

# SECURITIES AND EXCHANGE COMMISSION

## FORM 8-K

Current report filing

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### FILER

#### **YUM BRANDS INC**

CIK: **1041061** | IRS No.: **133951308** | State of Incorporation: **NC** | Fiscal Year End: **1231**  
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=====

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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported)  
February 11, 2004

Commission file number 1-13163

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YUM! BRANDS, INC.  
(Exact name of registrant as specified in its charter)

North Carolina

13-3951308

-----  
(State or other jurisdiction  
of incorporation or organization)

-----  
(IRS Employer  
Identification No.)

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

40213  
(Zip Code)

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

Former name or former address, if changed since last report: N/A



Date: February 11, 2004

/s/ Gregory N. Moore

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Senior Vice President and Controller  
(Principal Accounting Officer)

Yum! Brands, Inc. Reports Record Earnings Per Share in 2003 of \$2.06, an Increase of 13% Prior to Special Items; Reported EPS Was \$2.02 Including Special Items

LOUISVILLE, Ky.--(BUSINESS WIRE)--Feb. 11, 2004--Yum! Brands Inc. (NYSE: YUM):

- Announces record fourth-quarter Earnings Per Share (EPS) of \$0.65 prior to special items, an increase of 16%. Including a special-items gain of \$0.05, reported EPS was \$0.70, an increase of 23%.
- Increases full-year 2004 EPS guidance by \$0.04 to at least \$2.27 prior to special items, or reported EPS to at least \$2.29.

Yum! Brands Inc. (NYSE: YUM) today reported results for the fourth quarter ended December 27, 2003.

Key highlights for fourth-quarter 2003 performance versus fourth-quarter 2002:

- International system sales increased 10% prior to foreign currency conversion, its strongest quarterly performance of 2003.
- The number of international system restaurants in operation expanded by over 5% driven by record new-restaurant openings of 1,108.
- International franchise and license fees grew 25%.
- International restaurant margin increased to 15.9%, a fourth-quarter record.
- Taco Bell same-store sales increased 4%, its strongest quarterly performance of 2003.
- U.S. multibrand restaurants in operation expanded by 18%.

The company ended the year with the lowest debt balance in its history -- \$2.1 billion.

The company recorded a \$25 million pretax special-items gain related to recoveries from the AmeriServe bankruptcy estate in the fourth quarter. These potential recoveries have been previously discussed in Forms 10-Q and 10-K.

## Consolidated Financial Highlights

	Fourth Quarter 2003	% Change Vs. Prior Year	Full Year 2003	% Change Vs. Prior Year
System Restaurants	30,837	1	30,837	1
Systemwide Same-Store-Sales Growth	2%	NM	Even	NM
Revenues (\$ million)	\$2,653	8	\$8,380	8
EPS prior to Special Items	\$0.65	16	\$2.06	13
Special Items EPS	\$0.05	NM	\$(0.04)	NM
Reported EPS	\$0.70	23	\$2.02	7

David C. Novak, Chairman and CEO, said: "I'm pleased to report that in 2003 we showed the underlying strength of our global portfolio of leading brands. With continued profitable international restaurant expansion and Taco Bell's strong sales and profits, we achieved 13% growth in EPS prior to special items. This growth was achieved in spite of a difficult global environment, which included SARS, the war in Iraq and a soft economy early in 2003. Our ongoing goal is to continue to grow EPS at least 10% each year. We expect to do at least that in 2004. In the fourth quarter, our worldwide business achieved 16% EPS growth and record EPS of \$0.65. We have solid plans in place to continue building on the unique growth opportunities that make us anything but your ordinary restaurant company: steady improvement in operations, profitable international expansion and multibranding category-leading brands.

"Given the strength of our fourth-quarter performance we have raised our full-year 2004 EPS estimate \$0.04 to at least \$2.27 or at least 10% growth prior to special items. We expect to grow U.S. same-store sales on a blended basis at least 1% to 2%, open at least 1,400 new restaurants worldwide, and add at least 500 U.S. multibrand restaurants in 2004."

### INTERNATIONAL BUSINESS

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	Fourth Quarter				Full Year			
(million, except restaurant counts and percentages)	2003	2002	Reported	F/x	2003	2002	Reported	F/x
			Incr/ (Decr)				Incr/ (Decr)	
			Excl				Excl	

Financial Measures								
Revenues	\$915	\$770	+19%	+14%	\$2,725	\$2,410	+13%	+8%
Operating Profit	\$144	\$111	+28%	+21%	\$441	\$361	+22%	+15%
-----								
Operating Metrics								
Est. System-Sales Growth			+17%	+10%			+14%	+7%
System Restaurants	12,171	11,538	+5%	NA	12,171	11,538	+5%	NA

A key factor for this business segment is profitable new-restaurant expansion. Importantly, for 2003, a record 1,108 international system restaurants were opened. These included 663 KFC and 396 Pizza Hut restaurants.

In the fourth quarter, continued expansion of our key international brands -- KFC and Pizza Hut -- and positive same-store sales were drivers of international revenue, system-sales and operating-profit growth. Markets and businesses with positive same-store sales included China, KFC Australia, the U.K., Pizza Hut Korea, the Middle East and KFC South Africa. Markets and businesses experiencing negative same-store sales included Japan, Mexico, Canada and KFC Taiwan.

Fourth-quarter international system-sales growth prior to foreign currency conversion was 10%, one percentage point greater than previously estimated in our Period 13 sales release, issued January 6, 2004.

Restaurant margin as a percentage of sales increased 0.3 percentage points in the quarter or 0.5 percentage points prior to the unfavorable impact from foreign currency translation. Restaurant margin of 15.9% was a fourth-quarter record. The increase was primarily driven by the positive impact of supply-chain savings initiatives (principally in China).

For the full year, revenues, system-sales growth and operating profit were principally driven by growth in both KFC and Pizza Hut restaurants in company and franchise markets. More than 70% of the new restaurant openings were built by the company's franchise and joint-venture partners.

Restaurant margin as a percentage of sales declined by 0.5 percentage points for the full year. Prior to the unfavorable impact of foreign currency translation, margin declined by 0.3 percentage points. A decline in same-store sales for company markets negatively impacted margins and was partially offset by the impact of supply-chain savings initiatives (principally in China).

The favorable impact of foreign currency conversion added \$7 million to operating profit for the fourth quarter and \$23 million for the full year.

UNITED STATES BUSINESS

(million, except restaurant counts and percentages)

	Fourth Quarter			Full Year		
	2003	2002	Incr/(Decr)	2003	2002	Incr/(Decr)
<b>Financial Measures</b>						
Revenues	\$1,738	\$1,691	+3%	\$5,655	\$5,347	+6%
Operating Profit	\$241	\$240	+1%	\$812	\$802	+1%
<b>Operating Metrics</b>						
<b>System Restaurants</b>						
Restaurants	18,666	18,860	(1)%	18,666	18,860	(1)%
<b>Multibrand Restaurants</b>						
Restaurants	2,148	1,817	+18%	2,148	1,817	18%
<b>Systemwide Same-Store-Sales Growth</b>						
Sales Growth	+1%	+1%	NM	Even	+4%	NM

In the fourth quarter, continued development of new, higher-volume restaurants and positive same-store sales were the primary drivers of revenue growth.

For the full year, the Long John Silver's/A&W acquisition drove revenue growth of 4%. Excluding the effect of the Long John Silver's/A&W acquisition, revenue growth of 2% was primarily driven by new-restaurant development.

System restaurants decreased slightly due primarily to closures of certain lower-volume A&W single-brand mall units and Pizza Hut dine-in restaurants. The U.S. restaurant portfolio continues to be upgraded with new, higher-volume restaurants, on average, many of which are multibrand. Revenue growth attributed to the benefit of opening new restaurants with higher volumes than those restaurants that were closed was one and two percentage points respectively for the fourth quarter and the full year.

Operating profit was positively impacted by these same revenue factors and lower franchise and license expenses partially offset by lower margin.

In the fourth quarter, U.S. restaurant margin declined 0.5 percentage points versus the prior year, driven by higher commodity and occupancy expenses. Higher costs for beef and cheese were partially offset by a lower cost for chicken during the quarter. Occupancy costs increased, primarily due to the amendment of two Long John Silver's sale/lease-back agreements that were previously



accounted for as financings now being accounted for as operating leases. As a result of these amendments, the payments made under these agreements that were previously recorded primarily as interest expense are now recorded as rent expense.

For the full year, restaurant margins declined 1.4 percentage points versus 2002 primarily from increased occupancy expenses due to higher rent, including the item previously discussed, and higher utilities. Additional factors were unprofitable discounting and unfavorable product mix at both KFC and Pizza Hut, and sales deleverage at KFC. Sales deleverage occurs when inflation in restaurant costs is not offset by increases in same-store sales.

WORLDWIDE NEW-RESTAURANT DEVELOPMENT

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System New-Restaurant Openings	Full Year
	-----
Worldwide	1,498
Key Markets	
Franchise-Only International Markets	401
United States	390
China	268
U.K.	106
Australia/New Zealand	71
South Korea	47
Mexico	44

System new-restaurant openings for the full year were primarily driven by growth in new international KFCs and Pizza Huts in the key international markets noted in the preceding table.

Franchise and joint-venture partners opened over 70% of systemwide new international restaurants for the full year. Restaurant counts increased 27% in China, 9% in Mexico, 8% in the U.K. and 2% in Korea versus the end of fourth-quarter 2002. In key franchise markets year-over-year restaurant growth was 14% in Asia, 5% in Caribbean/Latin America, 4% in the Middle East and 4% in South Africa.

In the U.S. market, the majority of new-restaurant openings were KFC and Pizza Hut restaurants. Over 60% of the U.S. new-restaurant openings were franchised. KFC new-restaurant openings were almost 70% multibrand restaurants. Virtually all the Pizza Hut new-restaurant openings were delivery/carry-out restaurants.

This discussion excludes changes in license-unit locations, which are expected to have no material impact on the company's overall profit performance in 2004. License locations are typically nontraditional sites, such as airports, that normally have substantially lower average unit volumes than traditional restaurant locations.

MULTIBRANDING EXPANSION

Multibrand Restaurants in Operation	Fourth Quarter		
	2003	2002	Incr/(Decr)
U.S. Systemwide	2,148	1,817	+18%
% U.S. System Restaurants	12%	10%	+2 ppts

In the fourth quarter, 148 multibrand restaurants were added in the U.S., bringing the total to 382 U.S. multibrand additions for the full year. Of the 382 U.S. multibrand additions in 2003, 58% were conversions of existing single-brand restaurants, including 9% that were rebuilds on existing sites. The remaining 42% were new-restaurant openings of which 12% were relocations -- building a new restaurant in place of an older restaurant nearby. At year-end 2003, more than 50% of the 2,148 U.S. multibrand restaurants were franchised.

Increasingly, the company's multibrand focus will be on combining two core brands -- Taco Bell and KFC -- with the recently acquired brands -- Long John Silver's and A&W. Additionally, Pizza Hut will expand testing of multibrand combinations with the newly created brand WingStreet. These various combinations represented 64% of the multibrand additions in 2003. The company expects this percentage to increase in 2004.

FRANCHISE GROWTH AND FEES

Franchise Net New-Restaurant Growth	Fourth Quarter	Full Year
	-----	-----
Franchise Net New-Restaurant Growth	+1%	+1%
Total Franchise Fees (\$ million)	\$297	\$939
Growth Vs. 2002	+9%	+9%

International markets contributing to the worldwide net expansion of new franchise restaurants were Asia, the Middle East, South Africa and Caribbean/Latin America. In the U.S. market, the KFC and Long John Silver's brands both had net positive franchise expansion.

For the fourth quarter, favorable foreign currency conversion added 3 percentage points of franchise-fee growth. Excluding this factor, franchise fees increased 6%. This growth was primarily driven by new-restaurant development, worldwide franchise same-store-sales growth of 2% and increased international royalty rates.

For the full year, favorable foreign currency conversion and the Long John Silver's/A&W acquisition added 3 percentage points and 1 percentage point of franchise-fee growth respectively. Excluding these factors, franchise fees increased 5%. This growth was primarily driven by new-restaurant development, increased international royalty rates

and worldwide franchise same-store-sales growth of 1%.

#### GENERAL AND ADMINISTRATIVE EXPENSES

Worldwide general and administrative (G&A) expenses increased \$25 million, or 8%, in the fourth quarter including a 1% unfavorable impact from foreign currency conversion. The increase was primarily driven by increases associated with international restaurant expansion and pension expense.

Worldwide G&A expenses increased \$32 million, or 3%, for the full year. Excluding the unfavorable impact from foreign currency conversion and the full-year impact of the Long John Silver's/A&W acquisition, G&A expenses were even with 2002. Lower management incentive costs were offset by increases in expenses associated with international restaurant expansion and pension expense.

#### CASH-FLOW

For the fourth quarter and year to date, the company more than funded capital spending with net cash provided by operating activities. Additional cash was generated from employee stock-option proceeds, proceeds from refranchising restaurants and sales of property, plant and equipment. The company expects these trends to continue for 2004. For 2003, as a result of all cash generated after capital spending, the company was able to continue reducing its debt balance by over \$300 million and repurchased \$278 million of its own shares as indicated in the attached Condensed Consolidated Statements of Cash Flow.

#### FIRST-QUARTER 2004 OUTLOOK

The company is comfortable with the current consensus estimate of \$0.43 in EPS prior to special items in the first quarter, an increase of 10% compared to last year's performance. Additionally, the company expects a net special-items gain of approximately \$0.02 primarily related to additional recoveries from the AmeriServe bankruptcy estate. It is our expectation that this will substantially complete the company's AmeriServe recoveries.

#### ANNUAL OUTLOOK

The company expects earnings per share to grow at least 10% each year with the continued execution of its three key strategies: (1) steady improvement in operations, (2) profitable international expansion and (3) multibranding category-leading brands.

Projected factors contributing to the company's annual EPS expectations were published in the company's December 4, 2003, press release. All those specific expectations remain reasonable based on current information. The company now expects a net special-items gain for the year as noted in the following table.

## Annual Outlook

	Forecast 2004	Actual 2003	Incr/ (Decr)
	-----	-----	-----
EPS prior to Special Items	\$2.27	\$2.06	+10%
Special Items EPS	\$0.02	\$(0.04)	NM
Reported EPS	\$2.29	\$2.02	+13%

In several Asian markets, including Thailand, Taiwan, South Korea, Japan, Indonesia, Malaysia, Singapore and certain sections of China, avian flu has impacted retail sales trends and the company's sales trends at KFC. Based on information currently available, the company believes that the most likely effect of avian flu outbreaks in these markets will be short term and is reflected in the company's current annual and first-quarter outlooks previously noted. Additionally, the company currently does not expect that the avian flu outbreak will materially affect its chicken supply in Asia or other markets.

Nevertheless, we want our shareholders to know that if, hypothetically, the avian flu outbreak affects the entire country of China for approximately one to two months with sales declines in the range of 20% at KFC, full-year EPS results for the company would be unfavorably impacted by approximately \$0.01 to \$0.02.

Based on current trends in the total Yum! portfolio, the company believes it can offset any possible shortfall and maintain the \$2.27 per share earnings estimate prior to special items for 2004. As always, the company will continue to update shareholders each four-week period on current sales trends worldwide.

### CONFERENCE CALL

Yum! Brands Inc. will hold a conference call to review the company's financial performance and strategies at 9:15 a.m. EST Thursday, February 12, 2004.

For U.S. callers, the number is 877/815-2029. For international callers, the number is 706/645-9271.

The call will be available for playback beginning Thursday, February 12, at 12:15 p.m. EST through Friday, February 27, at midnight EST. To access the playback, dial 800/642-1687 in the U.S.A. and 706/645-9291 internationally. The playback pass code is 4852207.

The call and the playback can be accessed via the Internet by visiting Yum! Brands' Web site: [www.yum.com](http://www.yum.com) and selecting "4th Quarter Earnings Webcast." (Windows Media Player is required, which can be downloaded at no charge from the following URL: <http://www.microsoft.com/windows/windowsmedia/players.asp>. The process could take several minutes.)

### NOTES & DEFINITIONS FOR TERMS USED THROUGHOUT THIS DOCUMENT

Excl F/x is prior to foreign currency conversion to U.S. dollars.

Franchise Fees include fees from franchise, joint venture and license restaurants. Fees include ongoing royalty and license fees and initial fees.

Franchise Restaurants include franchise and joint-venture restaurants and exclude license restaurants.

Franchise Net New-Restaurant Growth is the total of franchise restaurant openings less franchise restaurant closings divided by the prior period's franchise restaurant total.

New-Restaurant Openings include company-owned, franchise and joint-venture restaurants and exclude license restaurants.

Special Items include AmeriServe and other charges (credits), which were previously referred to as unusual items in 2002, Wrench litigation and cumulative effect of accounting change, net of tax. See attachments to this press release for reconciliations of non-GAAP measurements to GAAP results.

System Restaurants include company-owned, franchise and joint-venture restaurants and exclude license restaurants.

System-Sales Growth includes the results of all restaurants regardless of ownership, including company-owned, franchise, joint-venture and license restaurants. Sales of franchise, joint-venture and license restaurants generate franchise and license fees for the company (typically at a rate of 4% to 6% of sales). Franchise, joint-venture and license restaurant sales are not included in company sales we present on the Condensed Consolidated Statements of Income; however, the fees are included in the company's revenues.

Systemwide Same-Store-Sales Growth is the estimated growth in sales of all restaurants that have been open one year or more regardless of ownership including company-owned, franchise, joint-venture and license restaurants.

This announcement contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements include those identified by such words as may, will, expect, project, anticipate, believe, plan and other similar terminology. These "forward-looking" statements reflect management's current expectations regarding future events and operating and financial performance and are based on currently available data. However, actual results are subject to future events and uncertainties, which could cause actual results to differ from those projected in this announcement. Factors that can cause actual results to differ materially include changes in global and local business,

economic and political conditions in the countries and territories where Yum! Brands operates, including the effects of war and terrorist activities; changes in currency exchange and interest rates; changes in commodity, labor and other operating costs; changes in competition in the food industry, consumer preferences, spending patterns and demographic trends; the impact that any widespread illness or general health concern may have on our business and the economy of the countries in which we operate; the effectiveness of our operating initiatives and advertising and promotional efforts; new-product and concept development by Yum! Brands and other food-industry competitors; the success of our refranchising strategy; the ongoing business viability of our franchise and license operators; our ability to secure alternative distribution to our restaurants at competitive rates and to ensure adequate supplies of restaurant products and equipment in our stores; publicity that may impact our business and/or industry; severe weather conditions; effects and outcomes of legal claims involving the company; changes in effective tax rates; our actuarially determined casualty loss estimates; changes in legislation and governmental regulations; and changes in accounting policies and practices. Further information about factors that could affect Yum! Brands' financial and other results are included in the company's Forms 10-Q and 10-K, filed with the Securities and Exchange Commission.

Yum! Brands Inc., based in Louisville, Kentucky, is the world's largest restaurant company in terms of system restaurants with more than 33,000 restaurants in more than 100 countries and territories. Four of the company's restaurant brands -- KFC, Pizza Hut, Taco Bell and Long John Silver's -- are the global leaders of the chicken, pizza, Mexican-style food and quick-service seafood categories respectively. Yum! Brands is the worldwide leader in multibranding, which offers consumers more choice and convenience at one restaurant location from a combination of KFC, Taco Bell, Pizza Hut, A&W or Long John Silver's brands. The company and its franchisees today operate over 2,000 multibrand restaurants. Outside the United States in 2003, the Yum! Brands' system opened about three new restaurants each day of the year, making it one of the fastest growing retailers in the world. In 2002, the company changed its name to Yum! Brands Inc. from Tricon Global Restaurants Inc. to reflect its expanding portfolio of brands and its ticker symbol on the New York Stock Exchange. In 2003 the company was recognized in Fortune Magazine's top 50 "Best Companies for Minorities," claiming the number-one spot for "managerial diversity."

Analysts are invited to contact

Tim Jerzyk, Vice President Investor Relations, at 888/298-6986

Individual shareholders and analysts are invited to contact

Lynn Schweinfurth, Director Investor Relations, at 888/298-6986

Members of the media are invited to contact

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Yum! Brands, Inc.  
Consolidated Summary of Results  
(amounts in millions, except per share amounts)

	Quarter		% Change	Year to date		% Change
	12/27/03	12/28/02	B/ (W)	12/27/03	12/28/02	B/ (W)
Total revenues	\$2,653	\$2,461	8	\$8,380	\$7,757	8
Costs and expenses						
Company restaurant expenses	2,000	1,854	(8)	6,337	5,790	(9)
General and administrative expenses	322	297	(8)	945	913	(3)
Franchise and license expenses	8	18	52	28	49	42
Facility actions	12	-	NM	36	32	NM
Other (income) expense	(17)	(10)	84	(41)	(30)	39
Wrench litigation	-	-	-	42	-	NM
AmeriServe and other charges (credits)	(25)	(3)	NM	(26)	(27)	NM
Total costs and expenses	2,300	2,156	(7)	7,321	6,727	(9)
Operating profit	353	305	16	1,059	1,030	3
Interest expense, net	50	60	16	173	172	(1)
Income before income taxes and cumulative effect of accounting change	303	245	23	886	858	3
Income tax provision	89	73	(20)	268	275	3

Income before cumulative effect of accounting change	214	172	24	618	583	6
Cumulative effect of accounting change, net of tax	-	-	-	(1)	-	NM
Net income	\$214	\$172	24	\$617	\$583	6
Basic EPS Data						
EPS	\$0.73	\$0.58	25	\$2.10	\$1.97	7
Average shares outstanding	294	295	-	293	296	1
Diluted EPS Data						
EPS	\$0.70	\$0.56	23	\$2.02	\$1.88	7
Average shares outstanding	308	306	(1)	306	310	1

See accompanying notes.

Wrench litigation, AmeriServe and other charges (credits) and Cumulative effect of accounting change, net of tax have been summed and referred to as "Special Items" throughout this press release. See accompanying reconciliation of non-GAAP measurements to GAAP results.

Yum! Brands, Inc.  
WORLDWIDE Operating Results  
(amounts in millions)

	Quarter		% Change B/ (W)	Year to date		% Change B/ (W)
	12/27/03	12/28/02		12/27/03	12/28/02	
Company sales	\$2,356	\$2,189	8	\$7,441	\$6,891	8
Franchise and license fees	297	272	9	939	866	9
Revenues	2,653	2,461	8	8,380	7,757	8



Company						
restaurants						
Food and						
paper	732	671	(9)	2,300	2,109	(9)
Payroll and						
employee						
benefits	628	601	(4)	2,024	1,875	(8)
Occupancy						
and other						
operating						
expenses	640	582	(10)	2,013	1,806	(12)
	-----	-----		-----	-----	
	2,000	1,854	(8)	6,337	5,790	(9)
General and						
administrative						
expenses	322	297	(8)	945	913	(3)
Franchise and						
license						
expenses	8	18	52	28	49	42
Facility						
actions	12	-	NM	36	32	NM
Other (income)						
expense	(17)	(10)	84	(41)	(30)	39
	-----	-----		-----	-----	
	2,325	2,159	(8)	7,305	6,754	(8)
	-----	-----		-----	-----	
Operating						
profit before						
special items	328	302	9	1,075	1,003	7
Interest						
expense, net	50	60	16	173	172	(1)
Income tax						
provision	80	71	(10)	274	265	(3)
	-----	-----		-----	-----	
Earnings before						
special items	\$198	\$171	17	\$628	\$566	11
	=====	=====		=====	=====	
Tax rate before						
special items	28.5%	29.8%	1.3 ppts.	30.3%	32.0%	1.7 ppts.
	=====	=====		=====	=====	
Diluted EPS						
before special						
items	\$0.65	\$0.55	16	\$2.06	\$1.82	13
	=====	=====		=====	=====	
Company sales	100.0%	100.0%		100.0%	100.0%	
Food and paper	31.1	30.6	(0.5) ppts.	30.9	30.6	(0.3) ppts.
Payroll and						

employee benefits	26.6	27.5	0.9 ppts.	27.2	27.2	-
Occupancy and other operating expenses	27.1	26.5	(0.6) ppts.	27.1	26.2	(0.9) ppts.
Restaurant margin	15.2%	15.4%	(0.2) ppts.	14.8%	16.0%	(1.2) ppts.

Reconciliation of Segment Operating Profit to Reported Operating Profit

U.S. operating profit	\$241	\$240	1	\$812	\$802	1
International operating profit	144	111	28	441	361	22
Unallocated and corporate expense	(72)	(59)	(21)	(179)	(178)	-
Unallocated other income (expense)	(2)	-	NM	(3)	(1)	NM
Unallocated facility actions	17	10	NM	4	19	NM
Operating profit before special items	328	302	9	1,075	1,003	7
Wrench litigation	-	-	-	(42)	-	NM
AmeriServe and other (charges) credits	25	3	NM	26	27	NM
Reported operating profit	\$353	\$305	16	\$1,059	\$1,030	3

See accompanying notes and reconciliations of non-GAAP measurements to GAAP results.

Yum! Brands, Inc.  
 UNITED STATES Operating Results  
 (amounts in millions)

	Quarter		% Change	Year to date		% Change
	12/27/03	12/28/02	B/ (W)	12/27/03	12/28/02	B/ (W)
Company sales	\$1,563	\$1,516	3	\$5,081	\$4,778	6
Franchise and license fees	175	175	1	574	569	1
Revenues	1,738	1,691	3	5,655	5,347	6
Company restaurants						
Food and paper	453	430	(5)	1,463	1,346	(9)
Payroll and employee benefits	483	474	(2)	1,576	1,479	(7)
Occupancy and other operating expenses	398	381	(5)	1,303	1,189	(10)
	1,334	1,285	(4)	4,342	4,014	(8)
General and administrative expenses	144	151	5	469	469	-
Franchise and license expenses	6	15	57	16	39	59
Facility actions	13	-	NM	16	23	NM
	1,497	1,451	(3)	4,843	4,545	(7)
Operating profit	\$241	\$240	1	\$812	\$802	1
Company sales	100.0%	100.0%		100.0%	100.0%	
Food and paper	28.9	28.4	(0.5) ppts.	28.8	28.2	(0.6) ppts.
Payroll and employee benefits	30.8	31.2	0.4 ppts.	31.0	30.9	(0.1) ppts.
Occupancy and other operating expenses	25.5	25.1	(0.4) ppts.	25.6	24.9	(0.7) ppts.
Restaurant						

margin 14.8% 15.3% (0.5) ppts. 14.6% 16.0% (1.4) ppts.  
 =====

See accompanying notes.

Yum! Brands, Inc.  
 INTERNATIONAL Operating Results  
 (amounts in millions)

	Quarter		% Change	Year to date		% Change
	12/27/03	12/28/02	B/(W)	12/27/03	12/28/02	B/(W)
Company sales	\$793	\$673	18	\$2,360	\$2,113	12
Franchise and license fees	122	97	25	365	297	23
Revenues	915	770	19	2,725	2,410	13
Company restaurants						
Food and paper	279	241	(17)	837	763	(10)
Payroll and employee benefits	145	127	(14)	448	396	(13)
Occupancy and other operating expenses	242	201	(20)	710	617	(15)
	666	569	(17)	1,995	1,776	(12)
General and administrative expenses	105	87	(22)	297	266	(12)
Franchise and license expenses	3	3	21	12	10	(17)
Facility actions	16	10	NM	24	28	NM
Other (income) expense	(19)	(10)	84	(44)	(31)	42
	771	659	(17)	2,284	2,049	(12)
Operating profit	\$144	\$111	28	\$441	\$361	22
Company sales	100.0%	100.0%		100.0%	100.0%	

Food and paper	35.3	35.7	0.4 ppts.	35.5	36.1	0.6 ppts.
Payroll and employee benefits	18.3	18.9	0.6 ppts.	19.0	18.7	(0.3) ppts.
Occupancy and other operating expenses	30.5	29.8	(0.7) ppts.	30.0	29.2	(0.8) ppts.
	-----	-----		-----	-----	
Restaurant margin	15.9%	15.6%	0.3 ppts.	15.5%	16.0%	(0.5) ppts.
	=====	=====		=====	=====	

See accompanying notes.

YUM! Brands, Inc.  
Condensed Consolidated Balance Sheets  
(amounts in millions)

	12/27/03	12/28/02
	-----	-----
ASSETS		
Current Assets		
Cash and cash equivalents	\$192	\$130
Short-term investments, at cost	15	27
Accounts and notes receivable, less allowance: \$28 in 2003 and \$42 in 2002	169	168
Inventories	67	63
Assets classified as held for sale	96	111
Prepaid expenses and other current assets	102	110
Deferred income taxes	165	121
	-----	-----
Total Current Assets	806	730
Property, plant and equipment, net	3,280	3,037
Goodwill	521	485
Intangible assets, net	357	364
Investments in unconsolidated affiliates	184	229
Other assets	472	555
	-----	-----
Total Assets	\$5,620	\$5,400
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	\$1,213	\$1,166
Income taxes payable	238	208
Short-term borrowings	10	146
	-----	-----
Total Current Liabilities	1,461	1,520

Long-term debt	2,056	2,299
Other liabilities and deferred credits	983	987
	-----	-----
Total Liabilities	4,500	4,806
	-----	-----
Shareholders' Equity		
Preferred stock, no par value, 250 shares authorized; no shares issued	-	-
Common stock, no par value, 750 shares authorized; 292 shares and 294 shares issued in 2003 and 2002, respectively	916	1,046
Retained earnings (accumulated deficit)	414	(203)
Accumulated other comprehensive income (loss)	(210)	(249)
	-----	-----
Total Shareholders' Equity	1,120	594
	-----	-----
Total Liabilities and Shareholders' Equity	\$5,620	\$5,400
	=====	=====

See accompanying notes.

YUM! Brands, Inc.  
Condensed Consolidated Statements of Cash Flows  
(amounts in millions)

	Year to date	
	-----	-----
	12/27/03	12/28/02
	-----	-----
Cash Flows - Operating Activities		
Net income	\$617	\$583
Adjustments to reconcile net income to net cash provided by operating activities:		
Cumulative effect of accounting change, net of tax	1	-
Depreciation and amortization	401	370
Facility actions	36	32
Wrench litigation	42	-
AmeriServe and other charges (credits)	(3)	-
Contribution to defined benefit pension plans	(132)	(26)
Other liabilities and deferred credits	17	(12)
Deferred income taxes	(23)	21
Other non-cash charges and credits, net	32	36
Changes in operating working capital, excluding effects of acquisitions and dispositions:		
Accounts and notes receivable	2	32
Inventories	(1)	11
Prepaid expenses and other current assets	-	19
Accounts payable and other current liabilities	(32)	(37)
Income taxes payable	96	59

Net change in operating working capital	65	84
Net Cash Provided by Operating Activities	1,053	1,088
Cash Flows - Investing Activities		
Capital spending	(663)	(760)
Proceeds from refranchising of restaurants	92	81
Acquisition of Yorkshire Global Restaurants, Inc.	-	(275)
Acquisition of restaurants from franchisees	(41)	(13)
Short-term investments	13	9
Sales of property, plant and equipment	46	58
Other, net	34	15
Net Cash Used in Investing Activities	(519)	(885)
Cash Flows - Financing Activities		
Proceeds from Senior Unsecured Notes	-	398
Revolving Credit Facility activity		
Three months or less, net	(153)	59
Repayments of long-term debt	(17)	(511)
Short-term borrowings-three months or less, net	(137)	(15)
Repurchase shares of common stock	(278)	(228)
Employee stock option proceeds	110	125
Other, net	-	(15)
Net Cash Used in Financing Activities	(475)	(187)
Effect of Exchange Rate on Cash and Cash Equivalents	3	4
Net Increase in Cash and Cash Equivalents	62	20
Cash and Cash Equivalents - Beginning of Year	130	110
Cash and Cash Equivalents - End of Year	\$192	\$130

See accompanying notes.

#### Reconciliation of Non-GAAP Measurements to GAAP Results (amounts in millions, except per share amounts)

In addition to the results provided in accordance with U.S. Generally Accepted Accounting Principles ("GAAP") throughout this document, the Company has provided non-GAAP measurements which present operating results on a basis before special items. Special items include the GAAP income statement captions of Wrench litigation, AmeriServe and other charges (credits) and the Cumulative effect of accounting change, net of tax. These amounts are described in (d), (e) and (f) in the accompanying notes.

The Company uses earnings before special items as a key performance measure of results of operations for purposes of evaluating performance internally. This non-GAAP measurement is not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of earnings before special items provides additional information to investors to facilitate the comparison of past and present operations, excluding items that the Company does not believe are indicative of our ongoing operations.

	Quarter		Year to date	
	12/27/03	12/28/02	12/27/03	12/28/02
Detail of Special Items				
Wrench litigation	\$-	\$-	\$(42)	\$-
AmeriServe and other (charges) credits	25	3	26	27
Cumulative effect of accounting change	-	-	(2)	-
Total special items	25	3	(18)	27
Tax on special items	(9)	(2)	7	(10)
Special items, net of tax	\$16	\$1	\$(11)	\$17
Average shares outstanding	308	306	306	310
Special items diluted EPS	\$0.05	\$0.01	\$(0.04)	\$0.06
Reconciliation of Earnings Before Special Items to Net Income				
Earnings before special items	\$198	\$171	\$628	\$566
Special items, net of tax	16	1	(11)	17
Net income	\$214	\$172	\$617	\$583
Reconciliation of EPS Before Special Items to Reported EPS				
Diluted EPS before special items	\$0.65	\$0.55	\$2.06	\$1.82



Special items EPS	0.05	0.01	(0.04)	0.06
Reported EPS	\$0.70	\$0.56	\$2.02	\$1.88

Notes to the Consolidated Summary of Results  
and Condensed Consolidated Cash Flows  
and Condensed Consolidated Balance Sheets  
(amounts in millions, except per share amounts)

(a) Percentages may not recompute due to rounding.

(b) Facility actions included the following:

	Quarter		Year to date	
	12/27/03	12/28/02	12/27/03	12/28/02
Store closure costs	\$8	\$ (2)	\$6	\$15
Asset impairment charges	21	12	34	36
Refranchising net loss (gain)	(17)	(10)	(4)	(19)
Facility actions	\$12	\$-	\$36	\$32

Throughout 2003, store closure costs and asset impairment charges were previously included in Other (income) expense.

(c) Other (income) expense primarily includes equity income from investments in unconsolidated affiliates.

(d) The amounts recorded as Wrench litigation for the year to date ended December 27, 2003 reflect the legal judgment against Taco Bell Corp. on June 4, 2003 in Wrench v. Taco Bell Corp. and related interest. Interest recorded on the yet to be paid judgment was not material in the quarter ended December 27, 2003.

(e) The amount recorded as AmeriServe and other charges (credits) for the quarter and year to date ended December 27, 2003 primarily resulted from recoveries related to the AmeriServe bankruptcy reorganization process. Amounts recorded as AmeriServe and other charges (credits) for the quarter and year to date ended December 28, 2002, which were referred to as unusual items in 2002, primarily resulted from recoveries related to the AmeriServe bankruptcy reorganization process, partially offset by integration costs related to the acquisition of Yorkshire Global

Restaurants, Inc. and, for the full-year 2002, costs to defend certain wage and hour litigation.

(f) Effective December 29, 2002, the Company adopted Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" ("SFAS 143"). SFAS 143 addresses the financial accounting and reporting for legal obligations associated with the retirement of tangible long-lived assets and the associated asset retirement costs. As a result of obligations under certain leases that are within the scope of SFAS 143, the Company has recorded a cumulative effect adjustment of \$2 million (\$1 million after tax). The adoption of SFAS 143 did not materially affect the results of our operations for the quarter or year to date ended December 27, 2003, nor do we anticipate that it will materially affect the results of operations in future periods.

YUM! Brands, Inc.  
 Restaurant Units Activity Summary  
 For the Year to Date Ended December 27, 2003

	Company	Unconsolidated Affiliates (a)	Franchisees	Total Excluding Licensees (b)
	-----	-----	-----	-----
Total U.S.				
Beginning of Year	5,193	4	13,663	18,860
New Builds	142	3	245	390
Acquisitions	106	-	(108)	(2)
Refranchising & Licensing	(150)	-	148	(2)
Closures & Divestitures	(197)	(1)	(386)	(584)
Other	-	-	4	4
	-----	-----	-----	-----
End of Year	5,094	6	13,566	18,666
	=====	=====	=====	=====
% of Total	27%	-	73%	100%
Total International				
Beginning of Year	2,333	2,144	7,061	11,538
New Builds	312	173	623	1,108
Acquisitions	283	(736)	453	-
Refranchising & Licensing	(78)	(1)	79	-
Closures & Divestitures	(90)	(74)	(305)	(469)
Other	-	-	(6)	(6)
	-----	-----	-----	-----

End of Year	2,760	1,506	7,905	12,171
% of Total	23%	12%	65%	100%
Total System				
Beginning of Year	7,526	2,148	20,724	30,398
New Builds	454	176	868	1,498
Acquisitions	389	(736)	345	(2)
Refranchising & Licensing	(228)	(1)	227	(2)
Closures & Divestitures	(287)	(75)	(691)	(1,053)
Other	-	-	(2)	(2)
End of Year	7,854	1,512	21,471	30,837
% of Total	25%	5%	70%	100%

- (a) Total U.S. and Total System include 6 Yan Can units.  
(b) The total excludes 2,156 U.S. and 206 International licensee units. These locations are typically nontraditional sites such as airports, kiosks, etc.

YUM! Brands, Inc.  
Restaurant Units Activity Summary  
For the Year to Date Ended December 27, 2003

United States

	Company	Franchisees	Total Excluding Licensees
-----			
Pizza Hut U.S.			
Beginning of Year	1,760	4,743	6,503
New Builds	46	91	137
Acquisitions	88	(88)	-
Refranchising & Licensing	(63)	63	-
Closures & Divestitures	(55)	(185)	(240)
Other	-	-	-
End of Year	1,776	4,624	6,400
% of Total	28%	72%	100%
-----			
KFC U.S.			
Beginning of Year	1,284	4,140	5,424
New Builds	68	95	163
Acquisitions	18	(18)	-
Refranchising & Licensing	(65)	65	-

Closures & Divestitures	(53)	(78)	(131)
Other	-	-	-
	-----	-----	-----
End of Year	1,252	4,204	5,456
	=====	=====	=====
% of Total	23%	77%	100%
Taco Bell U.S.			
Beginning of Year	1,284	3,759	5,043
New Builds	19	29	48
Acquisitions	-	(2)	(2)
Refranchising & Licensing	(7)	7	-
Closures & Divestitures	(12)	(50)	(62)
Other	-	-	-
	-----	-----	-----
End of Year	1,284	3,743	5,027
	=====	=====	=====
% of Total	26%	74%	100%
Long John Silver's U.S.			
Beginning of Year	741	480	1,221
New Builds	9	19	28
Acquisitions	-	-	-
Refranchising & Licensing	(13)	13	-
Closures & Divestitures	(40)	(11)	(51)
Other	4	1	5
	-----	-----	-----
End of Year	701	502	1,203
	=====	=====	=====
% of Total	58%	42%	100%
A&W U.S.			
Beginning of Year	124	541	665
New Builds	-	11	11
Acquisitions	-	-	-
Refranchising & Licensing	(2)	-	(2)
Closures & Divestitures	(37)	(62)	(99)
Other	(4)	3	(1)
	-----	-----	-----
End of Year	81	493	574
	=====	=====	=====
% of Total	14%	86%	100%

YUM! Brands, Inc.  
Restaurant Units Activity Summary  
For the Year to Date Ended December 27, 2003

International

-----  
Total

	Company	Unconsolidated Affiliates	Franchisees	Excluding Licensees
	-----	-----	-----	-----
KFC International				
Beginning of Year	1,516	1,175	4,156	6,847
New Builds	239	113	311	663
Acquisitions(a)	5	(479)	474	-
Refranchising & Licensing	(30)	(1)	31	-
Closures & Divestitures	(45)	(43)	(130)	(218)
Other	-	8	(7)	1
	-----	-----	-----	-----
End of Year	1,685	773	4,835	7,293
	=====	=====	=====	=====
% of Total	23%	11%	66%	100%
Pizza Hut International				
Beginning of Year	779	941	2,557	4,277
New Builds	72	60	264	396
Acquisitions(a)	261	(239)	(22)	-
Refranchising & Licensing	(48)	-	48	-
Closures & Divestitures	(43)	(26)	(136)	(205)
Other	-	(3)	(3)	(6)
	-----	-----	-----	-----
End of Year	1,021	733	2,708	4,462
	=====	=====	=====	=====
% of Total	23%	16%	61%	100%
Taco Bell International				
Beginning of Year	38	28	138	204
New Builds	1	-	8	9
Acquisitions(a)	17	(18)	1	-
Refranchising & Licensing	-	-	-	-
Closures & Divestitures	(2)	(5)	(1)	(8)
Other	-	(5)	4	(1)
	-----	-----	-----	-----
End of Year	54	-	150	204
	=====	=====	=====	=====
% of Total	26%	-	74%	100%
A&W International				
Beginning of Year	-	-	182	182
New Builds	-	-	35	35
Acquisitions	-	-	-	-
Refranchising & Licensing	-	-	-	-
Closures & Divestitures	-	-	(35)	(35)
Other	-	-	-	-
	-----	-----	-----	-----
End of Year	-	-	182	182
	=====	=====	=====	=====
% of Total	-	-	100%	100%

Long John Silver's International				
Beginning of Year	-	-	28	28
New Builds	-	-	5	5
Acquisitions	-	-	-	-
Refranchising & Licensing	-	-	-	-
Closures & Divestitures	-	-	(3)	(3)
Other	-	-	-	-
	-----			
End of Year	-	-	30	30
	=====			
% of Total	-	-	100%	100%

(a) Includes the effect of the dissolution of our joint venture in Canada during the quarter ended December 27, 2003. We now operate 258 units previously operated by this joint venture while our former joint venture partner operates 475 units previously operated by the joint venture.

YUM! Brands, Inc.  
United States Multibrand Restaurants  
For the Year to Date Ended December 27, 2003

	United States (a)			
	-----			
	Multibrand Restaurants in Operation at 12/27/03			
	-----			
	Gross Additions Year to Date 12/27/03	Company Franchise Total		
	-----			
KFC				
Taco Bell	36	182	481	663
Pizza Hut	10	111	45	156
A&W	97	116	142	258
Taco Bell/Pizza Hut 3 n 1	2	20	25	45
Long John Silver's	47	29	31	60
Wing Works	2	26	-	26
	-----			
	194	484	724	1,208
Taco Bell				
Pizza Hut	18	312	281	593
Long John Silver's	41	39	9	48
Backyard Burgers	5	8	-	8
A&W	2	2	-	2
	-----			
	66	361	290	651

Pizza Hut				
KFC	-	-	1	1
Taco Bell	1	-	6	6
Wing Works	2	1	-	1
Pasta Bravo	3	2	2	4
WingStreet	57	59	-	59
	-----	-----	-----	-----
	63	62	9	71
Long John Silver's				
A&W	59	125	93	218
	-----	-----	-----	-----
Total	382	1,032	1,116	2,148
	=====	=====	=====	=====

Multibrand conversions increase the sales and points of distribution for the second brand added to a restaurant but do not result in an additional unit count. Similarly, a new multibrand restaurant, while increasing sales and points of distribution for two brands, results in just one additional unit count.

(a) Amounts do not reflect International multibrand units, 193 of which were in operation at year end.

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