10.27 to YUM s Annual Report on Form 10-K for the fiscal year ended December 25, 2004.
10.28	Letter of Understanding, dated July 13, 2004, by and between the Company and Samuel Su, which is incorporated herein by reference from Exhibit 10.28 to YUM s Annual Report on Form 10-K for the fiscal year ended December 25, 2004.
10.29	Form of 1999 Long Term Incentive Plan Award Agreement (Stock Appreciation Rights) which is incorporated by reference from Exhibit 99.1 to YUM s Report on Form 8-K as filed on January 30, 2006.
10.30	Credit Agreement, dated November 8, 2005, among YUM, Citigroup Global Markets Ltd. and J.P. Morgan Securities Inc., as Joint Mandated Lead Arrangers and Joint Bookrunners, and Citigroup International Plc and Citibank, N.A., Canadian Branch, as Facility Agents, which is incorporated herein by reference from Exhibit 10.31 to YUM s Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

10.31	Severance Agreement (in the event of change in control) for Emil Brolick, dated as of February 15, 2001 (as filed herewith).
12.1	Computation of ratio of earnings to fixed charges.
21.1	Active Subsidiaries of YUM.
23.1	Consent of KPMG LLP.
31.1	Certification of the Chairman, Chief Executive Officer and President pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1	Certification of the Chairman, Chief Executive Officer and President pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Indicates a management contract or compensatory plan.

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