UNITEDHEALTH GROUP INC
Form 11-K
June 17, 2015

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

Form 11-K

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x ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014
or
o TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM _______ TO _______
Commission file number: 1-10864

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

UnitedHealth Group 401(k) Savings Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

UnitedHealth Group Incorporated

UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota

UNITEDHEALTH GROUP 401(k) SAVINGS PLAN

TABLE OF CONTENTS

	Page
REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM	1
FINANCIAL STATEMENTS:	2
Statements of Net Assets Available for Benefits as of December 31, 2014 and 2013	2
Statement of Changes in Net Assets Available for Benefits for the Year Ended December 31, 2014	3
Notes to Financial Statements as of December 31, 2014 and 2013 and for the Year Ended December 31, 2014	4
SUPPLEMENTAL SCHEDULES FURNISHED PURSUANT TO THE REQUIREMENTS OF FORM 5500	16
Form 5500, Schedule H, Part IV, Line 4i - Schedule of Assets (Held at End of Year) as of December 31, 2014	17
Form 5500, Schedule H, Part IV, Line 4a-Schedule of Delinquent Participant Contribution	27

NOTE: All other schedules required by Section 2520.103-10 of the Department of Labor’s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

1

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Trustees and Participants of
UnitedHealth Group 401(k) Savings Plan
Minneapolis, Minnesota

We have audited the accompanying statements of net assets available for benefits of UnitedHealth Group 401(k) Savings Plan (the "Plan") as of December 31, 2014 and 2013, and the related statements of changes in net assets available for benefits for the year ended December 31, 2014. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Plan is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Plan's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the net assets available for benefits of the Plan at December 31, 2014 and 2013, and the changes in net assets available for benefits for the year ended December 31, 2014 in conformity with accounting principles generally accepted in the United States of America.

The supplemental schedules of assets (held at end of year) and delinquent participant contributions as of December 31, 2014 have been subjected to audit procedures performed in conjunction with the audit of the Plan's financial statements. The supplemental schedules are the responsibility of the Plan's management. Our audit procedures included determining whether the supplemental schedules reconcile to the financial statements or the underlying accounting and other records, as applicable, and performing procedures to test the completeness and accuracy of the information presented in the supplemental schedules. In forming our opinion on the supplemental schedules, we evaluated whether the supplemental schedules, including their form and content, are presented in compliance with the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. In our opinion, such schedules are fairly stated, in all material respects, in relation to the financial statements as a whole.

/s/ DELOITTE & TOUCHE LLP
Minneapolis, Minnesota
June 17, 2015

UNITEDHEALTH GROUP 401(k) SAVINGS PLAN

STATEMENTS OF NET ASSETS AVAILABLE FOR BENEFITS
AS OF DECEMBER 31, 2014 AND 2013

	2014	2013
ASSETS:		
Investments - at fair value:		
Participant - directed investments	$6,832,171,481	$6,129,915,077
Receivables:		
Notes receivable from participants	207,592,504	185,223,182
NET ASSETS AVAILABLE FOR BENEFITS AT FAIR VALUE	7,039,763,985	6,315,138,259
ADJUSTMENTS FROM FAIR VALUE TO CONTRACT VALUE OF FULLY BENEFIT RESPONSIVE INVESTMENT CONTRACTS	(4,531,749)	(474,772)
NET ASSETS AVAILABLE FOR BENEFITS	$7,035,232,236	$6,314,663,487

See Notes to the Financial Statements.

UNITEDHEALTH GROUP 401(k) SAVINGS PLAN

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE FOR BENEFITS
FOR THE YEAR ENDED DECEMBER 31, 2014

ADDITIONS:	
Contributions:	
Employee	$483,781,588
Employer	233,359,361
Rollover	47,970,892
Total contributions	765,111,841
Interest and dividends	38,461,352
Net appreciation in fair value of investments	418,639,514
Interest income on notes receivable from participants	8,189,599
Total additions	1,230,402,306
DEDUCTIONS:	
Benefits paid to participants	(531,051,551)
Administrative expenses	(6,175,019)
Total deductions	(537,226,570)
INCREASE IN NET ASSETS BEFORE PLAN TRANSFERS	693,175,736
NET TRANSFERS INTO THE PLAN (Note 9)	27,393,013
INCREASE IN NET ASSETS AVAILABLE FOR BENEFITS	720,568,749
NET ASSETS AVAILABLE FOR BENEFITS:	
Beginning of year	6,314,663,487
End of year	$7,035,232,236

See Notes to the Financial Statements.

UNITEDHEALTH GROUP 401(k) SAVINGS PLAN

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2014 AND 2013 AND FOR THE YEAR ENDED DECEMBER 31, 2014

1. DESCRIPTION OF THE PLAN

The following description of the UnitedHealth Group 401(k) Savings Plan (the "Plan") is provided for informational purposes only. Participants should refer to the Plan document for more complete information. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended.

General-The Plan was first established on July 1, 1985, as a defined contribution (profit sharing) plan under Section 401(a) of the Internal Revenue Code (the "Code"). The Plan also contains a cash or deferred arrangement as described in Section 401(k) of the Code. UnitedHealth Group Incorporated (the "Company") is the Plan's sponsor and administrator. Fidelity Management Trust Company ("Fidelity"), performs recordkeeping and trustee functions relating to the Plan.

Eligibility and Vesting-In general, eligible employees may make pretax and/or Roth elective deferral contributions to the Plan upon employment with a participating employer and are automatically enrolled in the Plan as soon as administratively feasible after their hire date, unless they decline to participate within a prescribed time limit. Participants become eligible for employer safe harbor matching contributions once they are credited with one year of service. Employees whose employment is governed by the terms of a collective bargaining agreement, persons who the Company classified as leased employees, and certain other classifications of employees are not eligible to participate in the Plan, with the exception of Local 1199C that collectively bargained to be eligible for the Plan in 2006, and, effective November 1, 2014, any new hires, rehires, or transfers into the United Food Commercial Workers Union Local 27.

Participant contributions and earnings thereon are 100% vested at all times. Participants become 100% vested in employer safe harbor matching contributions, and the earnings thereon upon being credited with two years of service. Employer safe harbor matching contributions, and the earnings thereon also become fully vested upon the earliest occurrence of any of the following events, while a participant is employed by a participating employer: (a) death, (b) attainment of age 65, (c) disability (as defined by the Plan), (d) partial or complete termination of or complete discontinuance of contributions to the Plan, or (e) an acceleration date (as defined by the Plan).

Contributions-Eligible employees direct the Company to make pre-tax and/or Roth contributions to the Plan on their behalf through payroll deductions. Eligible employees are automatically enrolled in the Plan as soon as administratively feasible after their hire date at an employee pre-tax contribution rate of 3% of their eligible pay, unless they decline to participate within a prescribed time limit or they elect a different pre-tax and/or Roth contribution rate. Participants who miss the deadline to decline participation will have 90 days from the first biweekly pay date in which employee pre-tax contributions are deducted from their eligible pay to request a withdrawal of any employee pre-tax contributions, including any associated earnings and losses, made to their account since that first biweekly pay date. Different enrollment rules apply to eligible employees who are acquired employees.

In general, the Plan provides for automatic employee pre-tax contribution rate increases until the participant's pre-tax and/or Roth contribution rate reaches 6%. Participants are notified of the automatic rate increases in advance and have the opportunity to decline the automatic increase.

The Plan allows participants to contribute up to 50% of their eligible pay, subject to the Code Section 402(g) limit on participant contributions (which was $17,500 for 2014). Within certain limitations, the Company will make a safe harbor matching contribution to the Plan on a participant's behalf on a dollar-for-dollar basis up to the first 3% of the participant's eligible pay, and an additional 50 cents for each dollar the participant contributes to the Plan up to the next 3% of the participant's eligible pay each pay period. The maximum matching contribution a participant may receive under this formula is 4.5% of the participant's eligible pay each pay period. Participants must make pre-tax and/or Roth contributions to receive the employer safe harbor matching contribution. Participants become eligible for safe harbor matching contributions once they are credited with one year of service. Additional discretionary contributions may also be made by the Company; however, no discretionary contributions were made in 2014. Participants who reach age 50 during the calendar year or who are over age 50 are allowed to make catch-up contributions to the Plan as permitted under Code Section 414(v). The Code limited participant catch-up contributions to $5,500 in 2014. A participant's combined employee pre-tax/Roth contributions and catch-up contributions cannot exceed 80% of the participant's eligible pay.

The Plan accepts rollover contributions of certain distributions from certain qualified plans. Rollover contributions are assets formerly held in an employee benefit plan of a prior employer, qualified under Section 401(a) of the Code, which a participant elects to be transferred into the Plan and were transferred into the Plan during the current year.

Participant Accounts-Individual accounts are maintained for each Plan participant. Each participant's account is credited with the participant's contributions and an allocation of (a) the Company's contributions and (b) plan earnings (losses). Allocations are based on participant contributions, earnings (losses) on the participant's account, or the participant's account balance, as described in the Plan. The benefit to which a participant is entitled is the benefit that can be provided from the participant's vested account.

Investment Options-Subject to the investment rules or limitations applicable to the Plan, eligible participants may direct the trustee to invest their contributions and the Company's contributions in any one or a combination of several funds.

The Plan has various investment options to which participants can elect to allocate their contributions, including a self-managed brokerage account option.

Dividend Payout-Effective March 1, 2012, the Plan was amended to include the UnitedHealth Group Stock Fund (the "Stock Fund") Dividend Payout Feature. This feature allows participants invested in the Stock Fund to elect whether dividends payable on Company stock held in the Stock Fund are distributed to participants in cash or reinvested in Company stock within the Stock Fund. The total dividends on the Company stock in the Stock Fund were $2,842,137 for the year ended December 31, 2014. The amount participants elected to be distributed in cash was insignificant.

Distributions-A participant's vested account generally becomes distributable upon the earliest occurrence of any of the following events (an "Event of Maturity"): (a) death, (b) voluntary or involuntary separation from service, or (c) disability (as defined by the Plan).

Distributions occur on a daily basis upon the submission of an application for distribution from the participant. If no such application is submitted, distribution is made in a cash lump-sum payment no later than the following dates:

(a) April 1 following the first calendar year in which the participant has both attained age 70-1/2 and terminated employment (for distribution to a participant), and

(b) December 31 of the calendar year in which the first anniversary of the participant's death occurs (for distribution to a beneficiary). However, following an Event of Maturity, a participant's account, if valued at less than $1,000, is distributed in cash under the involuntary cash-out rules as a direct distribution to the participant or as a rollover into an Individual Retirement Account or another employer-sponsored plan (whichever the participant elects).

Notes Receivable from Participants-While employed with the Company, a participant may obtain a loan in an amount that does not exceed (when added to the outstanding balance of any other loan from the Plan) the lesser of one-half of the participant's vested account balance, as defined, or $50,000 less their highest outstanding loan balance during the 12-month period that ends on the day before the new loan is issued. Other limitations may apply if the participant has a loan from a plan of an acquired company. The minimum loan amount that a participant can borrow is $1,000. The loan bears interest at the prime rate of interest, plus 1% (at the time the participant takes the loan and will remain in effect for the duration of the loan) and is payable over a period not to exceed five years; except that a loan that is used by the participant to acquire a principal residence may, if the loan originated prior to April 1, 2001, be repaid over a period not to exceed 30 years, and if the loan originated on or after April 1, 2001, be repaid over a period not to exceed 10 years. As of December 31, 2014 and 2013, the interest rate on loans outstanding varied from 3.25% to 10.25%, and 3.25% to 10.50%, respectively.

Unallocated Accounts-The Plan has certain unallocated amounts that relate to items such as lost distributees, lost participants, uncashed checks, and participant forfeitures. The nonvested portion of a participant's account is forfeited as of the earlier of the distribution of the participant's vested account or the occurrence of a five-year period of break in service. Forfeitures may be used to make restorations for rehired participants (if rehired by the Company or certain of its affiliates within five years of an initial Event of Maturity), to restore forfeited account balances, to reduce Company contributions, to pay Plan expenses, or to correct errors, omissions, and exclusions. Total unallocated amounts used to reduce Company contributions for the year ended December 31, 2014 were approximately $3,500,000. As of December 31, 2014, the unallocated accounts ending balance was $778,655.

Plan Amendment or Termination-Although it has not expressed any intention to do so, the Company has the right to discontinue contributions or to amend or terminate the Plan at any time. In the event of the Plan's termination, participants' accounts would become 100% vested and the Company could direct either the current distribution of the assets or the continuation of the trust, in which case distribution of the benefits would occur in accordance with the terms of the Plan.

Nonexempt Party-in-Interest Transaction- ERISA Section 406 prohibits the use of plan assets by, or transfer of plan assets to, a party in interest (such as an employer whose employees are covered by the plan). The Company remitted certain participant contributions to the custodian later than required by DOL Regulation 2510.3-102. The Company has filed Form 5330 with the IRS and paid the required excise tax on the transactions. In addition, participant accounts have been credited with the amount of investment income that would have been earned had the participant contributions been remitted on a timely basis as required by the DOL guidelines.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting-The Plan's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

Use of Estimates-The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of net assets available for benefits at the date of the financial statements and the reported amounts of changes in net assets available for benefits during the reporting period. Actual results could differ from those estimates.

Risks and Uncertainties-The Plan provides for investment in a variety of investment funds. Investments, in general, are exposed to various risks, such as interest rate risk, credit risk, and overall market volatility. Due to

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the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statements of net assets available for benefits.

Investments-During the year ended December 31, 2014, the Plan's investments (including investments bought, sold, and held during the year) appreciated in value by $418,639,514 as follows:

Common collective trust	$177,081,993
Net appreciation in fair value of investments at estimated fair value	177,081,993
Common stock	104,607,007
Mutual funds	118,048,882
Fixed-income securities	18,901,632
Net appreciation in fair value of investments as determined by quoted market prices	241,557,521
Net appreciation	$418,639,514

The fair market values of individual investments that represent 5% or more of the Plan's net assets as of December 31, 2014 and 2013, were as follows:

	2014	2013
Vanguard Institutional Index Fund	$784,546,111	$671,837,567
Wellington Mid-Cap Opportunities Fund	471,993,001	435,963,655
Wells Fargo DJ Target 2035 N	454,511,488	388,713,094
Wells Fargo DJ Target 2030 N	441,722,276	375,523,264
Wells Fargo DJ Target 2025 N	402,968,465	346,293,264
American Europacific Growth Fund	401,143,122	421,687,902
Vanguard Mid-Cap Index Fund Plus	382,096,487	322,523,152
Wells Fargo DJ Target 2040 N	370,165,389	*

* Investment represents less than 5% of the Plan's net assets in the year indicated.

Investment Valuation and Income Recognition-The Plan's investments are stated at fair value. Fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Shares of mutual funds are valued at quoted market prices, which represent the net asset value ("NAV") of shares held by the Plan at year-end. Common stock is valued at quoted market prices. Cash and cash equivalents are highly liquid investments that have an original maturity of three months or less. The fair value of cash and cash equivalents approximates their carrying value because of the short maturity of the instruments. The estimated fair values of debt securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. The units of the common/collective investment trust funds and pooled separate account are stated at fair value as determined by the issuer based on the fair market value of the underlying investments. The fair value of the Synthetic Guaranteed Investment Contracts ("Synthetic GIC") is determined based on the components of the Synthetic GIC. The Synthetic GIC is comprised of underlying investments in fixed income securities, pooled separate accounts, and wrapper contracts issued by banks and insurance companies in which the issuer guarantees a specified interest rate. The fair value of the

wrapper contracts is calculated by discounting the related cash flows of the rebid wrapper contract fees based on current yields of similar instruments with comparable durations. The underlying investments are valued at fair market value using quoted market prices or other market data.

In accordance with GAAP, the statements of net assets available for benefits present an investment contract at fair value, as well as an additional line item showing an adjustment of the fully benefit responsive contract from fair value to contract value. The statement of changes in net assets available for benefits is presented on a contract-value basis.
Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Unrealized gains and losses are recorded in the period in which they occur.
Administrative Expenses-Administrative expenses of the Plan are paid by both the Plan and the Company. Recordkeeping fees are paid by the participants quarterly based on the number of participants. The Company pays fees related to trust and investment services, conversion planning and mergers, Form 5500 preparation, discrimination testing, qualified domestic relations order services, employee education, statement mailings, postage, enrollment kits, annual financial statement audit, and address searches.
Payment of Benefits-Benefit payments to participants are recorded upon distribution.
New Accounting Standards- In May 2015, the FASB issued Accounting Standards Update (ASU) No. 2015-07, Fair Value Measurement, which removes the requirement to categorize within the fair value hierarchy all investments for which fair value is measured using the net asset value per share practical expedient. The amendment also removes the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using net asset value per share practical expedient. Rather, those disclosures are limited to investments for which the entity has elected to measure the fair value using that practical expedient. This requirement is effective for fiscal years beginning after December 15, 2015. The Plan is currently evaluating the impact of the amendment.

The Plan has determined that there have been no other recently adopted or issued accounting standards that had, or will have, a material impact on the financial statements.

3. FAIR VALUE MEASUREMENT

GAAP established a single authoritative definition of fair value, set a framework for measuring fair value, and requires additional disclosures about fair value measurements. The Plan classifies its investments into Level 1, which refers to securities valued using quoted prices from active markets for identical assets; Level 2, which refers to securities not traded on an active market but for which observable market inputs are readily available; and Level 3, which refers to securities valued based on significant unobservable inputs. Assets are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The following tables set forth by level within the fair value hierarchy a summary of the Plan's assets measured at fair value on a recurring basis at December 31, 2014 and 2013.

	Fair Value Measurements at December 31, 2014		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Total Fair Value
Cash and cash equivalents	$53,713,507	$—	$53,713,507
Fixed-income securities:			
U.S. government and agencies	35,758,265	108,246,975	144,005,240
Corporate	—	163,009,355	163,009,355
Other	—	16,255,154	16,255,154
Total fixed-income securities	35,758,265	287,511,484	323,269,749
Mutual funds:			
Large-cap funds	792,497,543	—	792,497,543
Mid-cap funds	384,956,608	—	384,956,608
Small-cap funds	337,632,972	—	337,632,972
Other fixed income	6,683,978	—	6,683,978
Balanced funds	1,971,464	—	1,971,464
International large-cap funds	469,607,035	—	469,607,035
Short-term funds	792,054	—	792,054
Equity funds	4,884,384	—	4,884,384
Total mutual funds	1,999,026,038	—	1,999,026,038
Common stock:			
UnitedHealth Group Inc.	203,007,624	—	203,007,624
Other	606,374,060	—	606,374,060
Total common stock	809,381,684	—	809,381,684
Preferred stock	549,532	—	549,532
Common/collective trusts	—	3,514,650,653	3,514,650,653
Pooled separate accounts	—	131,493,377	131,493,377
GIC wrappers	—	86,941	86,941
Total	$2,898,429,026	$3,933,742,455	$6,832,171,481

	Fair Value Measurements at December 31, 2013		
	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Total Fair Value
Cash and cash equivalents	$48,269,550	$—	$48,269,550
Fixed-income securities:			
U.S. government and agencies	16,147,972	110,997,400	127,145,372
Corporate	—	149,190,718	149,190,718
Other	—	19,834,740	19,834,740
Total fixed-income securities	16,147,972	280,022,858	296,170,830
Mutual funds:			
Large-cap funds	677,855,133	—	677,855,133
Mid-cap funds	324,847,889	—	324,847,889
Small-cap funds	316,084,113	—	316,084,113
Other fixed income	5,095,554	—	5,095,554
Balanced funds	1,170,736	—	1,170,736
International large-cap funds	483,952,219	—	483,952,219
Short-term funds	563,137	—	563,137
Equity funds	3,474,796	—	3,474,796
Total mutual funds	1,813,043,577	—	1,813,043,577
Common stock:			
UnitedHealth Group Inc.	163,357,401	—	163,357,401
Other	577,163,010	—	577,163,010
Total common stock	740,520,411	—	740,520,411
Preferred stock	310,792	—	310,792
Common/collective trusts	—	3,096,831,861	3,096,831,861
Pooled separate accounts	—	134,689,743	134,689,743
GIC wrappers	—	78,313	78,313
Total	$2,618,292,302	$3,511,622,775	$6,129,915,077

For the year ended December 31, 2014, there were no significant transfers in or out of Levels 1, 2, or 3.

Except for the Common/collective trust and Synthetic GIC (see Note 6), the Plan's investments do not have redemption or other restrictions.

4. FEDERAL INCOME TAX STATUS

The Internal Revenue Service ("IRS") has determined and informed the Company by a letter dated September 8, 2014, that the Plan is designed and operating in accordance with applicable Code qualification requirements and the Plan is tax exempt. Therefore, no provision for income taxes has been included in the Plan's financial statements.

GAAP requires Plan management to evaluate tax positions taken by the Plan and recognize a tax liability (or asset) if the Plan has taken an uncertain position that more likely than not would not be sustained upon

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examination by the IRS. The Plan administrator has analyzed the tax positions taken by the Plan and has concluded that as of December 31, 2014, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. The Plan is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Plan administrator believes it is no longer subject to income tax examinations for years prior to 2011.

5. RECONCILIATION TO THE FORM 5500

Reconciliation of net assets available for benefits per the financial statements to the Form 5500 as of December 31, 2014 and 2013, is as follows:

	2014	2013
Net assets available for benefits per the financial statements	$7,035,232,236	$6,314,663,487
Deemed distributions of participant loans	(1,298,708)	(927,594)
Fair market value adjustment of investment contracts	4,531,749	474,772
Net assets available for benefits per the Form 5500	$7,038,465,277	$6,314,210,665

A reconciliation of the increase in net assets available for benefits per the financial statements to the net income per the Form 5500 for the year ended December 31, 2014 is as follows:

Increase in net assets per the financial statements	$720,568,749
Deemed distributions activity	(371,114)
Fair market value adjustment of investment contracts	4,056,977
Net income per the Form 5500	$724,254,612

6. NET ASSET VALUE PER SHARE

A summary of the Plan’s investments with a reported NAV as of December 31, 2014 and 2013, is set forth as follows:

Investment	Fair Value [1]	Unfunded Commitment	Redemption Frequency	Other Redemption Restrictions [2]	Redemption Notice Period
December 31, 2014					
Common/collective trust [3]	$3,514,650,653	$—	Immediate	Various	Various
December 31, 2013					
Common/collective trust (3)	$3,096,831,861	$—	Immediate	Various	Various

(1) The fair values of the investments are based on the fair values of the underlying investments in the funds.

(2) Certain events may cause funds held in the common/collective trust to be deferred, including, but not limited to, the following:

(i) Closing or disruption of the financial markets or exchanges in which a transaction is unable to be settled prudently.

(ii) An emergency situation in which the disposition of assets would be seriously prejudicial to Plan participants.

(iii) Breakdown in the means of communication normally employed to determine fair market value of an investment.

(iv) Investments cannot be effected at normal rates of exchange.

None of these events occurred in 2014 or 2013.

(3) The funds in the common/collective trusts employ a variety of investment strategies, including, but not limited to, long term capital growth, short-term growth and income.

(4) Effective March 24, 2014, the Fidelity BrokerageLink investment option was deemed a competing fund of the UHG Stable Value Fund. As a result, certain restrictions have been imposed to satisfy requirements of the insurance companies, banks, and financial institutions who have issued investment contracts to the UHG Stable Value Fund, including, but not limited to the following:

(i) A participant may not make a direct exchange from the UHG Stable Value Fund into the Fidelity BrokerageLink.

(ii) The participant must first exchange from the UHG Stable Value Fund to one of the Plan’s other investment options for at least 90 days before exchanging to the Fidelity BrokerageLink.

(iii) If the participant exchanges from the Fidelity BrokerageLink to the UHG Stable Value Fund, they must first exchange to the Wells Fargo DJ Target Date Today N, before exchanging to the UHG Stable Value Fund.

7. EXEMPT PARTY-IN-INTEREST TRANSACTIONS

Pyramis Global Advisors Trust Company (“Pyramis”) and Galliard Capital Management (“Galliard”) provide investment management services. Pyramis is affiliated with Fidelity. Galliard is affiliated with Wells Fargo Bank N.A., a plan custodian. These transactions are exempt party-in-interest transactions. For the year ended December 31, 2014, the Plan paid $2,147,615 and $609,827 in fees related to investment management services provided by Pyramis and Galliard, respectively, which were included as a reduction of the return earned on each fund. The investment of the Plan in the Company’s common stock is considered a party-in-interest transaction. At December 31, 2014, the Plan held 2,008,187 shares of common stock of the Company with a cost basis of $65,556,137. At December 31, 2013, the Plan held 2,169,421 shares of common stock of the Company with a cost basis of $70,717,575.

8. WRAPPER CONTRACTS

The Plan provides a self-managed stable value investment option fund (the “Stable Value Fund”) to participants that includes Synthetic GICs, which simulate the performance of a GIC through an issuer’s guarantee of a specific interest rate and a portfolio of financial instruments that are owned by the Plan. Effective July 31, 2014, Monumental Life Insurance Company name was changed to Transamerica Premier Life Insurance Company. In 2013, the Plan terminated all prior wrapper contracts, and entered into new wrapper contracts with Monumental Life Insurance Company, Pacific Life Insurance Company, Prudential Life Insurance Company, New York Life Insurance Company, and Metropolitan Life Insurance Company. Contributions are maintained in a pooled account and are credited with earnings based on the contract crediting rates. The crediting interest rate is based on an agreed upon formula with the issuers of the contracts. The rates are generally reset quarterly according to each wrapper contract and are tied to the performance and duration of the wrapper contracts. Most agreements use a formula that is based on the characteristics of the underlying investments. Generally, the wrapper contracts amortize the gains and losses of the fixed income common collective trust funds and pooled separate accounts over the duration of the portfolios through the crediting rate of the wrapper contracts.

Plan management believes no reserves are necessary against contract value for credit risk of the contract issuer or otherwise as of December 31, 2014 and 2013. Both the average yield of the contracts and the average yield credited to the participants during 2014 and 2013 were 1.47% and 1.36%, respectively. The crediting interest rate for the contracts at December 31, 2014 and 2013 was 1.47% and 1.36%, respectively.

The Stable Value Fund is charged for withdrawals and administrative expenses. The wrapper contracts are included in the financial statements at fair value and then adjusted to contract value. Participants may ordinarily direct the withdrawal or transfer of all or a portion of their investment at contract value (which represents contributions made under the contracts, plus earnings, less withdrawals and administrative expenses) because they are fully benefit responsive.

The contract value and fair value of the contracts as of December 31, 2014, were as follows:

	Underlying Investments at Fair Value	Wrapper Contracts at Fair Value	Total Investments at Fair Value	Total Investments at Contract Value
Transamerica Premier Life Insurance Company	$94,078,757	$51,977	$94,130,734	$93,178,762
Pacific Life Insurance Company	100,549,027	—	100,549,027	100,151,988
Prudential Life Insurance Company	115,581,759	—	115,581,759	114,219,500
New York Life Insurance Company	61,654,951	—	61,654,951	61,188,917
Metropolitan Life Insurance Company	131,493,377	34,964	131,528,341	130,173,896
Total	$503,357,871	$86,941	$503,444,812	$498,913,063

The contract value and fair value of the contracts as of December 31, 2013, were as follows:

	Underlying Investments at Fair Value	Wrapper Contracts at Fair Value	Total Investments at Fair Value	Total Investments at Contract Value
Monumental Life Insurance Company	$140,852,870	$78,313	$140,931,183	$141,114,552
Pacific Life Insurance Company	49,518,200	—	49,518,200	49,512,879
Prudential Life Insurance Company	112,515,437	—	112,515,437	112,736,726
New York Life Insurance Company	60,567,819	—	60,567,819	60,274,482
Metropolitan Life Insurance Company	134,689,743	—	134,689,743	134,108,971
Total	$498,144,069	$78,313	$498,222,382	$497,747,610

9. PLAN TRANSFERS

During 2014, the XLHealth Corporation 401(k) P/S Plan, INSPIRIS of Tennessee Medical Services, P.C. 401(k) Plan, FrontierMEDEX, Inc. 401(k) Plan, and Executive Health Resources, Inc. 401(k) Profit Sharing Plan merged into the Plan.

10. SUBSEQUENT EVENTS

For the year ended December 31, 2014, subsequent events were evaluated through the filing date of the Form 11-K. There are no events subsequent to December 31, 2014 that require adjustment or disclosure.

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SUPPLEMENTAL SCHEDULES FURNISHED PURSUANT
TO THE REQUIREMENTS OF FORM 5500

UNITEDHEALTH GROUP 401(k) SAVINGS PLAN
(EIN 41-1321939, Plan #001)

FORM 5500, SCHEDULE H, Part IV, LINE 4i — SCHEDULE OF ASSETS (HELD AT END OF YEAR)
AS OF DECEMBER 31, 2014

		Current Value
COMMON/COLLECTIVE TRUST FUNDS:		
Wellington Mid-Cap Opportunities Fund		$471,993,001
Wells Fargo DJ Target 2035 N*		454,511,488
Wells Fargo DJ Target 2030 N*		441,722,276
Wells Fargo DJ Target 2025 N*		402,968,465
Wells Fargo DJ Target 2040 N*		370,165,389
Wells Fargo DJ Target 2020 N*		292,890,399
Wells Fargo DJ Target 2045 N*		263,791,271
Wells Fargo Fixed Income Fund F*		184,929,405
Wells Fargo DJ Target 2015 N*		139,619,476
Wells Fargo DJ Target 2050 N*		136,337,777
Wells Fargo Fixed Income Fund L*		66,708,622
Wells Fargo Fixed Income Fund Q*		61,654,951
Wells Fargo Fixed Income Fund N*		58,571,516
SSgA Bond Index Non-Lending Series Fund		35,414,296
Wells Fargo Short Term Investment Fund*		34,327,413
Wells Fargo DJ Target 2010 N*		32,523,047
Wells Fargo DJ Target 2055 N*		21,712,231
SSgA Global Equity Ex-US Index Fund		18,644,559
Northern Trust Treasury Inflation		15,519,878
Wells Fargo DJ Target Today N*		10,645,193
Total common/collective trust funds		3,514,650,653
MUTUAL FUNDS:		
Vanguard Institutional Index Fund		784,546,111
American Europacific Growth Fund		401,143,122
Vanguard Mid-Cap Index Fund Plus		382,096,487
Vanguard Small-Cap Index Fund Plus		335,837,527
Aberdeen Emerging Markets Fund		34,332,583
PIMCO All Asset Fund Class		28,548,493
Vanguard Prime Money Market Institutional		3,300
Total mutual funds		1,966,507,623
POOLED SEPARATE ACCOUNTS:		
MetLife Separate Account #695		66,346,462
MetLife Separate Account #690		65,146,915
Total pooled separate accounts		131,493,377
SYNTHETIC INVESTMENT CONTRACTS—Wrapper at fair value:	Rate	

Transamerica Premier Life Insurance Company	1.65 %	51,977
Metropolitan Life Insurance Company	1.63 %	34,964
Total wrappers		86,941

(Continued)

	Current Value
COMMON STOCK:	
UnitedHealth Group*	$203,007,624
Apple Inc	11,833,178
Johnson & Johnson	9,649,301
Microsoft Corp	7,535,305
Multi Color Co.	7,043,993
Lowes Cos Inc	6,844,362
Wells Fargo & Co*	6,645,280
United Technologies Corp	6,429,535
Bank Of America Corporation	6,216,310
Ashland Inc	5,741,294
World Fuel Services Corp	5,683,692
Facebook Inc A	5,567,507
Google Inc Cl C	5,448,766
Nasdaq Omx Group	5,383,030
Procter & Gamble Co	5,369,756
Citigroup Inc	5,330,106
Cubist Pharmaceuticals Inc	5,288,151
Amsurg Corp	5,193,877
Coca Cola Co	5,103,469
Morgan Stanley	5,067,396
Visa Inc Cl A	4,923,854
Occidental Petroleum Corp	4,776,707
Avago Technologies Ltd	4,705,198
Honeywell Intl Inc	4,636,088
Jarden Corp	4,571,582
Nxp Semiconductors Nv	4,515,240
Cdw Corporation	4,501,057
Exxon Mobil Corp	4,499,079
Reinsurance Group Of America	4,490,525
Bristol-Myers Squibb Co	4,439,410
Vantiv Inc	4,357,363
Twenty First Century Fox Inc-A	4,266,949
Amc Networks Inc Cl A	4,189,051
Chevron Corp	4,154,811
Starbucks Corp	4,032,101
Biogen ldec Inc	3,987,859
Cvs Health Corp	3,986,849
Paccar Inc	3,965,119
Dun & Bradstreet Corp Del New	3,921,160

(Continued)

	Current Value
COMMON STOCK (Continued):	
Hanger Inc	$3,824,616
Philip Morris Intl Inc	3,804,692
Jazz Pharma Plc	3,700,298
Adobe Systems Inc	3,664,662
Emerson Electric Co	3,662,688
Time Warner Inc	3,644,188
Genpact Ltd	3,532,338
Celgene Corp	3,405,130
Comcast Corp Cl A	3,369,569
Verizon Communications Inc	3,350,524
Wesco International Inc	3,293,034
Accenture Plc Cl A	3,268,657
Dupont (Ei) De Nemours & Co	3,207,739
Service Corp International Inc	3,152,349
Total Sys Svcs Inc	3,119,226
Lam Research Corp	3,092,356
Eaton Corp Plc	3,078,792
Ptc Inc	3,075,668
Mckesson Corp	3,057,238
Union Pacific Corp	2,956,330
Salix Pharmaceuticals Ltd	2,944,763
Air Methods Corp	2,888,368
Alcoa Inc	2,864,653
Abbott Laboratories	2,835,450
Exlservice Holdings Inc	2,819,896
Fluor Corp	2,790,981
Tjx Companies Inc New	2,736,273
Cognizant Tech Solutions Cl A	2,727,103
Qualcomm Inc	2,689,705
Metlife Inc	2,664,473
Cadence Design Systems Inc	2,662,250
Investors Bancorp Inc New	2,653,062
Genesee & Wyoming Inc Cl A	2,648,144
United Continental Hldgs Inc	2,621,954
Ingram Micro Inc Cl A	2,598,989
Wns Hldgs Ltd Sp Adr	2,584,566
Mondelez International Inc	2,574,716
Global Payments Inc	2,570,443
Mosaic Co New	2,561,650
Merck & Co Inc New	2,555,323
Humana Inc	2,515,105
Monolithic Power Sys Inc	2,504,906
Nextera Energy	2,492,182
Hanmi Financial Corporation	2,489,044
Cirrus Logic Inc	2,488,992
Manpowergroup Inc	2,454,802
Darling Ingredients Inc	2,375,146

Firstmerit Corp	2,370,506
Schwab Charles Corp	2,337,763
Ace Ltd	2,309,203

(Continued)

	Current Value
COMMON STOCK (Continued):	
Hilltop Hldgs I	$2,258,141
General Motors Co	2,247,750
Costco Wholesale Corp	2,206,622
State Street Corp	2,200,983
Rovi Corporation	2,185,131
American International Group	2,172,684
Haemonetics Corp Mass	2,143,043
Virtus Investment Partner	2,119,191
Boston Scientific Corp	2,117,801
Invesco Ltd	2,111,791
Tcf Financial Corporation	2,107,967
Priceline Group Inc	2,105,968
Gnc Holdings Inc - Cl A	2,085,024
Prologis Inc Reit	2,055,844
Dominion Resources Inc Va	2,042,464
Evertec Inc	2,024,895
Fxcm Inc Class A	2,018,723
Tupperware Brands Corp	2,016,000
Heartland Payment Systems In	2,002,624
Halliburton Co	1,987,817
Alexion Pharmaceuticals Inc	1,975,935
Mentor Graphics Corp	1,900,026
Dish Network Corp A	1,867,004
Raymond James Financial Inc	1,813,801
Redwood Trust Inc Reit	1,774,970
Compass Minerals Intl Inc	1,762,649
Vertex Pharmaceuticals Inc	1,743,509
Ralph Lauren Corp	1,736,431
L 3 Communications Hldgs Inc	1,733,747
Simon Ppty Group Inc - Reit	1,730,591
Crown Holdings Inc	1,719,504
Rock Tenn Company Cl A	1,717,197
Everbank Financial Corp	1,705,699
Virtusa Corp	1,703,053
Harman Intl Ind Inc New	1,698,717
Marathon Oil Corp	1,695,363
Bb&T Corp	1,658,542
Broadcom Corp Cl A	1,646,843
Kla Tencor Corp	1,640,566
Gildan Activewear Inc (Us)	1,611,675
First Citizen Bancshares Inc A	1,600,161
Avery Dennison Corp	1,589,603
Helen Of Troy Ltd	1,587,464
Constellation Brands Inc Cl A	1,578,475
Centerpoint Energy Inc	1,573,887
Citrix Systems Inc	1,561,314
Ebix Inc	1,532,872

Schlumberger Ltd	1,491,002
Constellation Software Inc	1,486,659
Dollar Tree Inc	1,476,009

(Continued)

	Current Value
COMMON STOCK (Continued):	
Newlink Genetics Corp	$932,535
Furmanite Corp	931,925
Intercontinental Exchange Inc	931,105
Sabra Healthcare Reit Inc	926,285
Lululemon Athletica Inc	925,277
Vitamin Shoppe Inc	923,992
Neurocrine Biosciences Inc	920,185
Cavium Inc	918,645
Aramark	915,810
Tiffany & Co	911,409
Nisource Inc	904,437
Ezcorp Inc Cl A Non Vtg	881,838
Dr Horton Inc	878,954
Waterstone Financial Inc	875,001
Team Inc	860,989
Providence Service Corp	858,891
Cbiz Inc	858,131
Spx Corp	854,732
Cempra Inc	852,473
Steris Corporation	849,535
Fairpoint Communications Inc	842,369
Willis Group Holdings Plc	834,541
Pvh Corp	831,311
Starz - A	822,690
East West Bancorp Inc	821,000
Covidien Plc	819,058
Estee Lauder Cos Inc Cl A	813,968
Anadarko Petroleum Corp	810,233
Solarwinds Inc	782,331
Phillips 66	779,379
Unisys Corp New	777,977
Csx Corp	756,627
Time Warner Cable	754,370
Eaton Vance Corp Non Vtg	737,968
Stancorp Finl Group Inc	728,640
Endo International Plc	721,921
Carriage Services Inc	713,976
Brunswick Corp	691,497
Innerworkings Inc	681,391
Eqt Corporation	674,941
Pdf Solutions Inc	668,997
Teleflex Inc	648,733
Coca Cola Bottling Co Consolid	639,890
Freescale Semiconductor Ltd	639,379
Celldex Therapeutics Inc	624,515
Vwr Corp	622,044
Luxfer Hldgs Plc Spons Adr	612,906

Applied Industrial Tech Inc	599,053
Sunopta Inc	593,685
E Trade Financial Corp	592,792

(Continued)

	Current Value
COMMON STOCK (Continued):	
Genesco Inc	$576,182
Independent Bank Corp	572,634
Western Alliance Bancorp	560,448
East West Bancorp Inc	555,101
Maximus Inc	553,884
Broadridge Financial Sol	547,233
Eog Resources Inc	523,326
Quinstreet Inc	499,197
Om Asset Management Ltd	498,568
Us Concrete Inc C New	495,884
Concho Resources Inc	478,900
Pioneer Natural Resources Co	473,194
United States Steel Corp	469,929
Entegra Financial Corp	458,393
Builders Firstsource	446,619
Axiall Corp	438,970
Steiner Leisure Ltd	415,890
Hackett Group Inc	383,156
Cvb Financial Corp	378,392
Weatherford International Plc	377,346
Allegiant Travel Co	372,818
Cytokinetics Inc	367,979
Springleaf Holdings Inc	357,721
Epam Systems Inc	354,305
Rent A Ctr Inc	333,418
United Community Banks Ga	293,419
Idera Pharmaceuticals Inc	290,972
Clearwater Seafoods Inc	275,624
Servicemaster Global Hldg Inc Inc	262,346
Trinseo Sa	260,005
Coresite Realty Corp	258,121
Intralinks Hldgs Inc	234,192
Yadkin Financial Corp	215,561
Science Applicatns Intl Corp	199,606
Ambarella Inc	197,808
Meridian Bancorp Inc	192,984
Kaman Corp	182,009
Uniqure B.V.	176,817
Ultratech Inc	148,480
California Res Corp	130,598
Pall Corp	101,210
Liberty Tax Inc Cl A	94,711
Harvard Biosciences Inc	54,999
Monarch Casino & Resort Inc	39,816
Asure Software Inc	29,975
Total common stock	758,970,330

(Continued)

	Current Value
FIXED INCOME SECURITIES:	
Ustn .875% 2/28/17	$11,526,059
Ust Notes 0.875% 05/15/2017	10,472,450
Ca St 7.55% 4/1/39	7,638,791
Fhr 2013-4283 Ew Var 12/43	5,983,422
Ustn .625% 10/15/16	5,600,874
Ustn 1.5% 02/28/19	5,526,724
Fhlm Arm 3.056% 05/44 #849327	5,312,541
Aol Time Warner 7.7% 5/01/32	4,829,771
Chait 2012-A8 A8 0.54% 10/17	4,817,619
Fnr 2013-10 Fa Var 02/43	4,699,872
Fnma 20Yr 4.5% 10/33 #Al4165	4,602,893
Fhlg 15Yr 4.00% 10/26 #G14585	4,311,022
Xerox Corp 6.35% 5/15/18	4,127,128
Verizon Comm 5.15% 09/15/23	3,947,633
Bac Cap Tr Xi 6.625% 5/23/36	3,807,884
Fnma 15Yr 4% 05/27 #Al5957	3,672,944
Cox Com Inc 9.375 1/15/19 144A	3,656,006
Fnma 6.00% 3/34 #725229	3,577,927
Hca Inc 6.5% 2/15/16	3,477,775
Rio Oil Fin 6.25% 7/6/24 144A	3,466,696
Fnma Arm 9/43 #Al4098	3,351,314
Fhr 2005-2957 Vz 5% 02/35	3,284,501
Amxca 2014-3 A 1.49% 04/20	3,277,970
Citigroup Cap Xiii 7.875% Pfd	3,229,470
Fhl Arm 2.88% 10/44 #849505	3,222,649
Time Warner Cab 8.75% 2/14/19	3,170,142
Rio Oil Fin 6.75% 1/6/27 144A	3,151,500
Dow Chemical 8.55% 5/19	3,013,628
Wellpoint Inc 7% 2/15/19	2,997,674
Boston Scientific 6.4% 6/15/16	2,969,863
Fnma 7.00% 3/37 #888369	2,825,396
Capital One 3.5% 6/23 Wi	2,813,658
Boston Prp Ltd 5.625% 11/15/20	2,795,330
Fhlg 5.50% 1/40 #G07074	2,786,657
Rbs Gpr Plc 6.125% 12/15/22	2,748,225
Fnma 15Yr 5.50% 5/23 #889527	2,732,158
Fnr 2005-87 Fb 1Ml+50 10/35	2,714,186
Burlington North San 4.1% 6/21	2,711,548
Fnma 5.50% 6/33 #555531	2,628,304
Bnp Paribas 4.25% 10/15/24	2,525,732
Fhlg Arm 2.91% 10/44 #2B3311	2,514,161
Union Pac 07-3 6.176% 1/2/31	2,452,379
Il St 5.665 03/01/18	2,436,442
At&T Corp 8/8.5% 11/15/31	2,394,468
Fnma 20Yr 4.00% 12/30 #Ma0587	2,337,469
Telecom Italia Cap 7.175% 6/19	2,318,625
Fnma 15Yr 5.50% 10/23 #995405	2,308,734

Slma 2012-B A2 3.48% 12/30	2,285,562
Hsbc Hldgs 6.5% 5/02/36	2,279,693
Ge Cap Mtn 5.5% 1/08/20	2,260,538
	(Continued)

	Current Value
FIXED INCOME SECURITIES (Continued):	
Fhlg 30Yr 4.5% 01/44 #G08568	$ 2,244,370
Fhlg 30Yr 5.5% 05/38 #G07404	$37 million in support of the franchisee loan program at June 15, 2013. Loans outstanding under the loan pool totaled $50 million at June 15, 2013 with an additional $30 million available for lending at June 15, 2013. We have determined that we are not required to consolidate this entity as we share the power to direct this entity's lending activity with other parties.

In addition to the guarantee program described above, YUM has provided guarantees of $52 million on behalf of franchisees for several financing programs related to specific initiatives. The total loans outstanding under these financing programs were approximately $65 million at June 15, 2013.

Insurance Programs

We are self-insured for a substantial portion of our current and prior years' loss exposures including workers' compensation, employment practices liability, general liability, automobile liability, product liability and property losses (collectively, "property and casualty losses"). To mitigate the cost of our exposures for certain property and casualty losses, we self-insure the risks of loss up to defined maximum per occurrence retentions on a line-by-line basis. The Company then purchases insurance coverage, up to a certain limit, for losses that exceed the self-insurance per occurrence 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. As of June 15, 2013 and December 29, 2012, we had liabilities recorded for self-insured property and casualty losses of $134 million and $142 million, respectively.

In the U.S. and in certain other countries, we are also self-insured for healthcare claims and for long-term disability claims 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 both 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 - YUM! Brands, Inc. 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.

Legal Proceedings

We are subject to various claims and contingencies related to lawsuits, real estate, environmental and other matters arising in the normal course of business. An accrual is recorded with respect to claims or contingencies for which a loss is determined to be probable and reasonably estimable.

Beginning on January 24, 2013, four purported class actions were filed in the U.S. District Court for the Central District of California against the Company and certain of its executive officers. The complaints allege claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934 on behalf of a purported class of all persons who purchased or otherwise acquired the Company's publicly traded securities between October 9, 2012 and January 7, 2013 (the “class period”). Plaintiffs allege that during the class period, defendants purportedly made materially false and misleading statements concerning the Company's current and future business and financial condition, thereby inflating the prices at which the Company's securities traded. The complaints seek damages in an undefined amount. On March 25, 2013, two prospective lead plaintiffs filed motions seeking consolidation of the four actions, appointment as lead plaintiff, and approval of their selection of counsel. In addition, on March 26, 2013, the Company filed a motion to transfer venue to the U.S. District Court for the Western District of Kentucky. On May 1, 2013, the court granted: (1) the Company's motion to transfer and (2) Frankfurt Trust Investment GMBH's motions to be appointed lead

plaintiff, for consolidation of the cases and for approval of its selection of class counsel. The cases pending in the U.S. District Court for the Central District of California were therefore closed, and the consolidated case is now pending in the U.S. District Court for the Western District of Kentucky. The Company denies liability and intends to vigorously defend against all claims in these complaints. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On January 24, 2013, a purported shareholder of the Company (Bert Bauman) submitted a letter demanding that the board of directors initiate an investigation of alleged breaches of fiduciary duties by directors, officers and employees of the Company. The breaches of fiduciary duties are alleged to have arisen primarily as a result of the failure to implement proper controls in connection with the Company's purchases of poultry from suppliers to the Company's China operations. Since that time, similar letters by other purported shareholders have been submitted. Those letters have been referred to a committee of the Board of Directors for consideration. Mr. Bauman subsequently filed a putative derivative action in Kentucky state court as described below.

On February 8, 2013, another purported shareholder of the Company (Jennifer Zona) filed a putative derivative action in the U.S. District Court for the Central District of California against various officers and directors of the Company asserting breaches of fiduciary duty in connection with an alleged scheme to mislead investors about the Company's growth prospects in

China. The shareholder plaintiff did not first submit a demand on the board of directors of the Company to bring this action as required under North Carolina law, and on February 13, 2013, the shareholder plaintiff requested voluntary dismissal of the complaint. The case has been designated as “closed” on the court's docket. Ms. Zona subsequently submitted a letter similar to the letters described in the prior paragraph and later filed an action in Federal court in Kentucky as described below.

On May 9, 2013, Mr. Bauman filed a putative derivative action in Jefferson Circuit Court, Commonwealth of Kentucky against various officers and directors of the Company asserting breaches of fiduciary duty in connection with an alleged failure to implement proper controls in the Company's purchases of poultry from suppliers to the Company's China operations and with an alleged scheme to mislead investors about the Company's growth prospects in China. This action is currently stayed pending the completion of the consideration and inquiry of the committee of the Board of Directors. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On May 21, 2013, Ms. Zona filed a putative derivative action in the U.S. District Court for the Western District of Kentucky against various officers and directors of the Company asserting claims similar to those asserted by Mr. Bauman. The parties submitted a motion to reassign the case to the same judge that the securities class action is before, which was granted on June 18, 2013. Defendants' answers or responsive pleadings are due on August 9, 2013. A reasonable

estimate of the amount of any possible loss or range of loss cannot be made at this time.

Taco Bell was named as a defendant in a number of putative class action suits filed in 2007, 2008, 2009 and 2010 alleging violations of California labor laws including unpaid overtime, failure to timely pay wages on termination, failure to pay accrued vacation wages, failure to pay minimum wage, denial of meal and rest breaks, improper wage statements, unpaid business expenses, wrongful termination, discrimination, conversion and unfair or unlawful business practices in violation of California Business & Professions Code §17200. Some plaintiffs also seek penalties for alleged violations of California's Labor Code under California's Private Attorneys General Act as well as statutory “waiting time” penalties and allege violations of California's Unfair Business Practices Act. Plaintiffs seek to represent a California state-wide class of hourly employees.

On May 19, 2009 the court granted Taco Bell's motion to consolidate these matters, and the consolidated case is styled In Re Taco Bell Wage and Hour Actions. The In Re Taco Bell Wage and Hour Actions plaintiffs filed a consolidated complaint in June 2009, and in March 2010 the court approved the parties' stipulation to dismiss the Company from the action. Plaintiffs filed their motion for class certification on the vacation and final pay claims in December 2010, and on September 26, 2011 the court issued its order denying the certification of the vacation and final pay claims. Plaintiffs then sought to certify four separate meal and rest break classes. On January 2, 2013, the District Court rejected three of the proposed classes but granted certification with respect to the late meal break class.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On September 28, 2009, a putative class action styled Marisela Rosales v. Taco Bell Corp. was filed in Orange County Superior Court. The plaintiff, a former Taco Bell crew member, alleges that Taco Bell failed to timely pay her final wages upon termination and seeks restitution and late payment penalties on behalf of herself and similarly situated employees. This case appears to be duplicative of the In Re Taco Bell Wage and Hour Actions case described above. Taco Bell filed a motion to dismiss, stay or transfer the case to the same district court as the In Re Taco Bell Wage and Hour

Actions case. The state court granted Taco Bell's motion to stay the Rosales case on May 28, 2010. After the September 2011 denial of class certification in the In Re Taco Bell Wage and Hour Actions, the court granted plaintiff leave to amend her lawsuit, which plaintiff filed and served on January 4, 2012. Taco Bell filed its responsive pleading on February 8, 2012, and plaintiff has since filed two additional amended complaints. On May 22, 2013, the parties agreed to settle this matter. The parties are in the process of submitting the settlement to the court for approval. The costs associated with the settlement were not material.

On December 17, 2002, Taco Bell was named as the defendant in a class action lawsuit filed in the U.S. 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 alleging, 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 200 Company-owned restaurants in California 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 do not comply with the U.S. Americans with Disabilities Act (the "ADA"), the Unruh Civil Rights Act (the "Unruh Act"), and the California Disabled Persons Act (the "CDPA"). Plaintiffs have requested: (a) an injunction from the District Court ordering Taco Bell to comply with the ADA and its implementing regulations; (b) that the District Court declare Taco Bell in violation of the ADA, the Unruh

Act, and the CDPA; and (c) monetary relief under the Unruh Act or CDPA. Plaintiffs, on behalf of the class, are seeking the minimum statutory damages per offense of either $4,000 under the Unruh Act or $1,000 under the CDPA for each aggrieved member of the class. Plaintiffs contend that there may be in excess of 100,000 individuals in the class. In February 2004, the District Court granted plaintiffs' motion for class certification. The class included claims for injunctive relief and minimum statutory damages.

In May 2007, a hearing was held on plaintiffs' Motion for Partial Summary Judgment seeking judicial declaration that Taco Bell was in violation of accessibility laws as to three specific issues: indoor seating, queue rails and door opening force. In August 2007, the court granted plaintiffs' motion in part with regard to dining room seating. In addition, the court granted plaintiffs' motion in part with regard to door opening force at some restaurants (but not all) and denied the motion with regard to queue lines.

On December 16, 2009, the court denied Taco Bell's motion for summary judgment on the ADA claims and ordered plaintiffs to select one restaurant to be the subject of a trial. The trial for the exemplar restaurant began on June 6, 2011, and on October 5, 2011 the court issued Findings of Fact and Conclusions of Law ruling that plaintiffs established that classwide injunctive relief was warranted with regard to maintaining compliance as to corporate Taco Bell restaurants in California. The court declined to order injunctive relief at the time, however, citing the pendency of Taco Bell's motions to decertify both the injunctive and

damages class. The court also found that twelve specific items at the exemplar store were once out of compliance with applicable state and/or federal accessibility standards.

Taco Bell filed a motion to decertify the class in August 2011, and in July 2012, the court granted Taco Bell's motion to decertify the previously certified state law damages class but denied Taco Bell's motion to decertify the ADA injunctive relief class. On September 13, 2012, the court set a discovery and briefing schedule concerning the trials of the four individual plaintiffs' state law damages claims, which the court stated will be tried before holding further proceedings regarding the possible issuance of an injunction. On September 17, 2012, the court issued an order modifying its October 2011 Findings of Facts and Conclusions of Law deleting the statement that an injunction was warranted. Plaintiffs appealed that order, and on June 24, 2013 the Ninth Circuit Court of Appeals dismissed plaintiff's appeal.

Taco Bell denies liability and intends to vigorously defend against all claims in this lawsuit. Taco Bell has taken steps to address potential architectural and structural compliance issues at the restaurants in accordance with applicable state and federal disability access laws. The costs associated with addressing these issues have not significantly impacted our results of operations. We have provided for a reasonable estimate of the possible loss relating to this lawsuit. However, in view of the inherent uncertainties of litigation, there can be no assurance that this lawsuit will not result in losses in excess of those currently provided for in our Condensed Consolidated Financial Statements. A reasonable estimate of the amount of any possible loss or range of loss in excess of that currently provided for in our Condensed Consolidated Financial Statements cannot be made at this time.

On July 9, 2009, a putative class action styled Mark Smith v. Pizza Hut, Inc. was filed in the U.S. District Court for the District of Colorado. The complaint alleged that Pizza Hut did not properly reimburse its delivery drivers for various automobile costs, uniforms costs, and other job-related expenses and seeks to represent a class of delivery drivers nationwide under the Fair Labor Standards Act (FLSA) and Colorado state law. On January 4, 2010, plaintiffs filed a motion for conditional certification of a nationwide class of current and former Pizza Hut, Inc. delivery drivers. However, on March 11, 2010, the court granted Pizza Hut's pending motion to dismiss for failure to state a claim, with leave to amend. On March 31, 2010, plaintiffs filed

an amended complaint, which dropped the uniform claims but, in addition to the federal FLSA claims, asserted state-law class action claims under the laws of sixteen different states. Pizza Hut filed a motion to dismiss the amended complaint, and plaintiffs sought leave to amend their complaint a second time. On August 9, 2010, the court granted plaintiffs' motion to amend. Pizza Hut filed another motion to dismiss the Second Amended Complaint. On July 15, 2011, the Court granted Pizza Hut's motion with respect to plaintiffs' state law claims but allowed the FLSA claims to go forward. Plaintiffs filed their Motion for Conditional Certification on August 31, 2011, and the Court granted plaintiffs' motion April 21, 2012. The opt-in period closed on August 23, 2012, and the parties are working to finalize the list of opt-ins. The final number has yet to be determined but is expected to be approximately 6,000.

Pizza Hut denies liability and intends to vigorously defend against all claims in this lawsuit. A reasonable estimate of the amount of any possible loss or range of loss cannot be made at this time.

On August 6, 2010, a putative class action styled Jacquelyn Whittington v. Yum Brands, Inc., Taco Bell of America, Inc. and Taco Bell Corp. was filed in the U.S. District Court for the District of Colorado. The plaintiff seeks to represent a nationwide class, with the exception of California, of salaried assistant managers who were allegedly misclassified and did not receive compensation for all hours worked and did not receive overtime pay after 40 hours worked in a week. The Company has been dismissed from the case without prejudice. Taco Bell

filed its answer on September 20, 2010, and the parties commenced class discovery. On September 16, 2011, plaintiffs filed their motion for conditional certification under the FLSA. The court heard plaintiffs' motion for conditional certification under the FLSA on January 10, 2012, granted conditional certification and ordered the notice of the opt-in class be sent to the putative class members. Approximately 488 individuals submitted opt-in forms. On June 14, 2013, the parties agreed to settle this matter. The parties are in the process of submitting the settlement to the court for approval. The costs associated with the settlement were not material.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction and Overview

The following Management's Discussion and Analysis ("MD&A") should be read in conjunction with the unaudited Condensed Consolidated Financial Statements ("Financial Statements"), the Cautionary Note Regarding Forward-Looking Statements and our annual report on Form 10-K for the fiscal year ended December 29, 2012 ("2012 Form 10-K"). Throughout the MD&A, YUM! Brands, Inc. ("YUM" or the "Company") makes reference to certain performance measures as described below.

- The Company provides the percentage changes excluding the impact of foreign currency translation ("FX" or "Forex"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the foreign currency translation impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.
- System sales growth includes the results of all restaurants regardless of ownership, including Company-owned, franchise, unconsolidated affiliate and license restaurants that operate our concepts, except for non-company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise, unconsolidated affiliate and license restaurants generate ongoing franchise and license fees for the Company (typically at a rate of 4% to 6% of sales). Franchise, unconsolidated affiliate and license

restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise and license fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit development.

- Same-store sales is the estimated growth in system sales of all restaurants that have been open and in the YUM system one year or more.
- Company restaurant profit is defined as Company sales less expenses incurred directly by our Company restaurants in generating Company sales. Company restaurant margin as a percentage of sales is defined as Company restaurant profit divided by Company sales.
- Operating margin is defined as Operating Profit divided by Total revenues.

All Note references herein refer to the accompanying Notes to the Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding.

Description of Business

YUM is the world's largest quick-service restaurant ("QSR") company in terms of system restaurants, with over 39,000 restaurants in more than 130 countries and territories operating primarily under the KFC, Pizza Hut or Taco Bell brands. The Company's primary restaurant brands – KFC, Pizza Hut and Taco Bell – are the

global leaders in the quick-service chicken, pizza and Mexican-style food categories, respectively. Of the over 39,000 restaurants, 75% are operated by franchisees and unconsolidated affiliates, 20% are operated by the Company and 5% are operated by licensees.

YUM's business consists of four reporting segments: YUM China ("China" or "China Division"), YUM Restaurants International ("YRI" or "International Division"), United States ("U.S." or "U.S. Division") and YUM Restaurants India ("India" or "India Division"). The China Division includes mainland China and the India Division includes India, Bangladesh, Mauritius, Nepal and Sri Lanka. YRI includes the remainder of our international operations. The China Division, YRI and Taco Bell-U.S. now represent approximately 85% of the Company's segment operating profits.

22

Strategies

The Company continues to focus on four key strategies:

Build Leading Brands in China in Every Significant Category – The Company has developed the KFC and Pizza Hut brands into the leading quick service and casual dining restaurant brands, respectively, in mainland China. Additionally, the Company owns and operates the distribution system for its restaurants in China which we believe provides a significant competitive advantage. Given this strong competitive position, a growing economy and a population of 1.3 billion in mainland China, the Company is rapidly adding KFC and Pizza Hut Casual Dining restaurants and testing the additional restaurant concepts of Pizza Hut Home Service (pizza delivery) and East Dawning (Chinese food). Additionally, on February 1, 2012 we acquired an additional 66% interest in Little Sheep Group Ltd. ("Little Sheep"), a leading casual dining concept in China. This acquisition brought our total ownership to approximately 93% of the business. Our ongoing earnings growth model in China includes double-digit percentage unit growth, mid-teen system sales growth, mid-single digit same-store sales growth and moderate leverage of our General and Administrative ("G&A") infrastructure, which we expect to drive Operating Profit growth of 15%.

Drive Aggressive International Expansion and Build Strong Brands Everywhere – Outside the U.S. and China the Company and its franchisees opened over 1,000 new restaurants in 2012, representing 13

straight years of opening over 700 restaurants, and the Company is one of the leading international retail developers in terms of units opened. The Company expects to continue to experience strong growth by building out existing markets and growing in new markets including India, France, Germany, Russia and across Africa. As of the year ended 2012, the International Division's Operating Profit has experienced a 10-year compound annual growth rate of 12%. Our ongoing earnings growth model for YRI includes Operating Profit growth of 10% driven by 3-4% unit growth, system sales growth of 6%, at least 2-3% same-store sales growth, margin improvement and leverage of our G&A infrastructure.

Dramatically Improve U.S. Brand Positions, Consistency and Returns – The Company continues to focus on improving its U.S. position through differentiated products and marketing and an improved customer experience. The Company also strives to provide industry-leading new product innovation which adds sales layers and expands day parts. We continue to evaluate our returns and ownership positions with an earn-the-right-to-own philosophy on Company-owned restaurants. Our ongoing earnings growth model for the U.S. calls for Operating Profit growth of 5% driven by same-store sales growth of at least 2%, margin improvement and leverage of our G&A infrastructure.

Drive Industry-Leading, Long-Term Shareholder and Franchisee Value – The Company is focused on delivering high returns and returning substantial cash flows to its shareholders through dividends and share repurchases. The Company has one of the highest returns on invested

capital in the QSR industry. The Company's dividend and share repurchase programs have returned over $3.0 billion and $8.0 billion to shareholders, respectively, since 2004. The Company targets an annual dividend payout ratio of 35% to 40% of net income and has increased the quarterly dividend at a double-digit percentage rate each year since first initiating a dividend in 2004. Shares are repurchased opportunistically as part of our regular capital structure decisions.

The ongoing earnings growth rates referenced above represent our average annual targets for the next several years. Consistent with these ongoing earnings growth rates, in December 2012 we indicated our expectation of at least 10% EPS growth for 2013. We subsequently lowered our 2013 full year expectations in February 2013. See the China Poultry Supply Incident and Avian Flu section within the Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results section of this MD&A for further discussion.

Quarter Ended June 15, 2013
Highlights

Worldwide system sales grew 1%, prior to foreign currency translation, including 6% at YRI and 2% in the U.S. System sales declined 12% in China.

China Division sales and profits were significantly impacted by adverse publicity surrounding Avian flu, as well as the residual effect of the December poultry supply incident. See our 2012 Form 10-K for further discussion of the December poultry supply incident.

Same-store sales declined 20% in China. Same-store sales grew 1% at YRI and 1% in the U.S.

Total international development was 315 new restaurants; 76% of this development occurred in emerging markets.

Worldwide restaurant margin declined 2.7 percentage points to 12.5%, including a decline of 5.0 percentage points in China. Restaurant margin increased 0.8 percentage points at YRI and 0.8 percentage points in the U.S.

Worldwide operating profit declined 20%, prior to foreign currency translation, including a 63% decline in China. Operating profit grew 12% at YRI and 4% in the U.S.

Worldwide effective tax rate, prior to Special Items, decreased to 22.1% from 23.9%. The decrease in the tax rate positively impacted year-over-year EPS results by 2 percentage points.

All preceding comparisons are versus the same period a year ago and exclude the impact of Special Items. See the Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results section of this MD&A for a description of Special Items.

Results of Operations

	Quarter ended			Year to d
	6/15/2013	6/16/2012	% B/(W)	6/15/201
Company sales	$2,474	$2,762	(10)	$4,573
Franchise and license fees and income	430	406	6	866
Total revenues	$2,904	$3,168	(8)	$5,439
Company restaurant profit	$310	$423	(27)	$643
% of Company sales	12.5 %	15.3 %	(2.8) ppts.	14.0 %
Operating Profit	$390	$473	(17)	$877
Interest expense, net	32	38	13	63
Income tax provision	82	102	21	202
Net Income – including noncontrolling interests	$276	$333	(17)	$612
Net Income (loss) – noncontrolling interests	(5)	2	NM	(6)
Net Income – YUM! Brands, Inc.	$281	$331	(15)	$618
Diluted earnings per share [a]	$0.61	$0.69	(13)	$1.33

(a)

See Note 2 for the number of shares used in this calculation.

Significant Known Events, Trends or Uncertainties Impacting or Expected to Impact Comparisons of Reported or Future Results

The following factors impacted comparability of operating performance for the quarters and/or years to date ended June 15, 2013 and June 16, 2012 and/or could impact comparability with the remainder of our results in 2013 or beyond. Certain of these factors were previously discussed in our 2012 Form 10-K.

Special Items

In addition to the results provided in accordance with Generally Accepted Accounting Principles in the United States ("GAAP") above and throughout this document, the Company has provided non-GAAP measurements which present operating results in 2013 and 2012 on a basis before Special Items. Included in Special Items are the U.S. refranchising gain (loss), the gain upon acquisition of Little Sheep and the losses associated with the refranchising of the Pizza Hut UK dine-in business. Other Special Items Income (Expense) in 2012 includes the depreciation reductions from Pizza Hut UK and KFC U.S. restaurants impaired upon our decision or offer to refranchise that remained Company stores for some or all of the periods presented, gains from real estate sales related to our previously refranchised Mexico business and charges relating to U.S. G&A productivity initiatives and realignment of resources.

The Company uses earnings before Special Items as a key performance measure of results of operations for the purpose of evaluating performance internally and Special Items are not included in any of our segment results. 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 in the quarters and years to date ended June 15, 2013 and June 16, 2012 that the Company does not believe are indicative of our

ongoing operations due to their size and/or nature.

	Quarter ended		Year to date	
	6/15/2013	6/16/2012	6/15/2013	6/16/2012
Detail of Special Items				
U.S. Refranchising gain (loss)	$28	$9	$45	$54
Gain upon acquisition of Little Sheep	—	—	—	74
Losses associated with refranchising the Pizza Hut UK dine-in business	—	(2)	—	(23)
Other Special Items	—	7	—	10
Total Special Items Income (Expense)	28	14	45	115
Tax Benefit (Expense) on Special Items[(a)]	(9)	(2)	(15)	(9)
Special Items Income (Expense), net of tax	$19	$12	$30	$106
Average diluted shares outstanding	464	477	464	478
Special Items diluted EPS	$0.05	$0.02	$0.07	$0.22
Reconciliation of Operating Profit Before Special Items to Reported Operating Profit				
Operating Profit before Special Items	$362	$459	$832	$1,003
Special Items Income	28	14	45	115

(Expense)				
Reported Operating Profit	$390	$473	$877	$1,118
Reconciliation of EPS Before Special Items to Reported EPS				
Diluted EPS before Special Items	$0.56	$0.67	$1.26	$1.43
Special Items EPS	0.05	0.02	0.07	0.22
Reported EPS	$0.61	$0.69	$1.33	$1.65
Reconciliation of Effective Tax Rate Before Special Items to Reported Effective Tax Rate				
Effective Tax Rate before Special Items	22.1 %	23.9 %	24.4 %	25.9 %
Impact on Tax Rate as a result of Special Items[(a)]	0.6 %	(0.2)%	0.4 %	(2.0)
Reported Effective Tax Rate	22.7 %	23.7 %	24.8 %	23.9 %

(a) The tax benefit (expense) was determined based upon the impact of the nature, as well as the jurisdiction of the respective individual components within Special Items.

25

U.S. Refranchising Gain (Loss)

In the quarters ended June 15, 2013 and June 16, 2012, we recorded net pre-tax refranchising gains of $28 million and $9 million, respectively, in the U.S., primarily related to Taco Bell. In the years to date ended June 15, 2013 and June 16, 2012, we recorded net pre-tax refranchising gains of $45 million and $54 million, respectively, in the U.S., primarily related to Taco Bell. Refranchising activity is more fully discussed in Note 4 and the Store Portfolio Strategy Section of this MD&A.

Little Sheep Acquisition

On February 1, 2012 we acquired an additional 66% interest in Little Sheep for $540 million, net of cash acquired of $44 million, increasing our ownership to 93%. The acquisition was driven by our strategy to build leading brands across China in every significant category. Prior to our acquisition of this additional interest, our 27% interest in Little Sheep was accounted for under the equity method of accounting. As a result of the acquisition we obtained voting control of Little Sheep, and thus we began consolidating Little Sheep upon acquisition. As required by GAAP, we remeasured our previously held 27% ownership in the entity, which had a recorded value of $107 million at the date of acquisition, at fair value based on Little Sheep's traded share price immediately prior to our offer to purchase the business and recognized a non-cash gain of $74 million, which resulted in no related income tax expense.

Pizza Hut United Kingdom ("UK") Refranchising

During the fourth quarter of 2012, we refranchised our remaining 331 Company-owned Pizza Hut dine-in restaurants in the UK. The franchise agreement for these stores allows the franchisee to pay continuing franchise fees in the initial years of the agreement at a reduced rate. We agreed to allow the franchisee to pay these reduced fees in part as consideration for their assumption of lease liabilities related to underperforming stores that we anticipate they will close that were part of the refranchising. We recognize the estimated value of terms in franchise agreements entered into concurrently with a refranchising transaction that are not consistent with market terms as part of the upfront refranchising gain (loss). Accordingly, upon the closing of this refranchising in the fourth quarter of 2012, we recognized a loss of $53 million representing the estimated value of these reduced continuing fees. The associated deferred credit is being amortized into YRI's Franchise and license fees and income over the next 4 years, including $3 million and $7 million in the quarter and year to date ended June 15, 2013, respectively. For the quarter ended June 15, 2013, the refranchising of the Pizza Hut UK dine-in restaurants decreased Company sales by 18% and increased Franchise and license fees and income and Operating Profit by 2% and 3%, respectively, for the YRI Division. For the year to date ended June 15, 2013, the refranchising of the Pizza Hut UK dine-in restaurants decreased Company sales by 19% and increased Franchise and license fees and income and Operating Profit by 2% and 3%, respectively, for the YRI Division.

During the year to date ended June 16, 2012 we recorded pre-tax losses of $23 million and a $4 million related income tax benefit due to the then planned refranchising of the remaining Company-owned Pizza Hut UK dine-in restaurants.

China Poultry Supply Incident and Avian Flu

In late December 2012 our KFC China sales began to be negatively impacted by intense media attention surrounding the poultry supply incident in China, as further described in our 2012 Form 10-K. As a result our KFC China same-store sales in the quarter ended March 23, 2013 (January and February for the China Division) declined 24%. KFC China sales were further negatively impacted beginning in April by the intense media surrounding Avian Flu in China. The combination of the intense media surrounding Avian Flu and the residual effect of the December poultry supply incident resulted in our second quarter (March through May for the China Division) KFC China same-store sales declining 26%. Largely driven by the resulting sales de-leverage, China Division restaurant margins declined 5.0 and 5.9 percentage points for the quarter and year to date ended June 15, 2013, respectively. China Division Operating Profit also declined by 63% and 50%, prior to foreign currency translation, for the quarter and year to date ended June 15, 2013, respectively. Given the significance of our China Division results to our overall results, our EPS before Special Items declined 16% and 12% in the quarter and year to date ended June 15, 2013, respectively.

The extensive media surrounding Avian flu in China has now subsided and our KFC China same-store sales improved in June, declining 13% compared to a 26% decline in the second quarter. Such improvement was in line with our previous recovery estimates. While it is difficult to forecast the timing and extent of any additional recovery for the balance of the year in our KFC China sales, we continue to estimate that our China Division same-store sales will be positive for the fourth quarter of 2013.

We previously estimated that EPS before Special Items would experience a mid-single digit percentage decline in 2013. Our EPS results for the first two quarters of the year have been largely consistent with our expectations and our estimate for balance of year China Division same-store sales remains unchanged. Accordingly, a mid-single digit percentage decline continues to be our best estimate for our full year EPS.

Little Sheep Results

We began consolidating Little Sheep in 2012 upon acquiring an additional 66% interest in the business, increasing our ownership to 93% from 27%. Upon consolidation our balance sheet reflected net Little Sheep assets of $765 million, including an indefinite-lived trademark and goodwill of approximately $400 million and $375 million, respectively. The purchase price paid for the additional 66% interest and the resulting purchase price allocation reflected both same-store sales growth and new-unit development for the brand that have not yet materialized to the extent forecasted. Sales growth was negatively impacted initially by a longer than expected purchase approval and ownership transition phase. More recently, negative publicity from quality issues with other hot pot concepts in China has further significantly impacted sales at Little Sheep, even though there never was an issue with the quality of Little Sheep products.

Our accounting policy requires that we evaluate indefinite-lived intangible assets and goodwill for impairment on an annual basis in the fourth quarter of each year, or more often if an event occurs or circumstances change that indicates impairment might exist. While we continue to have confidence in the long-term potential of Little Sheep, if the negative business trends continue it may result in a determination that the fair value of the Little Sheep trademark, reporting unit, which includes all of the aforementioned goodwill, or both are currently less than their carrying value. If such a determination were made, we

anticipate that any non-cash impairment would be recorded as a Special Item within our financial statements, consistent with the classification of the $74 million gain that was recorded in 2012 (see further discussion of this gain within the Special Items section of this MD&A).

Given the size of Little Sheep relative to our overall China business, the Little Sheep ongoing operating results have not and are not expected to materially affect our ongoing financial results.

Turkey Restaurant Acquisition

In April 2013, we acquired 65 KFC and 41 Pizza Hut restaurants from an existing franchisee in Turkey for $86 million of cash and a potential payment of up to $19 million to be made in 2016 based on results of the business through 2015.

Impact of Foreign Currency Translation on Operating Profit

Changes in foreign currency exchange rates positively impacted the translation of our foreign currency denominated Operating Profit in our China Division by $1 million and $3 million for the quarter and year to date ended June 15, 2013, respectively, while foreign currency exchange rates negatively impacted Operating profit in our YRI Division by $5 million for both the quarter and year to date ended June 15, 2013.

Store Portfolio Strategy

From time to time we sell Company restaurants to existing and new franchisees where geographic synergies can be obtained or where franchisees’ expertise can generally be leveraged to improve our overall

operating performance, while retaining or acquiring Company ownership of strategic U.S. and international markets in which we choose to continue investing capital.

The following table summarizes our worldwide refranchising activities:

	Quarter ended		Year to date	
	6/15/2013	6/16/2012	6/15/2013	6/16/2012
Number of units refranchised	69	61	161	200
Refranchising proceeds, pre-tax	$74	$30	$155	$132
Refranchising (gain) loss, pre-tax	$(32)	$(13)	$(49)	$(39)

Refranchisings reduce our reported revenues and restaurant profits and increase the importance of system sales growth as a key performance measure. Additionally, G&A expenses will decline and Franchise and license expenses can increase over time as a result of these refranchising activities. The timing of G&A declines will vary and often lag the actual refranchising activities as the synergies are typically dependent upon the size and geography of the respective deals. G&A expenses included in the tables below reflect only direct G&A that we no longer incurred as a result of stores that were operated by us for all or some portion of the respective comparable period in 2012 and were no longer operated by us as of the last day of the respective current quarter.

The impact on Operating Profit arising from refranchising is the net of (a) the estimated reductions in Restaurant profit and G&A expenses and (b) the increase in franchise fees and expenses from the restaurants

that have been refranchised. The tables presented below reflect the impacts on Total revenues and on Operating Profit from stores that were operated by us for all or some portion

27

of the respective prior year period and were no longer operated by us as of the last day of the respective current quarter. In these tables, Decreased Company sales and Decreased Restaurant profit represents the amount of Company sales or Restaurant profit earned by the refranchised restaurants during the period we owned them in the prior year but did not own them in the current year. Increased Franchise and license fees and income represents the franchise and license fees and rent income from the refranchised restaurants that were recorded by the Company in the current year during periods in which the restaurants were Company stores in the prior year. Increased Franchise and license expenses represent primarily rent expense and depreciation where we continue to own or lease the underlying property for the refranchised restaurants that were recorded by the Company in the current year during periods in which the restaurants were Company stores in the prior year.

The following tables summarize the impact of refranchising on Total revenues as described above:

	Quarter ended 6/15/13				
	China	YRI	U.S.	India	Worldwide
Decreased Company sales	$(14)	$(107)	$(126)	$—	$(247)
Increased Franchise and license fees and income	2	5	9	—	16
Decrease in Total revenues	$(12)	$(102)	$(117)	$—	$(231)

	Year to date 6/15/13				
	China	YRI	U.S.	India	Worldwide
Decreased Company sales	$(26)	$(212)	$(262)	$—	$(500)
Increased Franchise and license fees and income	3	10	18	—	31
Decrease in Total revenues	$(23)	$(202)	$(244)	$—	$(469)

28

The following tables summarize the impact of refranchising on Operating Profit as described above:

	Quarter ended 6/15/13				
	China	YRI	U.S.	India	Worldwide
Decreased Restaurant profit	$(1)	$(5)	$(16)	$—	$(22)
Increased Franchise and license fees and income	2	5	9	—	16
Increased Franchise and license expenses	(1)	—	(1)	—	(2)
Decreased G&A	—	5	2	—	7
(Decrease) Increase in Operating Profit	$—	$5	$(6)	$—	$(1)

	Year to date 6/15/13				
	China	YRI	U.S.	India	Worldwide
Decreased Restaurant profit	$(3)	$(9)	$(29)	$—	$(41)
Increased Franchise and license fees and income	3	10	18	—	31
Increased Franchise and license expenses	(2)	(1)	(2)	—	(5)
Decreased G&A	—	10	4	—	14
(Decrease) Increase in Operating Profit	$(2)	$10	$(9)	$—	$(1)

Internal Revenue Service Proposed Adjustment

On June 23, 2010, the Company received a Revenue Agent Report (RAR) from the Internal Revenue Service (the "IRS") relating to its examination of our U.S. federal income tax returns for fiscal years 2004 through 2006. The IRS has proposed an adjustment to increase the taxable value of rights to intangibles used outside the U.S. that YUM transferred to certain of its foreign subsidiaries. The proposed adjustment would result in approximately $700 million of additional taxes plus net interest to date of approximately $235 million for fiscal years 2004-2006. On January 9, 2013, the Company received an RAR from the IRS for fiscal years 2007 and 2008. As expected, the IRS proposed an adjustment similar to their proposal for 2004-2006 that would result in approximately $270 million of additional taxes plus net interest to date of approximately $35 million for fiscal years 2007 and 2008. Furthermore, the Company expects the IRS to make similar claims for years subsequent to fiscal 2008. The potential additional taxes for 2009 through 2012, computed on a similar basis to the 2004-2008 additional taxes, would be approximately $130 million plus net interest to date of approximately $5 million.

We believe that the Company has properly reported taxable income and paid taxes in accordance with applicable laws and that the proposed adjustments are inconsistent with applicable income tax laws, Treasury Regulations and relevant case law. We intend to defend our position vigorously and have filed a protest with the IRS. As the final resolution of the proposed adjustments remains uncertain, the Company will continue to provide

for its position in accordance with GAAP. There can be no assurance that payments due upon final resolution of this issue will not exceed our currently recorded reserve and such payments could have a material, adverse effect on our financial position. Additionally, if increases to our reserves are deemed necessary due to future developments related to this issue, such increases could have a material, adverse effect on our results of operations as they are recorded. The Company does not expect resolution of this matter within twelve months and cannot predict with certainty the timing of such resolution.

Restaurant Unit Activity

Worldwide	Franchisees	Company	Unconsolidated Affiliates	Total Excluding Licensees (a)
Beginning of year	28,608	7,578	660	36,846
New Builds	424	373	24	821
Acquisitions	(125)	125	—	—
Refranchising	161	(161)	—	—
Closures	(284)	(88)	(5)	(377)
Other	6	—	—	6
End of quarter	28,790	7,827	679	37,296
% of Total	77 %	21 %	2 %	100 %

China	Franchisees	Company	Unconsolidated Affiliates	Total Excluding Licensees
Beginning of year	519	4,547	660	5,726
New Builds	2	300	24	326
Acquisitions	—	—	—	—
Refranchising	6	(6)	—	—
Closures	(14)	(51)	(5)	(70)
Other	—	—	—	—
End of quarter	513	4,790	679	5,982
% of Total	9 %	80 %	11 %	100 %

YRI	Franchisees	Company	Unconsolidated Affiliates	Total Excluding Licensees (a)
Beginning of year	13,322	1,178	—	14,500
New Builds	311	41	—	352
Acquisitions	(109)	109	—	—
Refranchising	28	(28)	—	—
Closures	(171)	(16)	—	(187)
Other	—	—	—	—
End of quarter	13,381	1,284	—	14,665
% of Total	91 %	9 %	— %	100 %

United States	Franchisees	Company	Unconsolidated Affiliates	Total Excluding Licensees[(a)]
Beginning of year	14,294	1,733	—	16,027
New Builds	99	27	—	126
Acquisitions	(16)	16	—	—
Refranchising	127	(127)	—	—
Closures	(89)	(18)	—	(107)
Other	6	—	—	6
End of quarter	14,421	1,631	—	16,052
% of Total	90 %	10 %	— %	100 %

India	Franchisees	Company	Unconsolidated Affiliates	Total Excluding Licensees
Beginning of year	473	120	—	593
New Builds	12	5	—	17
Acquisitions	—	—	—	—
Refranchising	—	—	—	—
Closures	(10)	(3)	—	(13)
Other	—	—	—	—
End of quarter	475	122	—	597
% of Total	80 %	20 %	— %	100 %

(a) The Worldwide, YRI and U.S. totals exclude 2,131, 127 and 2,004 licensed units, respectively, at June 15, 2013. While there are no licensed units in China, we have excluded from the Worldwide and China totals 7 Company-owned units that are similar to licensed units. There are no licensed units in India. The units excluded offer limited menus and operate in non-traditional locations like malls, airports, gasoline service stations, train stations, subways, convenience stores, stadiums and amusement parks where a full scale traditional outlet would not be practical or efficient. As licensed units have lower average unit sales volumes than our

traditional units and our current strategy does not place a significant emphasis on expanding our licensed units, we do not believe that providing further detail of licensed unit activity provides significant or meaningful information at this time.

System Sales Growth

The following table details the key drivers of system sales growth for each reportable segment for the quarter and year to date ended June 15, 2013 vs. June 16, 2012. Net unit growth and other represents the net impact of actual system sales growth due to new unit openings and historical system sales lost due to closures as well as any necessary rounding.

31

	Quarter ended 6/15/13 vs. Quarter ended 6/16/12				
	China	YRI	U.S.	India[a]	Worldwide
Same-store sales growth (decline)	(20)%	1%	1%	7%	(2)%
Net unit growth and other	8	5	1	24	3
Foreign currency translation	2	(4)	N/A	(9)	(1)
% Change	(10)%	2%	2%	22%	—%
% Change, excluding forex	(12)%	6%	N/A	31%	1%

	Year to date 6/15/13 vs. Year to date 6/16/12				
	China	YRI	U.S.	India[a]	Worldwide
Same-store sales growth (decline)	(20)%	1%	1%	(2)%	(3)%
Net unit growth and other	10	4	1	21	4
Foreign currency translation	1	(2)	N/A	(7)	(1)
% Change	(9)%	3%	2%	12%	—%
% Change, excluding forex	(10)%	5%	N/A	19%	1%

(a) At the beginning of fiscal 2013, we eliminated the period lag that we previously used to facilitate the reporting of our India Division's results. Accordingly, the India Division's 2013 second quarter results include the months of March through May 2013 and the 2013 year to date results include the months of January through May 2013. Due to the immateriality of the India

Division's results we did not restate the prior year operating results for the elimination of this period lag and therefore the 2012 second quarter results continue to include the months of February through April 2012 and the 2012 year to date results include the months of December 2011 through April 2012. Additionally, the table above compares these months. If we had compared like months in 2013 to 2012, India Division system sales, excluding the impact of foreign currency translation, and same-store sales would have been lower by 7% and 5%, respectively, for the quarter ended June 15, 2013 and India Division system sales, excluding the impact of foreign currency translation, and same-store sales would have been higher by 2% and 3%, respectively for the year to date ended June 15, 2013.

Company Operated Store Results

The following tables detail the key drivers of the quarter-over-quarter and year-over-year changes of Company sales and Restaurant profit for each reportable segment.

Store portfolio actions represent the net impact of new unit openings, acquisitions, refranchisings and store closures on Company sales or Restaurant profit. The impact of new unit openings and acquisitions represent the actual Company sales and Restaurant profit for the periods the Company operated the restaurants in the current year but did not operate them in the prior year. The impact of refranchisings and store closures represent the actual Company sales and Restaurant profit for the periods in the prior year while the Company operated the restaurants but did not operate them in the current year.

The impact on Company sales within the Other column primarily represents the impact of same-store sales. The impact on Cost of sales, Cost of labor and Occupancy and other within the Other column represents the impact of same-store sales, as well as the impact of changes in costs such as inflation/deflation. The impact on costs from same-store sales varies to the extent the same-store sales change is due to a change in pricing, the number of transactions or sales mix.

32

The dollar changes in Company sales and Restaurant profit were as follows:

China

	Quarter ended				
Income / (Expense)	6/16/2012	Store Portfolio Actions	Other	FX	6/15/2013
Company sales	$1,535	$132	$(268)	$30	$1,429
Cost of sales	(536)	(41)	118	(10)	(469)
Cost of labor	(293)	(31)	12	(7)	(319)
Occupancy and other	(466)	(54)	41	(10)	(489)
Restaurant profit	$240	$6	$(97)	$3	$152
Restaurant Margin	15.6 %				10.6 %

	Year to date				
Income / (Expense)	6/16/2012	Store Portfolio Actions	Other	FX	6/15/2013
Company sales	$2,734	$288	$(503)	$43	$2,562
Cost of sales	(949)	(90)	209	(14)	(844)
Cost of labor	(481)	(68)	9	(10)	(550)
Occupancy and other	(782)	(109)	77	(14)	(828)
Restaurant profit	$522	$21	$(208)	$5	$340
Restaurant Margin	19.1 %				13.2 %

In the quarter ended June 15, 2013, the increase in China Company sales and Restaurant profit associated with store portfolio actions was driven by new-unit development, partially offset by restaurant closures. Significant other factors impacting Company sales and/or Restaurant profit were Company same-store sales declines of 18% and the impact

of wage rate inflation.

In the year to date ended June 15, 2013, the increase in China Company sales and Restaurant profit associated with store portfolio actions was driven by new-unit development and the 2012 acquisition of Little Sheep, partially offset by restaurant closures. Significant other factors impacting Company sales and/or Restaurant profit were Company same-store sales declines of 19% and the impact of wage rate inflation.

33

YRI

Income / (Expense)	Quarter ended 6/16/2012	Store Portfolio Actions	Other	FX	6/15/2013
Company sales	$577	$(69)	$8	$(10)	$506
Cost of sales	(189)	13	(4)	4	(176)
Cost of labor	(145)	24	(1)	2	(120)
Occupancy and other	(175)	28	(2)	3	(146)
Restaurant profit	$68	$(4)	$1	$(1)	$64
Restaurant Margin	11.8 %				12.6 %

Income / (Expense)	Year to date 6/16/2012	Store Portfolio Actions	Other	FX	6/15/2013
Company sales	$1,086	$(154)	$23	$(5)	$950
Cost of sales	(356)	32	(8)	3	(329)
Cost of labor	(275)	51	(2)	1	(225)
Occupancy and other	(325)	62	(10)	1	(272)
Restaurant profit	$130	$(9)	$3	$—	$124
Restaurant Margin	12.0 %				13.1 %

In the quarter and year to date ended June 15, 2013, the decrease in YRI Company sales and Restaurant profit associated with store portfolio actions was driven by the refranchising of our remaining Company-owned Pizza Hut dine-in restaurants in the UK in the fourth quarter of 2012. New-unit development partially offset the decline in sales related to refranchising. Significant other factors impacting Company sales

and/or Restaurant profit was Company same-store sales growth of 2% and 3% in the quarter and year to date ended June 15, 2013, respectively, partially offset by higher restaurant operating costs.

34

U.S.

Income / (Expense)	Quarter ended 6/16/2012	Store Portfolio Actions	Other	6/15/2013
Company sales	$630	$(114)	$(6)	$510
Cost of sales	(182)	35	—	(147)
Cost of labor	(182)	33	2	(147)
Occupancy and other	(156)	31	2	(123)
Restaurant profit	$110	$(15)	$(2)	$93
Restaurant Margin	17.5 %			18.3 %

Income / (Expense)	Year to date 6/16/2012	Store Portfolio Actions	Other	6/15/2013
Company sales	$1,252	$(238)	$1	$1,015
Cost of sales	(364)	73	(1)	(292)
Cost of labor	(375)	73	4	(298)
Occupancy and other	(313)	66	—	(247)
Restaurant profit	$200	$(26)	$4	$178
Restaurant Margin	16.0 %			17.6 %

In the quarter and year to date ended June 15, 2013, the decrease in U.S. Company sales and Restaurant profit associated with store portfolio actions was driven by refranchising, partially offset by new-unit development. Company same-store sales declines of 1% also impacted Company sales in the quarter ended June 15, 2013. Company same-store sales were flat for the year to date ended June 15, 2013.

Franchise and License Fees and Income

	Quarter ended		% Increase (Decrease)	% Increase (Decrease) Excluding FX
	6/15/2013	6/16/2012		
China	$20	$21	(9)	(11)
YRI	207	193	8	11
U.S.	199	188	6	N/A
India	4	4	12	20
Worldwide	$430	$406	6	8

	Year to date		% Increase (Decrease)	% Increase (Decrease) Excluding FX
	6/15/2013	6/16/2012		
China	$38	$40	(7)	(8)
YRI	432	392	10	12
U.S.	389	366	6	N/A
India	7	7	8	15
Worldwide	$866	$805	8	8

35

China Franchise and license fees and income decreased 11% and 8% for the quarter and year to date ended June 15, 2013, respectively, excluding the impact of foreign currency translation. The decreases were due to franchise same-store sales declines partially offset by refranchising.

YRI Franchise and license fees and income increased 11% and 12% for the quarter and year to date ended June 15, 2013, excluding the impact of foreign currency translation. The increases were driven by new-unit development, franchise same-store sales growth and refranchising, primarily the Pizza Hut UK dine-in business in the fourth quarter of 2012. The year to date ended June 15, 2013 increase was also driven by transfer and renewal fees from a major franchise ownership change in the first quarter of 2013.

U.S. Franchise and license fees and income increased 6% for the quarter and year to date ended June 15, 2013. The increases were driven by refranchising and franchise same-store sales growth.

General and Administrative Expenses

	Quarter ended		% Increase (Decrease)	% Increase (Decrease) Excluding FX
	6/15/2013	6/16/2012		
China	$90	$81	9	7
YRI	96	102	(5)	(3)
U.S.	98	116	(14)	N/A
India	8	6	8	16
Unallocated	41	41	—	N/A
Worldwide	$333	$346	(4)	(4)

	Year to date		% Increase (Decrease)	% Increase (Decrease) Excluding FX
	6/15/2013	6/16/2012		
China	$145	$129	12	10
YRI	170	184	(8)	(7)
U.S.	192	212	(9)	N/A
India	12	10	16	23
Unallocated	87	83	6	N/A
Worldwide	$606	$618	(2)	(2)

China G&A expenses for the quarter ended June 15, 2013, excluding the impact of foreign currency translation, increased due to increased compensation costs due to higher headcount and wage inflation.

China G&A expenses for the year to date ended June 15, 2013, excluding the impact of foreign currency translation, increased due to increased compensation costs due to higher headcount and wage inflation and additional G&A as a result of consolidating Little Sheep beginning in the second quarter of 2012.

YRI G&A expenses for the quarter ended June 15, 2013, excluding the impact of foreign currency translation, decreased due to the refranchising of our remaining Company-owned Pizza Hut UK dine-in restaurants in the fourth quarter of 2012 and lapping certain prior year headquarter restructuring costs, partially offset by higher headcount in strategic growth markets.

YRI G&A expenses for the year to date ended June 15, 2013, excluding the impact of foreign currency translation, decreased due to the refranchising of our remaining Company-owned Pizza Hut UK dine-in restaurants in the fourth quarter of 2012, a pension

curtailment gain in the first quarter of 2013 related to one of our UK plans and lapping certain prior year headquarter restructuring costs, partially offset by higher headcount in strategic growth markets.

U.S. G&A expenses for the quarter ended June 15, 2013 decreased due to lapping legal settlement charges recorded in the quarter ended June 16, 2012, a reduction of incentive compensation costs and refranchising.

U.S. G&A expenses for the year to date ended June 15, 2013 decreased due to lapping legal settlement charges recorded in the quarter ended June 16, 2012, refranchising and a reduction of incentive compensation costs.

Unallocated G&A expenses for the quarter ended June 15, 2013 included higher legal and professional fees offset by a reduction of incentive compensation costs.

Unallocated G&A expenses for the year to date ended June 15, 2013 increased due to a pension settlement charge of $10 million in the first quarter of 2013, partially offset by a reduction of incentive compensation costs and lower convention and meeting costs.

Franchise and License Expenses

	Quarter ended		% Increase (Decrease)	% Increase (Decrease) Excluding FX
	6/15/2013	6/16/2012		
China	$ 3	$ 2	46	43
YRI	12	11	17	22
U.S.	18	13	20	N/A
India	1	—	NM	NM
Worldwide	$ 34	$ 26	25	27

	Year to date		% Increase	% Increase

	6/15/2013	6/16/2012	(Decrease)	(Decrease) Excluding FX
China	$5	$ 3	48	46
YRI	24	21	14	15
U.S.	34	28	19	N/A
India	1	—	NM	NM
Worldwide	$64	$ 52	21	21

China Franchise and license expenses for the quarter and year to date ended June 15, 2013, excluding the impact of foreign currency translation, increased due to higher franchise-related rent expense and depreciation as a result of refranchising.

YRI Franchise and license expenses for the quarter and year to date ended June 15, 2013, excluding the impact of foreign currency translation, increased due to higher franchise-related rent expense and depreciation as a result of franchisee new-unit development and refranchising.

U.S. Franchise and license expenses for the quarter and year to date ended June 15, 2013 increased primarily due to lapping a reduction in the provision for past-due receivables and higher current year marketing costs, respectively. Other factors impacting the quarter and year to date ended June 15, 2013 were higher current year franchise-related rent expense and depreciation as a result of refranchising.

Worldwide Other (Income) Expense

	Quarter ended		Year to date	
	6/15/2013	6/16/2012	6/15/2013	6/16/2012
Equity income from investments in unconsolidated affiliates[a]	$3	$(9)	$(4)	$(22)
Gain upon acquisition of Little Sheep[b]	—	—	—	(74)
Foreign exchange net (gain) loss and other[c]	6	2	5	10
Other (income) expense	$9	$(7)	$1	$(86)

(a) Declines from prior year are due to the impact of KFC sales declines in China on net income of our unconsolidated affiliates.

(b) See Note 4 for further discussion of the acquisition of Little Sheep.

(c) The year to date ended June 16, 2012 includes $6 million of deal costs related to the acquisition of Little Sheep that were allocated to the China Division for performance reporting purposes.

Worldwide Closure and Impairment Expense and Refranchising (Gain) Loss

See the Store Portfolio Strategy section for more detail of our refranchising activity and Note 4 for a summary of the Closure and impairment (income) expenses and Refranchising (gain) loss by reportable operating segment.

Operating Profit

	Quarter ended			Year to date	
	6/15/2013	6/16/2012	% B/(W)	6/15/2013	6/
China	$68	$182	(63)	$222	$4
YRI	163	150	8	362	31
U.S.	173	166	4	338	32
India	(4)	(2)	(64)	(6)	(1
Unallocated and General and administrative expenses	(41)	(41)	—	(87)	(8
Unallocated Occupancy and other	—	5	NM	—	9
Unallocated Other income (expense)	(1)	—	NM	(1)	74
Unallocated Refranchising gain (loss)	32	13	NM	49	39
Operating Profit	$390	$473	(17)	$877	$1
China Operating margin	4.7 %	11.6 %	(6.9) ppts.	8.5 %	15
YRI Operating margin	22.8 %	19.5 %	3.3 ppts.	26.2 %	21
U.S. Operating margin	24.5 %	20.4 %	4.1 ppts.	24.1 %	20
India Operating margin	(11.1)%	(9.5)%	(1.6) ppts.	(11.4)%	(3

China Division Operating Profit decreased 63% in the quarter ended June 15, 2013. The decrease was driven by same-store sales declines as well as higher G&A expenses, partially offset by the impact of new-unit development. Foreign currency had a negligible impact on China operating profit for the quarter ended June 15, 2013.

China Division Operating Profit decreased 49% in the year to date

ended June 15, 2013, including a 1% favorable impact from foreign currency translation. Excluding foreign currency, the decrease was driven by same-store sales declines and higher G&A expenses, partially offset by the impacts of new-unit development and the impacts of the Little Sheep acquisition.

YRI Division Operating Profit increased 8% in the quarter ended June 15, 2013, including a 4% unfavorable impact from foreign currency translation. The refranchising of our Pizza Hut UK dine-in business in the fourth quarter of 2012 favorably impacted Operating Profit by 3%. Excluding foreign currency and the Pizza Hut UK refranchising, the increase was driven by the impact of same-store sales growth and new-unit development, partially offset by higher restaurant operating costs.

YRI Division Operating Profit increased 14% in the year to date ended June 15, 2013, including a 2% unfavorable impact from foreign currency translation. The refranchising of our Pizza Hut UK dine-in business in the fourth quarter of 2012 favorably impacted Operating Profit by 3%. Excluding foreign currency and the Pizza Hut UK refranchising, the increase was driven by the impact of same-store sales growth, new-unit development, transfer and renewal fees from a major franchise ownership change in the first quarter of 2013 and a pension curtailment gain in the first quarter of 2013, partially offset by higher restaurant operating costs.

U.S. Operating Profit increased 4% in the quarter ended June 15, 2013. This increase included a benefit of 10% due to lapping of legal settlement charges recorded in the

quarter ended June 16, 2012. Refranchising unfavorably impacted Operating Profit by 3%. Excluding the benefit from lapping legal settlement charges and the unfavorable impact from refranchising, the decrease was driven by higher Franchise and license expense, partially offset by net new-unit development.

U.S. Operating Profit increased 4% in the year to date ended June 15, 2013. This increase included a benefit of 5% due to lapping of legal settlement charges recorded in the year to date ended June 16, 2012. Refranchising unfavorably impacted Operating Profit by 3%. Excluding the benefit from lapping legal settlement charges and the unfavorable impact from refranchising, the increase was driven by same-store sales growth and net new-unit development.

Unallocated Other income (expense) for the year to date ended June 16, 2012 includes a non-cash gain of $74 million related to our acquisition of Little Sheep. See Note 4.

Unallocated Refranchising gain (loss) for the quarter and year to date ended June 15, 2013 includes pre-tax gains of $28 million and $45 million, respectively, related to our U.S. refranchising. See Note 4.

Unallocated Refranchising gain (loss) for the quarter and year to date ended June 16, 2012 includes pre-tax gains of $9 million and $54 million, respectively, related to our U.S. refranchising. Additionally, the year to date ended June 16, 2012 includes losses of $23 million due to the then planned refranchising of our remaining Company-owned Pizza Hut UK dine-in restaurants. See Note 4.

Interest Expense, Net

	Quarter ended			Year to date		
	6/15/2013	6/16/2012	% B/(W)	6/15/2013	6/16/2012	% B/(W)
Interest expense	$35	$42	15	$68	$82	17
Interest income	(3)	(4)	(36)	(5)	(7)	(39)
Interest expense, net	$32	$38	13	$63	$75	15

Interest expense, net decreased 13% for the quarter and 15% for the year to date ended June 15, 2013 due to lower average borrowings outstanding compared to the prior quarter and year to date.

Income Taxes

	Quarter ended		Year to date	
	6/15/2013	6/16/2012	6/15/2013	6/16/2012
Income taxes	$82	$102	$202	$249
Effective tax rate	22.7%	23.7 %	24.8 %	23.9 %

Our effective tax rate was lower than the expected U.S. federal statutory rate of 35% primarily due to the majority of our income being earned outside of the U.S. where tax rates are generally lower than the U.S. rate.

Our second quarter effective tax rate was lower than the prior year primarily due to the favorable impact of the resolution of uncertain tax positions in certain tax jurisdictions.

Year to date, our effective tax rate was higher than the prior year due to lapping the impact of the $74 million gain recognized upon our acquisition of additional interest in Little Sheep, which resulted in no related tax expense. This was partially offset by the favorable impact of the resolution of uncertain tax positions in certain tax jurisdictions.

Consolidated Cash Flows

Net cash provided by operating activities was $729 million versus $924 million in 2012. The decrease was primarily due to lower operating profit before Special Items.

Net cash used in investing activities was $410 million versus $596 million in 2012. The decrease was primarily driven by lapping the acquisition of Little Sheep and release of related restricted cash. See Note 4.

Net cash used in financing activities was $587 million versus $539 million in 2012. The increase was driven by increased share repurchases and dividends, partially offset by increased short-term borrowings.

Liquidity and Capital Resources

Operating in the QSR industry allows us to generate substantial cash flows from the operations of our company stores and from our extensive franchise operations which require a limited YUM investment. Net cash

provided by operating activities has exceeded $1 billion in each of the last eleven fiscal years, including over $2 billion in both 2012 and 2011. We expect these levels of net cash provided by operating activities to continue in the foreseeable future. However, unforeseen downturns in our business could adversely impact our cash flows from operations from the levels historically realized.

In the event our cash flows are negatively impacted by business downturns, we believe we have the ability to temporarily reduce our discretionary spending without significant impact to our long-term business prospects. Our discretionary spending includes

40

capital spending for new restaurants, acquisitions of restaurants from franchisees, repurchases of shares of our Common Stock and dividends paid to our shareholders. As of June 15, 2013 we also had approximately $1.2 billion in unused capacity under our revolving credit facility that expires in November 2017.

China and YRI represented more than 70% of the Company's segment operating profit in 2012 and both generate a significant amount of positive cash flows that we have historically used to fund our international development. To the extent we have needed to repatriate international cash to fund our U.S. discretionary cash spending, including share repurchases, dividends and debt repayments, we have historically been able to do so in a tax efficient manner. If we experience an unforeseen decrease in our cash flows from our U.S. business or are unable to refinance future U.S. debt maturities, we may be required to repatriate future international earnings at tax rates higher than we have historically experienced.

We currently have investment-grade ratings from Standard & Poor's Rating Services (BBB) and Moody's Investors Service (Baa3). While we do not anticipate a downgrade in our credit rating, a downgrade would increase the Company's current borrowing costs and could impact the Company's ability to access the credit markets cost-effectively, if necessary. Based on the amount and composition of our debt at June 15, 2013, which included no borrowings outstanding under our credit facility, our interest expense would not

materially increase on a full year basis should we receive a one-level downgrade in our ratings.

Discretionary Spending

In the year to date ended June 15, 2013, we invested $472 million in capital spending, including $285 million in China, $117 million in YRI, $60 million in the U.S. and $10 million in India.

In the year to date ended June 15, 2013, we repurchased shares for $324 million. At June 15, 2013, we had remaining capacity to repurchase up to $629 million (excluding applicable transaction fees) of our outstanding Common Stock through May 2014 under the November 2012 authorization. See Note 3.

During the year to date ended June 15, 2013, we paid cash dividends of $301 million. Additionally, on May 15, 2013 our Board of Directors approved a cash dividend of $0.335 per share of Common Stock, to be distributed on August 2, 2013 to shareholders of record at the close of business on July 12, 2013. The Company is targeting an ongoing annual dividend payout ratio of 35% to 40% of net income.

Borrowing Capacity

Our primary bank credit agreement comprises a $1.3 billion syndicated senior unsecured revolving credit facility (the "Credit Facility") which matures in March 2017 and includes 24 participating banks with commitments ranging from $23 million to $115 million. We believe the syndication reduces our dependency on any one bank.

Under the terms of the Credit Facility, we may borrow up to the maximum borrowing limit, less outstanding letters of credit or banker's acceptances, where applicable. At June 15, 2013, our unused Credit Facility totaled $1.2 billion net of outstanding letters of credit of $63 million and no outstanding borrowings. The interest rate for most borrowings under the Credit Facility ranges from 1.00% to 1.75% over the "London Interbank Offered Rate" ("LIBOR"). The exact spread over LIBOR under the Credit Facility will depend upon our performance under specified financial criteria. Interest on any outstanding borrowings under the Credit Facility is payable at least quarterly.

The Credit Facility is unconditionally guaranteed by our principal domestic subsidiaries. This agreement contains financial covenants relating to maintenance of leverage and fixed-charge coverage ratios and also contains affirmative and negative covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the agreement. Given the Company's strong balance sheet and cash flows we were able to comply with all debt covenant requirements at June 15, 2013 with a considerable amount of cushion. Additionally, the Credit Facility contains cross-default provisions whereby our failure to make any payment on our indebtedness in a principal amount in excess of $125 million, or the acceleration of the maturity of any such indebtedness, will constitute a default under such agreement.

The majority of our remaining long-term debt primarily comprises Senior Unsecured Notes with varying maturity dates from 2014 through 2037 and interest rates ranging from 2.38% to 6.88%. The Senior Unsecured Notes represent senior, unsecured obligations and rank equally in right of payment with all of our existing and future unsecured unsubordinated indebtedness. Amounts outstanding under Senior Unsecured Notes were $2.8 billion at June 15, 2013. Our Senior Unsecured Notes provide that the acceleration of the maturity of any of our indebtedness in a principal amount in excess of $50 million will constitute a default under the Senior Unsecured Notes if such acceleration is not annulled, or such indebtedness is not discharged, within 30 days after notice.

Recently Adopted Accounting Pronouncements

See Note 5 for further details of recently adopted accounting pronouncements.

New Accounting Pronouncements Not Yet Adopted

In March 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2013-05, Foreign Currency Matters, (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity (ASU 2013-05), to resolve a diversity in accounting for the cumulative translation adjustment of foreign currency upon derecognition of a

foreign subsidiary or group of assets. ASU 2013-05 requires the parent to apply the guidance in Subtopic 830-30 to release any related cumulative translation adjustment into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. Further, ASU 2013-05 clarified that the parent should apply the guidance in subtopic 810-10 if there is a sale of an investment in a foreign entity, including both (1) events that result in the loss of a controlling financial interest in a foreign entity and (2) events that result in an acquirer obtaining control of an acquiree in which it held an equity interest immediately before the acquisition date. Accordingly, the cumulative translation adjustment should be released into net income upon the occurrence of those events. ASU 2013-05 is effective prospectively for the Company in our first quarter of fiscal 2014, with early adoption permitted. We do not believe the adoption of this standard will have a significant impact on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There were no material changes during the quarter ended June 15, 2013 to the disclosures made in Item 7A of the Company’s 2012 Form 10-K.

Item 4. 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 and Chief Executive Officer (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 the report.

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 June 15, 2013.

Cautionary Note Regarding Forward-Looking Statements

From time to time, in both written reports and oral statements, we present "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as "may," "will," "estimate," "intend," "seek," "expect," "project," "anticipate," "believe," "plan" or other similar terminology. These forward-looking statements are based on current expectations and assumptions and upon data available at the time of the statements and are neither predictions nor guarantees of future events or performance. The forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those projected. Factors that could cause actual results and events to differ materially from our expectations and forward-looking statements include (i) the risks and uncertainties described in Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part I, Item 2 and any Risk Factors in Part II, Item 1A of this report, (ii) the risks and uncertainties described in the Risk Factors included in Part I, Item 1A of our Form 10-K for the year ended December 29, 2012 and (iii) the

factors described in the Management's Discussion and Analysis of Financial Condition and Results of Operations included in Part II, Item 7 of our Form 10-K for the year ended December 29, 2012. You should not place undue reliance on forward-looking statements, which speak only as of the date hereof. We are not undertaking to update any of these statements.

43

Report of Independent Registered Public Accounting Firm

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

We have reviewed the accompanying condensed consolidated balance sheet of YUM! Brands, Inc. and Subsidiaries ("YUM") as of June 15, 2013, the related condensed consolidated statements of income and comprehensive income for the twelve and twenty-four weeks ended June 15, 2013 and June 16, 2012, and the related condensed consolidated statements of cash flows for the twenty-four weeks ended June 15, 2013 and June 16, 2012. These condensed consolidated financial statements are the responsibility of YUM's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements

referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of YUM as of December 29, 2012, and the related consolidated statements of income, comprehensive income, cash flows and shareholders' equity (deficit) for the fiscal year then ended (not presented herein); and in our report dated February 19, 2013, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 29, 2012, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
Louisville, Kentucky
July 16, 2013

PART II – Other Information and Signatures

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 13 to the Company's Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal, regulatory and product risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. Other than the risk noted below, there have been no material changes from the risk factors disclosed in Part I, Item 1A "Risk Factors" in our Annual Report on Form 10-K for the year ended December 29, 2012.

We could be required to recognize non-cash impairment charges relating to the Little Sheep business in the future.

Upon our initial consolidation of Little Sheep on February 1, 2012, our balance sheet reflected Little Sheep assets of $765 million, including an indefinite-lived trademark and goodwill of approximately $400 million and $375 million, respectively. The purchase price paid and the resulting purchase price allocation reflected both same-store sales growth and new-unit development for the brand that have not yet materialized to the extent forecasted. Our accounting policy

requires that we evaluate indefinite-lived intangible assets and goodwill for impairment on an annual basis in the fourth quarter of each year, or more often if an event occurs or circumstances change that indicates impairment might exist. While we continue to have confidence in the long-term potential of Little Sheep, if the negative business trends continue it may result in a determination that the fair value of the Little Sheep trademark, reporting unit, which includes all of the aforementioned goodwill, or both are currently less than their carrying value. In the event of such a determination, we would be required to record a non-cash impairment on our financial statements, which in turn could have an adverse impact on our financial position and results of operations.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table provides information as of June 15, 2013 with respect to shares of Common Stock repurchased by the Company during the quarter then ended:

Fiscal Periods	Total number of shares purchased (thousands)	Average price paid per share	Total number of shares purchased as part of publicly announced plans or programs (thousands)	Appr dolla of sh that r be pu unde plans progr (mill
Period 4 3/24/13-4/20/13	473	$66.20	473	$844
Period 5 4/21/13-5/18/13	1,721	$68.11	1,721	$726
Period 6				

5/19/13-6/15/13	1,386	$70.22	1,386	$629
Total	3,580	$68.68	3,580	$629

In November 2012, our Board of Directors authorized share repurchases through May 2014 of up to $1 billion (excluding applicable transaction fees) of our outstanding Common Stock. For the quarter ended June 15, 2013, all share repurchases were made under this authorization.

45

Item 6. Exhibits

(a) Exhibit Index

EXHIBITS

Exhibit 15	Letter from KPMG LLP regarding Unaudited Interim Financial Information (Acknowledgement of Independent Registered Public Accounting Firm)
Exhibit 31.1	Certification of the Chairman and Chief Executive 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.
Exhibit 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.
Exhibit 32.1	Certification of the Chairman and Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 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.
Exhibit 101.INS	XBRL Instance Document
Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, duly authorized officer of the registrant.

YUM! BRANDS, INC.
(Registrant)

Date:	July 16, 2013	/s/ David E. Russell Vice President, Finance and Corporate Controller (Principal Accounting Officer)