



# Yum China

CSR and Sustainability Report 2017



YumChina



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# Remarks by Yum China CEO

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I am delighted to present the 2017 Yum China Corporate Social Responsibility (CSR) and Sustainability Report, our first such report as an independently listed company.

Our story in China started three decades ago in 1987 when we opened our first KFC restaurant in Beijing. Since then we have expanded our portfolio to include 8,112 restaurants under 5 different brands. Throughout this time, we've remained involved in our communities and committed to making a difference in the economic and social development of China.

Last year we celebrated the 10<sup>th</sup> anniversary of our flagship CSR initiative, the Yum China One Yuan Donation Program. This program is one of the largest public donation campaigns in China, having raised over 170 million RMB and distributed more than 37.4 million nutritious meals to children in impoverished areas across China. Another highlight program is the KFC Little Migratory Birds Fund, which continues to grow fast. Last year, the program supported more than 1,000 communities and over 600,000 left-behind children in China with books and reading programs.

Food safety remains a top priority for Yum China, and we work tirelessly to promote balanced diets and healthy lifestyles. In 2017, Yum China formed the CNS-Yum China Dietary Health Foundation with the Chinese Nutrition Society ("CNS"). This partnership is built on our long history of supporting research in nutrition and balanced diets, and is steadily expanding the breadth and depth of nutrition and dietary research in China.

As one of the largest employers in China, we continue to invest significant resources in developing our people. We foster a diverse and inclusive work environment and create a culture in which every employee enjoys equal opportunities. Our corporate culture also encourages environmental sustainability, and through this culture we are working to build greener restaurants, supply chains and communities.

We've made considerable progress in the past 30 years and we remain equally committed to working towards audacious sustainability goals, bringing more value to stakeholders and making a difference in China in the years ahead!



Joey Wat  
Yum China CEO

YumChina

YumChina 百味集团

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YumChina

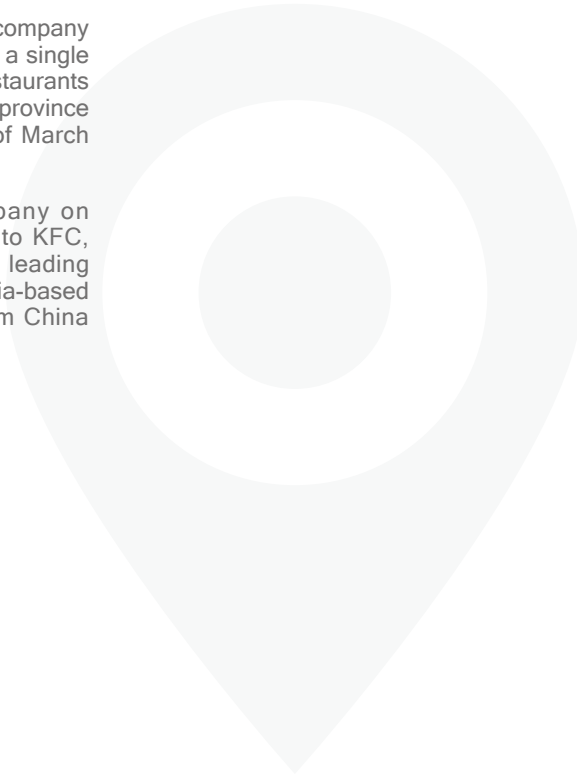


## About Yum China

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Yum China Holdings, Inc. (“Yum China”) is the largest restaurant company in China with a purpose of making every life taste beautiful. From a single restaurant in 1987, the company has grown to have over 8,100 restaurants and over 450,000 employees in over 1,200 cities spanning every province and autonomous region across mainland China as of the end of March 2018.

Yum China became an independent, publicly-traded company on November 1, 2016. It has exclusive rights in mainland China to KFC, China's leading quick-service restaurant brand; Pizza Hut, the leading casual dining restaurant brand in China; and Taco Bell, a California-based restaurant chain serving innovative Mexican-inspired food. Yum China also owns the Little Sheep and East Dawning concepts outright.



Food





# Our Food

**We are passionate about serving delicious food that lives up to the trust our customers place in us and meets the highest safety and quality standards across every aspect of our business.**

We serve millions of customers annually and we are proud of the trust customers put in us and our food. From raw materials to our supply chain and restaurants, we make providing customers with healthy, nutritious and high-quality food products our most important goal. We also actively participate in and support China's national nutrition and health policies, taking the promotion of a balanced diet and providing healthy food choices as one of our most important responsibilities.

To achieve these goals, we are always committed to:



Serving delicious, safe and high-quality food to our customers through standardized restaurant management systems, audits and inspections, trainings and other food safety measures.



Only sourcing and using raw materials, food packaging materials, food processing equipment and tools that comply with the relevant laws, regulations and specifications.



Institutionalizing rigorous management and control systems to ensure that our suppliers' production operations, business management practices and product standards comply with all relevant laws, regulations and specifications; we also require that Yum China suppliers maintain a strong commitment to social responsibility.



Protecting food safety and product quality throughout the entire supply chain with our advanced cold chain storage and distribution system.



## Balanced and Nutritious Meals



Yum China attaches great importance to nutrition and health and is committed to providing customers with a wide range of delicious meal choices. In fact, our journey in China has been fueled by our ability to create unique products that appeal to our consumers. At Yum China, we have a professional food innovation team dedicated to creating products for our KFC, Pizza Hut, Taco Bell, Little Sheep and East Dawning brands. This team develops products that bring exciting new flavors and choices to customers - always with an eye on providing balanced and nutritious meals in major food groups such as proteins, carbohydrates, dairy, fruits and vegetables. The food innovation team also utilizes various cooking methods to develop hundreds of new products each year.

## More Product Choices

Based on ongoing customer feedback and insight, we have steadily increased the number of menu choices we offer for key meal categories such as main meals, sides, drinks, salads and desserts across all dining occasions - covering breakfast, lunch, afternoon tea, dinner, late night meals and deliveries. Our product choices are further enhanced through year-round, limited-time offers (LTOs) that allow us to bring the latest food trends to our customers.

At KFC, we have expanded our product offerings from 15 to 56 products as of the end of 2017. Our offerings currently include many locally relevant Chinese menu items. In the poultry category, in addition to our signature Original Recipe® fried chicken, we have created numerous menu extensions with innovative, delicious and nutritious new products. These products include crispy fried chicken, fried & roasted chicken burgers, chicken tortilla rolls, roasted chicken, chicken wings and many more. We have also introduced many local Chinese favorites, such as congee, rice rolls and rice dishes. KFC also offers products that give consumers more vegetable choices, as well as optional indulgence items like egg-tarts and ice cream. In the beverage category, KFC offers milk, bean-to-cup coffee, a variety of tea drinks with fruits, soy milk and other choices.

At Pizza Hut, in addition to our signature pan pizza, we have launched over 250 new menu products in the past several years. These products include pizza product line extensions, such as stuffed-crust pizza, thin-crust pizza, 4-in-1 pizza and pizza with Chinese toppings, as well as numerous classic Italian dishes such as pasta and risotto. Other innovative products include stone-grilled steak, rice dishes, beverages and dessert options. In the breakfast category, Pizza Hut has introduced Chinese and Western-style breakfast items that provide meat and vegetable choices.

At East Dawning, we offer consumers a variety of Chinese rice, noodle, side dishes, beverages and breakfast items. At Little Sheep, which mainly offers hotpot products, we provide a variety of fresh vegetables, soy products and other ingredients for customers, in addition to high-quality protein choices such as mutton and beef. In early 2017, Yum China opened China's first Taco Bell restaurant in Shanghai, providing Mexican-American staple items such as tacos, burritos and quesadillas, as well as a variety of snacks, juices and breakfast burritos.





## Kid's Meals

Our Kid's Meals offer delicious dining options and provide nutritious, healthy and balanced meals. Both KFC and Pizza Hut have launched Kid's Meals that meet the requirements outlined in the Nutrition Principles, which were released by the Chinese Nutrition Society in July 2017, specify that kid's meals should include a large variety of foods, including staple foods, vegetables, fruits, meat-based foods, eggs and milk.

## More Cooking Methods

In addition to expanding our menu options, we are also enhancing choices and nutritional value by applying multiple cooking methods in preparing our foods. These methods include frying, roasting, boiling, sautéing and grilling that combines modern food technologies with traditional preparation methods, while also bringing the best flavors and most consistent food quality to our customers.



# Ensuring Wholesome, Tasty Food in Our Restaurants



Food safety is the top priority for Yum China and is a primary focus in all our restaurants. Our goal is to provide "Trust in Every Bite" by maintaining the highest possible restaurant operation standards, minimizing food safety risk for our customers. To this end, Yum China has developed a comprehensive restaurant food safety and quality control system that includes food safety standards, quality control and management programs, surveillance routines and restaurant employee trainings.





## Restaurant Food Safety and Quality Control Programs

Yum China's food safety and quality control programs consist of many standardized, industry-leading restaurant operating measures and processes to drive consistent safety standards, food quality and flavors in every restaurant. Our restaurant operating measures and processes include raw material receiving, food and raw material storage temperature control, product shelf-life management, product thawing and cooking, as well as personnel hygiene, equipment cleaning and disinfection standards. In addition to these programs, Yum China's quality assurance team further enforces the food safety and quality standards of our restaurants by conducting unannounced food safety audits, product quality checks, microbiological tests and process compliance checks at regular intervals.

Beyond these programs, we also make food safety and product quality an integral part of our corporate culture. Through our employee culture, our food safety and product quality standards are upheld by employees at all of our restaurants. Yum China's Employee Handbook stipulates that all employees must strictly abide by all relevant laws and regulations in China, as well as by the company's policies.

## Food Safety and Quality Management for Delivery Service

As food delivery and technology-enabled dining options become increasingly popular, Yum China has multiple programs to protect all aspects of food safety and quality in our delivery service. We have implemented a series of measures including: delivery time, establishing dedicated delivery workstations, using Yum China's patented delivery box with a thermal insulation function and cleaning and disinfecting delivery boxes on a regular basis.

Yum China also requires all third-party delivery partners to sign a Letter of Commitment on the Standardized Implementations of Delivery Food Safety and Quality, specifying clear requirements for regulatory compliance, staff management, catering requirements, delivery facilities and equipment.



## Wholesome, Tasty Food from Our Supply Chain

One of Yum China's competitive advantages and value propositions is our expertise and focus on food safety from "farm to fork". Since our entry into China, we have invested enormous time, people and financial resources to build a holistic supply chain management system to safeguard food safety throughout the entire supply chain.





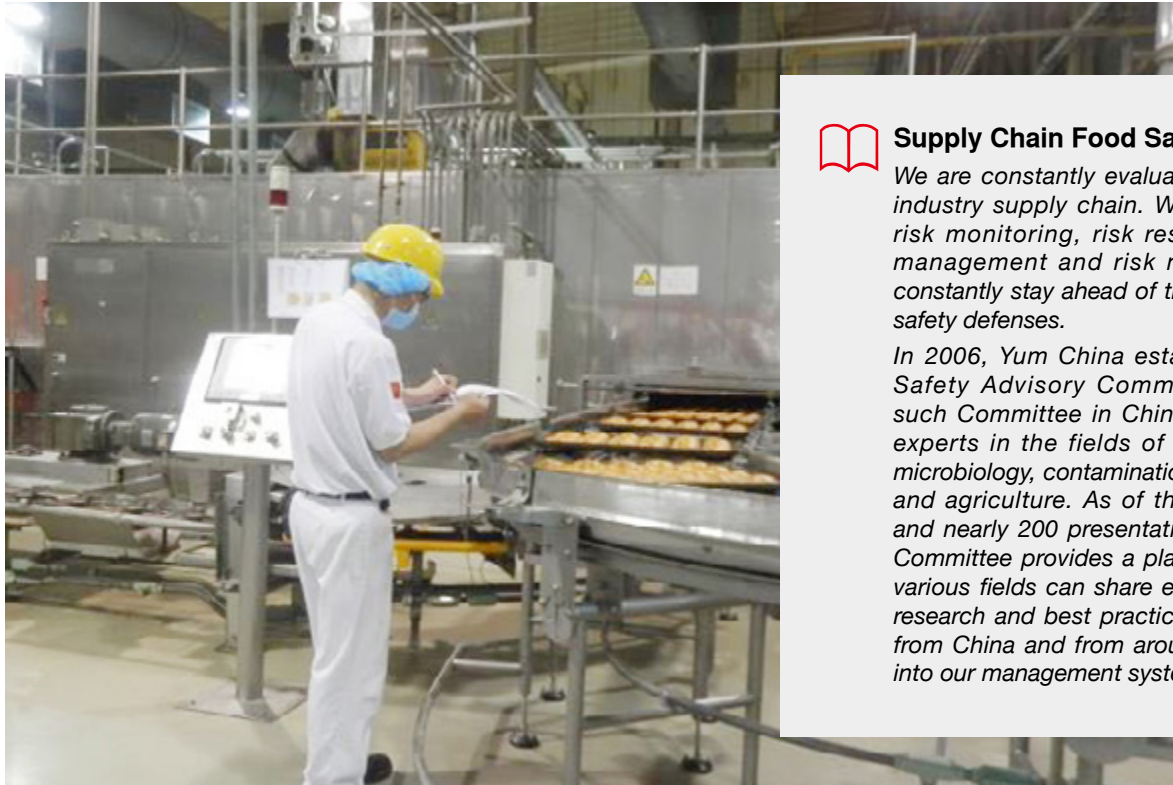
## Supplier Food Safety and Quality Management

Yum China has approximately 1,000 professional supply chain management team members in Food Safety, Quality Assurance, Procurement Management, Warehousing & Logistics, and Engineering functions. Yum China has also developed a world-class supply chain management system. Our people resources and management system allow us to ensure direct, effective management of suppliers, and to drive continuous improvements.

Yum China implements a stringent supplier qualification and management process that includes supplier qualification checks and on-site audits on the suppliers' compliance to Yum China food safety standards, product quality and upstream supplier management standards. All suppliers must sign Yum China's Procurement Terms and Conditions, making a contractual obligation to guarantee that all products supplied to Yum China are in compliance with all relevant Chinese food laws and regulations, as well as with Yum China's technical standards on matters such as product ingredients, raw material standards, packaging specifications and quality assurance system documents.

We conduct announced and unannounced onsite audits to ensure suppliers' food safety and quality management systems meet relevant laws and regulations and Yum China's requirements. We review and evaluate suppliers' quality performance regularly, and adjust our oversight and control requirements accordingly to drive higher performance standards. We also promote continuous improvements of suppliers' capabilities by providing feedback on performance relative to our targets, sharing best practices and hosting workshops/training sessions.





### **Supply Chain Food Safety**

*We are constantly evaluating potential risks in the food industry supply chain. We have a dynamic food safety risk monitoring, risk research, risk assessment, risk management and risk mitigation system to help us constantly stay ahead of the curve, and to fortify our food safety defenses.*

*In 2006, Yum China established the Yum China Food Safety Advisory Committee (Committee) - the first such Committee in China. The Committee consists of experts in the fields of food safety, food inspection, microbiology, contamination prevention, animal husbandry and agriculture. As of the end of 2017, 24 workshops and nearly 200 presentations had been conducted. This Committee provides a platform upon which experts from various fields can share experience and insight, advance research and best practices on food safety management from China and from around the world-for incorporation into our management systems when possible.*



## Responsible Sourcing

As China's largest restaurant, we are aware that our procurement decisions can have a substantial impact on the industry. Yum China actively cultivates a network of supply chain partners that are committed to social responsibility on topics including legal compliance and operational integrity. All suppliers must sign the Yum China's Supplier Code of Conduct and the Procurement Terms and Conditions - committing to complying with relevant laws, regulations and Yum China's standards.

Yum China is gradually implementing a system to assess social responsibility compliance among our suppliers. By assessing all major employment and operational standards, we ensure that suppliers use lawful employment practices, have in place sound labor contracts, employee health and safety plans, and environmental protection measures, such as wastewater discharge treatment and waste disposal systems.





## Safe and Reliable Logistics Systems

Yum China operates an advanced, wholly-owned logistics system with management teams that manage a network of 17 logistics centers and 2 consolidation centers across China. We have robust programs to provide efficient, safe and reliable products and services for every restaurant in the Yum China brand portfolio. For example, our logistics centers have a standardized cold-chain management system to monitor and manage temperature changes for products moving in, during storage and moving out of the warehouses. All trucks, tractors or trailers shipping goods to and from the logistics centers must meet established temperature and sanitation standards. Our logistics centers have also been progressively equipped with Warehouse Management System (WMS) with automated product tracking from suppliers, logistics centers and restaurants to provide added assurance to our supply chain integrity.



An aerial photograph of a green tractor with a large orange tank on its back, moving through a vast field of young green plants. The tractor is positioned on the left side of the frame, moving towards the right. The field is filled with rows of small, vibrant green plants, likely seedlings, spaced out in a grid pattern. The sun is shining brightly from the top left, creating a warm, golden glow over the scene. The sky is a clear, bright blue. The overall image conveys a sense of agricultural activity and growth.

## Yum China on Critical Industry Issues

The food industry is undergoing rapid change and constant evolution. As one of the largest restaurant companies in China, Yum China proactively studies and develops our strategies on critical industry issues whenever and wherever necessary.

## Animal Welfare

We only purchase chickens from large-scale chicken suppliers that demonstrate and maintain compliance with animal welfare regulations and practices. We require these suppliers to apply science-based management methods and abide by relevant laws and regulations in the production processes - from chicken breeding to processing. Additionally, all chicken suppliers must implement and adhere to Yum China's animal welfare guidelines during poultry breeding and poultry slaughtering.

## Veterinary Drugs

We have comprehensive control measures regarding the use of veterinary drugs on livestock, poultry and aquatic products. We also conduct sampling tests on these products on a regular basis to ensure compliance with veterinary drug use as stipulated by the Ministry of Agriculture and Rural Affairs. We also have in place control measures for upstream animal farming. To further contribute to the development of the industry, we worked with poultry farming and safety experts to publish the "Yum China Broiler Breeding Technical Manual" and the "Yum China Management Guidelines on the Use of Veterinary Drugs in Broiler Breeding". These manuals provide guidelines to the suppliers to develop and apply scientific farming practices, as well as ensure judicious use of veterinary drugs.

## GMO

Yum China respects and supports related agricultural policies of the Chinese government, and follows all laws and regulations stipulated by the Chinese government for the safety evaluation, approval, and control of GMO foods. Yum China will continue to monitor developments regarding GMO technology and GMO food, as well as related regulations and standards in China. Yum China requires all suppliers to use and supply raw materials that comply with all relevant laws and regulations in China.

## Pesticides

Yum China has strict measures in place to ensure that all pesticides used in farming are under control. We implement the following measures:

- suppliers and their upstream partners must comply with all relevant regulations in China;
- suppliers are required to step-up their tests on pesticide residue in agricultural ingredients, ensuring that the agricultural products supplied to Yum China comply with the relevant regulations and food safety standards of China;
- Yum China conducts sampling tests when necessary on all key agricultural ingredients.



## Support Scientific Research & Promote Food Safety and Nutrition Awareness in Our Communities



In addition to providing our customers with food that is both nutritious and delicious, we're also working tirelessly to promote knowledge of healthy lifestyles and balanced diets. We devote significant resources to supporting scientific research in dietary nutrition and popularizing knowledge on nutrition, health and food safety. We work to provide our customers with the best products, while also working to ensure that our communities benefit and gain from our presence in China.

## Support Scientific Research in Dietary Nutrition and Health

In May 2017, under the “Healthy China” national strategy, and working to jointly promote scientific research into dietary health, Yum China announced its partnership with the Chinese Nutrition Society (CNS) to launch the CNS-Yum China Dietary Health Foundation. The Foundation builds on the success of the KFC China Health Foundation, which was jointly established by Yum China and the China Red Cross Foundation in 2007.

The CNS-Yum China Dietary Health Foundation aims to promote a balanced and nutritious diet, and to improve the dining habits of Chinese citizens. Over the past 10 years, the Foundation provided approximately RMB 15 million in support of over 50 scientific research and education programs. Since its inception, the foundation has grown to become the largest and most influential fund dedicated to dietary health research in China.



### The CNS-Yum China Dietary Health Foundation Announces Funded Projects

*On November 29, 2017, the CNS-Yum China Dietary Health Foundation announced a list of projects that will receive grants from the foundation for the year. Out of more than 100 applications, experts and the administrative committee granted funding to seven initiatives, including the projects proposed by Li Huzhong from the China National Center for Food Safety Risk Assessment and Xu Weisheng from the health and nutrition unit at the Chinese Center for Disease Control and Prevention. All of the seven funded initiatives will focus on improving eating habits in China.*

*On the same day, Yum China held its 10th Annual Nutrition Symposium in Shanghai, where experts and scholars discussed and shared cutting-edge research in the spheres of nutrition, health, and dietary habits in China.*

*Joey Wat, Yum China CEO, said at the event: “As China’s largest restaurant company, Yum China has always been committed to providing consumers with food that is both nutritious and delicious. We will continue to play an important role in advocating active, healthy lifestyles, and enhancing the understanding of well-balanced diets in China.”*

*Chen Junshi, a member of the Chinese Academy of Engineering (CAE), commented, “the Foundation’s goals are aligned with government initiatives, including the Healthy China 2030 Planning Outline and the National Nutrition Plan 2017-2030. These plans are designed to raise the level of health literacy and improve the diets and health of Chinese people. The efforts Yum China is putting into this initiative are having a tremendous impact.”*



## Nutrition and Health Awareness

National Nutrition Week is a campaign initiated by a number of organizations and led by the China Nutrition Society. The campaign aims to promote the concept of nutrition and health and popularize nutrition knowledge. Yum China has provided support to National Nutrition Week for two consecutive years. During National Nutrition Week in 2016 and 2017, 50 million National Nutrition Week-themed paper placemats were distributed throughout KFC restaurants across the country.

At the same time, Yum China constantly communicates nutrition and

health knowledge to consumers via multiple methods and channels. In April 2017, we officially launched our nutrition and health education-oriented WeChat account, titled “Best Foods & Best Sports”. The account was designed to help integrate the science of nutrition and health into people’s everyday life, promoting a healthy lifestyle through the concept of a balanced diet and exercise, while also popularizing nutrition knowledge among the public. Yum China also launched a featured column, “Balanced Diet”, on its official website to promote nutrition knowledge and health concepts.





## Food Safety Education

As the only enterprise supporting the campaign, Yum China has also been actively supporting and participating in the National Youth & Children Food Safety Education Campaign. This campaign, themed “ensuring food safety, promoting healthy development”, is jointly sponsored by the China Youth & Children Development and Service Center and the National Youth & Child Health and Safety Guidance Commission. Yum China works with the event’s organizers in a joint effort to promote food safety knowledge and corporate social responsibility. In the coming years, the campaign is expected to reach about 55 million people across thousands of schools and communities in hundreds of cities.

In addition to this campaign, we actively participate in and support numerous other campaigns and activities that work to popularize food safety knowledge from various scientific organizations, industry associations and related institutions. We also create initiatives to popularize scientific knowledge that promotes widespread scientific understanding of relevant food safety topics in light of public misconceptions about these topics.



### National Youth & Children Food Education Campaign

*In June 2017, Yum China was a sponsor of the National Youth & Children Food Safety Education Campaign. This 5-day campaign was held at universities in Shenyang. To bring interactive and practical food safety and nutrition knowledge to college students and local communities, we invited Ms. Zhu Ying, a senior national public nutritionist and special lecturer for the Shenyang Nutritionist Association, to join the campaign. During her lectures, she answered questions about food safety raised by teachers and students, imparted knowledge about balanced diets and led several interactive games including “diet jigsaw” and “balanced diet marbles”.*



# People



# Our People

**At Yum China, the sustainability of our business starts with commitment to our more than 450,000 employees. Yum China has created an inspiring culture that is founded on the principles: Fair, Care and Pride. We actively invest in our employees, ensuring they are skilled, engaged and proud of their jobs and are prepared for a successful career. Yum China aims to make every life taste beautiful.**

Yum China is one of the largest employers in China. We employ more than 450,000 employees across over 8,100 stores as of the end of March 2018, serving millions of customers across China each day. Each of these employees is inspired to make and serve good food that creates wonderful customer experience.

Yum China is proud to provide systematic training and development opportunities that empower employees to build a successful career at the company. And we actively strive to foster a diverse and inclusive environment in which everyone enjoys equal opportunities to unlock their full potential.

## We deliver on our commitment by focusing on four areas:



Our Core Value and Culture: Create, Share and Win Together



People Capability First: Unlock, Inspire and Foster the Potential of our People

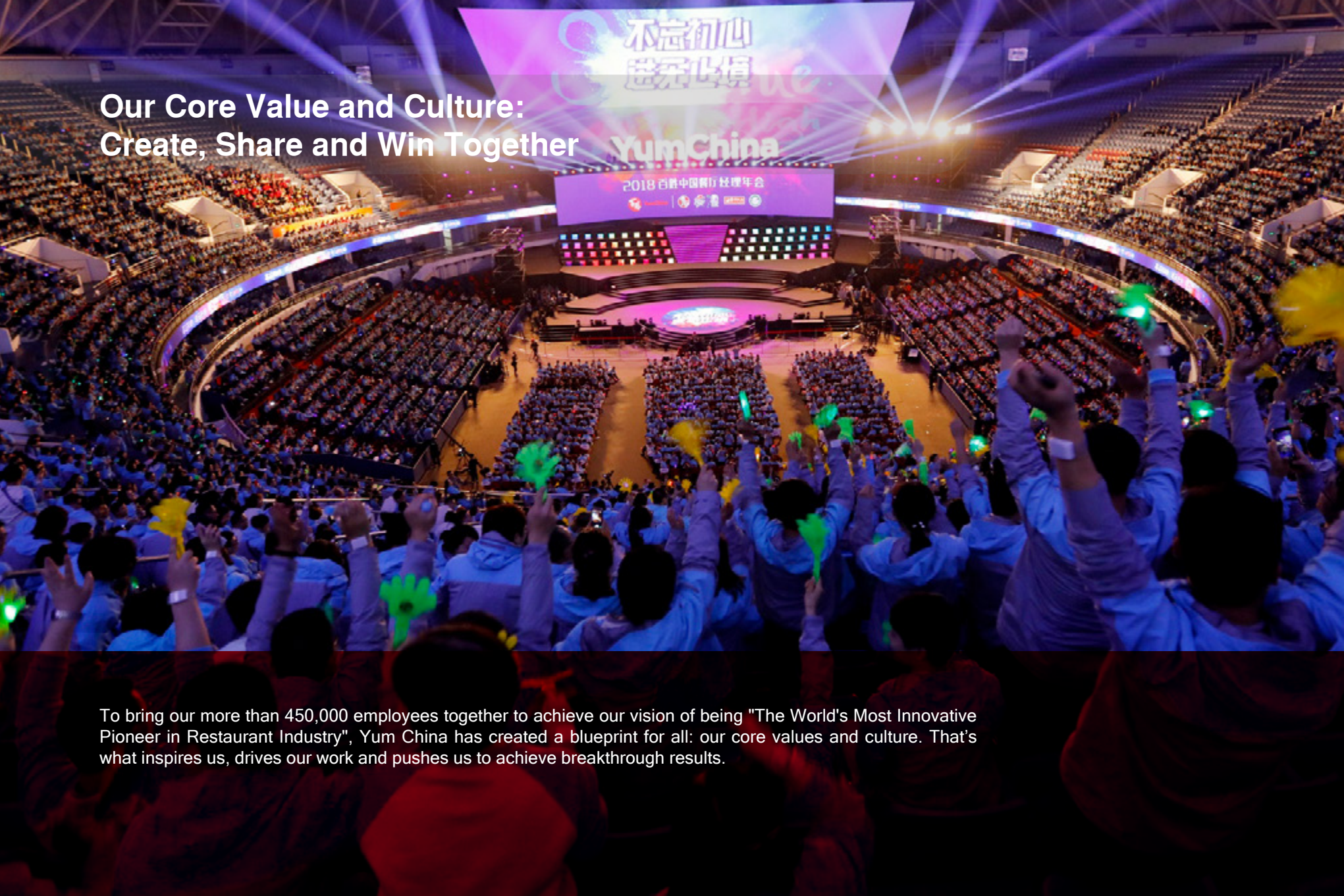


Employee Relations and Engagement: Attract, Retain and Grow the Best People



Diversity & Equal Opportunity: Build an Inclusive Culture that Reflects the Diversity of Our Company and Customers





**Our Core Value and Culture:  
Create, Share and Win Together**

To bring our more than 450,000 employees together to achieve our vision of being "The World's Most Innovative Pioneer in Restaurant Industry", Yum China has created a blueprint for all: our core values and culture. That's what inspires us, drives our work and pushes us to achieve breakthrough results.



## Our Purpose: Let's Make Every Life Taste Beautiful!

We believe that we should each find purpose in our work and we should ensure that employees are inspired to make a difference in their work, their life and the world. We take pride in providing best-in-class food and experiences to our customers, and we strive to drive innovations that make every life taste beautiful.

## Our Core Value: How We Create, Share & Win Together (HWWT3)

Our organizational core values are defined as “How We Create, Share & Win Together.” These values lay the groundwork for the way we work together every day.



## **RGM No.1: Front-line Obsession as a Founding Truth**

As one of our founding truths, Yum China has always believed in the principle that the Restaurant General Manager (RGM) is our No. 1 leader. RGMs hold the most important leadership position in the company and they are instrumental in driving business growth and customer satisfaction. As such, we never hesitate to invest in developing RGMs who are not only experts in operations, but also in delivering outstanding customer service that can drive our business forward. Yum China has implemented a systematic training roadmap to provide a career progression path for managers. Additionally, we offer stock ownership programs to all qualified RGMs. RGMs' strong sense of ownership and pursuit of excellence will help Yum China continue to grow and generate good returns for shareholders and for RGMs themselves.

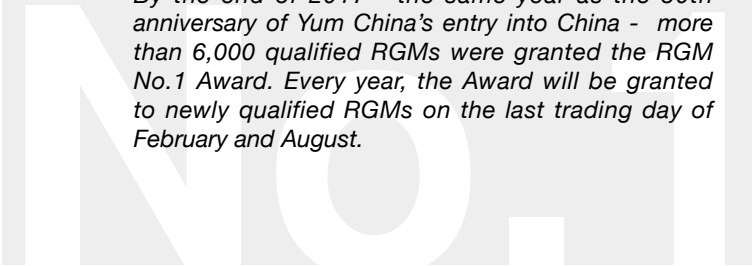


### **Yum China Grants Stock Ownership to RGMs**

*In November 2016, Yum China announced a plan to grant Restricted Stock Units (“RSUs”) to all qualified RGMs at KFC, Pizza Hut, Taco Bell, Little Sheep and East Dawning restaurants owned and operated by the company. Each eligible RGM received a one-time RSU grant valued at US\$2,000.*

*“Yum China has always had a principle known as 'RGM No.1' because they serve the most vital leadership role on the front line of our business. The stock ownership program gives RGMs the opportunity to participate in the growth potential of this great company,” said Micky Pant, Vice Chairman and former Chief Executive Officer of Yum China. “This program also aims to incentivize each RGM to continue to deliver the very highest standard of service to our customers and the best results possible at their restaurants.”*

*By the end of 2017 - the same year as the 30th anniversary of Yum China's entry into China - more than 6,000 qualified RGMs were granted the RGM No.1 Award. Every year, the Award will be granted to newly qualified RGMs on the last trading day of February and August.*





### RGM Convention

Each RGM holds an important leadership position in the company. Having both accountability and ownership in their position, our RGMs consistently have a “Yes” attitude in serving customers. To thank them for their achievements, the company holds a nationwide event each year called the RGM Convention. At this grand event, our restaurant managers come together to learn more about Yum China’s corporate culture. At the same time, the RGM convention plays a key role as a platform for managers to exchange experiences and express their passion for the job.

### Customer Mania: Serve Our Customer with a “Yes” Attitude

We listen to and learn from our customers’ needs and we endeavor to develop the insights and foresight needed to meet them. Our Customer Mania obsession is embedded deep into our restaurant teams and support functions to ensure that all our people are inspired and empowered to do whatever they can to serve, surprise and delight our customers.

### Recognition: Catch People Doing Things Right

Recognition is an integral part of our culture - we celebrate things big and small - because our culture is brimming with positive energy, teamwork and fun.

We have created many kinds of recognition awards to celebrate our employees’ positive actions and encourage them to make a difference in the company and in their communities. For example, the Clock Builder Award recognizes teams for their contributions to Yum China’s know-how building and sharing. In 2017, we introduced a new award, the Achieving Breakthrough Results (ABR) Award, which recognizes employee-led innovations in an effort to evolve Yum China into an even more innovative company.



### Butterfly culture

Butterfly Culture is the core spirit of our culture of recognition, through which all employees are encouraged to use butterfly cards or pins to show their appreciation for each other. We believe that every small action will generate a “Butterfly Effect” that creates large scale impacts for many people.



Joey Wat, CEO of Yum China, recognizes a Pizza Hut employee for her dedication and contribution.



# People Capability First: Unlock, Inspire and Foster the Potential of Our People



Our diversified operations throughout China demand an approach to building people capability that is customized and highly interactive - while also strong enough to remain consistent throughout China.



## Brand Operation Training: A Best-in-Class Development System

At Yum China, we have created a world-class management training program for all of our restaurant employees at different levels. The program offers training and a career path to help people progress. In 2017 we delivered close to 14 million training hours for our crew members at KFC and Pizza Hut. For management trainees, months of training are tailored at each level to ensure that they unlock the full potential for their career development to RGM level.

### Operational Leaders: Fostering Leaders Program

Yum China's Fostering Operation Leaders Program has evolved from the Whampoa Academy, an award-winning program in people development.

The Whampoa Academy was once recognized by the Association for Talent Development (ATD) with an "Excellence in Practice Award" in the Organizational Learning & Development category.

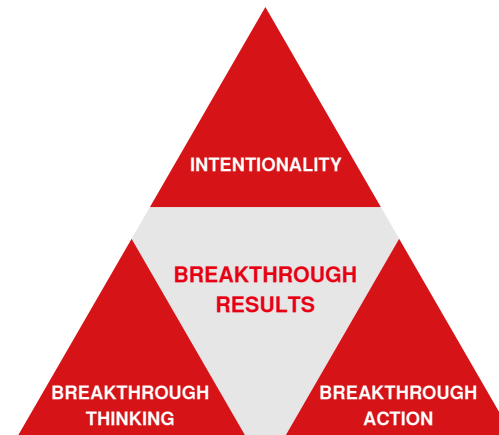
The award recognizes exemplary practices in workplace education and talent development. In 2015, there were more than 125 entries across ten categories. At that time, Yum China was the only food service company to win the award. To keep up with the demands of the business, Yum China must recruit and train more than 10,000 management trainees each year from within China's highly-competitive talent market. In 2012, Yum China created the Whampoa Academy to incorporate in-store learning, classroom trainings and action learning after-class exercises. The course offers rapid career growth for recruits who are highly qualified and who have impressive educational backgrounds, but who lack work and restaurant experience. The Whampoa Academy trains these employees to be Restaurant General Managers within a brief period of time: 3-3.5 years, on average.

### Achieve Breakthrough Results (ABR) Training Program

ABR is one of our core signature development programs at Yum China. It is designed to enable employees to build high intentionality, innovate and take bold actions. By the end of 2017, more than 1,700 leaders have participated in the ABR program.



*Every year, more than 100 excellent RGMs qualify to be members of the company's Champion Club as a recognition of their achievements in sales growth, people retention and customer satisfaction. Yum China grants Coach Award to exceptional Area Managers every year for their relentless efforts in building up RGM capabilities.*



## Career Development: A Well-defined Operations Career Track

At Yum China, we are proud that 100% of our operational management team is developed and promoted internally. We have a clear career development track that guides our employees' career planning through different stages of their career.

### Career Development Pathway

Our operation managers are a fundamental part of our company, comprising 90% of the company's management team. We have a well-designed career track that works to develop talented management employees to fuel their potential.

The career pipeline illustrates how an employee will be trained from a management trainee to a restaurant general manager and eventually all the way up to market general manager. We have many senior leaders who started their careers at Yum China and who have achieved career success by following a career development path known as the "Bench Planning".

We hope to leverage a plan to meet our rapidly-growing talent needs, while also reflecting our talent development philosophy that each successor will surpass their predecessor.

### Internship Program

We recognize the importance of recruiting and retaining young talent. Through our nationwide internship program, we seek to hire top-performing and hardworking college students that share our values. All program participants receive functional operating skills training required for on-the-job performance and they are offered career opportunities at Yum China after graduation.



## Our Leadership Model: How We Lead (HWL)

How We Lead (HWL) is the Yum China leadership model that is used in talent development, potential employee evaluation and recruitment. It uses the analogy of a sequoia tree - one of the tallest and oldest trees in the world - drawing on the spirit of "built to last." In this model, good character serves as the roots of what we instill in our leaders. In addition to good character, we expect our leaders to build "take the hill team" and to drive breakthrough results.

# Employee Relations and Engagement: Attract, Retain and Grow the Best People

We're proud of the unique culture we've built - a culture that's filled with energy, opportunity and fun. We believe in our people, trust in their positive intentions, encourage ideas from everyone and actively develop workforce diversity. Yum China is a place where anyone can - and does - make a difference.



## Employee Rights & Responsibilities

All of our employees have the right to work in a fair and safe environment. Our Code of Conduct holds every employee accountable for treating our colleagues with respect and fairness, allowing them to be recognized and rewarded based on their performance. We also expect all of our employees and suppliers to comply with all applicable Chinese labor laws and regulations regarding wages, working hours and conditions. We do not allow harassment or discrimination because of age, gender, gender expression and/or identity, race, religion, national origin, sexual orientation, or physical abilities in the company.

## Health and Safety

Yum China is committed to providing safe and healthy work environments and to being an environmentally responsible corporate citizen. We make it our policy to comply with all applicable environmental, safety and health laws and regulations.

We are dedicated to designing, constructing, maintaining and operating facilities that protect our people and physical resources. On a regular basis, we review and upgrade employee's protective equipment, conduct workplace safety audits, and provide training to employees on proper equipment handling procedures and related safety precautions.

## Ethics and Compliance

The success of Yum China is built on the integrity and ethical standards of our employees. Our ethics and compliance program, based on our Code of Conduct, demands the highest ethical standards at all of our operations.

At Yum China, our Code of Conduct is more than a document - it is the foundation for the way we conduct ourselves and do business. It calls for the highest standards of ethical behavior from our board members, executives and employees. Our Code of Conduct sets forth the policies and procedures regarding standards of conduct that are required of Yum China employees. The code of conduct is intended to help our employees conform to the highest ethical standards possible, and to protect the reputation of Yum China and our employees.

Every year, mandatory compliance training is required for every employee to keep them refreshed with the compliance guidelines. The company also runs report mechanism that enables employees to report any noncompliance in daily work.

The Code of Conduct can be found on Yum China's website.



## Compensation and Benefits

Yum China offers comprehensive compensation and benefit programs to ensure our employees are fully rewarded for their individual contributions to the company while also helping employees drive their own career and personal growth.

We fully comply with Labor Laws and provide our full-time employees with a social insurance and housing fund.

## Engagement

Yum China believes that for employees to perform their best and achieve breakthrough results where they work, they need maximum energy as well as strong organizational support. One thing that we do at Yum China is engaging and connecting our employees at our restaurants through various interest groups called “family systems.”

The family system is built to provide a platform for employees to collaborate and develop camaraderie through common interests. In this system, each frontline leader in the restaurant takes on a role as the coordinator of their team. Employees are divided into different teams based on their personal interests. Activities such as workshops, entertainment and competitions are held from time to time to incentivize, inspire and motivate our employees.



### Yum China Champion Challenge

*The Champion Challenge has become one of the most important events at Yum China every year. The nationwide campaign helps our restaurant employees enjoy their work and motivates them to improve their job-based skills. At the same time, our restaurant operations are also enhanced through employees' positive engagements.*

*Every employee is welcome to attend and compete with other teams. The winner of each workstation gets to represent the restaurant and participate in higher-level competitions from the district- to the regional- level and even to the national final. The final team that wins the national championship is recognized as the “Champion of Champions”.*



## Employee Communication

At Yum China, we believe “the more you know, the more you care.” Thus, we maintain multiple communication channels, online and offline, to enhance effective dialogues between management and employees. Through digital platforms such as WeChat and intranet portals we share business updates and corporate messages in a timely manner. We conduct surveys on a regular basis to understand the needs and expectations of our restaurant employees and to initiate improvement plans accordingly. To offer timely and comprehensive support, a 24-hour hotline was launched with a dedicated team to respond to employee requests.



### Founders' Day

*On November 1<sup>st</sup>, 2016, five RGMs rang the listing bell to initiate a new beginning for Yum China. Since then, the company has been holding an annual Founders' Day event on November 1<sup>st</sup> every year as a major employee communication event to celebrate the anniversary of Yum China becoming an independent, publicly-traded company. At the event we reward employees by recognizing their achievements and also share the company's business developments and progress with all in attendance. This annual event helps further strengthen our corporate culture and increase a sense of ownership in the company.*

# Diversity & Equal Opportunity: Build an Inclusive Culture that Reflects the Diversity of Our Company and Customers

We know that diversity and equal opportunity are critical to the long-term success of our business. We make sure to create a work environment where our employees feel appreciated and can be themselves. Inclusion is a business priority and promoting inclusion involves everyone in the organization.



"We are very proud to have been included in the SSGA Gender Diversity Index. We firmly believe that gender should never be a factor in consideration for senior leadership positions, nor should it be a barrier to success. Yum China has always been committed to cultivating a workplace culture that is inclusive, diverse, and underpinned by an emphasis on meritocracy and hard work."

—Micky Pant, Vice Chairman and former CEO of Yum China

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Fairness is a fundamental principle of our people first philosophy. We uphold equal opportunity in employees' lifecycle including recruitment, hiring, development, promotion and compensation without regard to age, gender, disability, sexual orientation, or other legally protected status. We maintain a professional, safe and discrimination-free work environment, recognize and compensate employees based on their performance.

At the end of 2017, Yum China had over 278,000 female employees, representing nearly 61.5% of total our total workforce. In September 2017, Yum China joined the SSGA Gender Diversity Index, a select group of large-scale listed US companies committed to closing the gender gap and advancing women through gender diversity on their boards of directors and in senior leadership positions.



## KFC Angel Restaurants

We take great pride in creating employment opportunities for people with disability. Our Angel Restaurant program is an innovative CSR program that provides employment opportunities to the disabled community.

This program, which began in 2012, operates by staffing a restaurant with half of the staff speech and hearing impaired or developmentally disabled. At these restaurants, specially-adjusted equipment is provided, such as flashing lights to alert employees that the deep-frying machine has finished cooking items, a service that is typically performed by an audio buzzer.

All staff at Angel Restaurants receive training and are assigned a buddy from the store's management team. The company's training department also designs a specific training method based on the various situations and characteristics of "Angel" employees to make sure they are able to complete their work independently in a month's time. Both the restaurant management team and regular staff work hard to learn sign language and ensure smooth communication with "Angel" employees.

As of the end of 2017, a total of 20 KFC Angel Restaurants opened in 19 cities.



### Growing with an Angel Restaurant

*Li Liang, 27 years old, became hearing-impaired due to a severe fever in his infancy. Upon graduating from college, Li left his hometown and came to Shenzhen to access more opportunities. The Shenzhen KFC Angel Restaurant was his second job. Hardworking and quick to learn, Li was an exemplary employee. In just over one year, Li proved himself ready for job advancement. He was promoted to the management team.*

*"KFC is the second place I worked in Shenzhen. Everyone here is willing to communicate with me and that makes me feel like I'm not different from other young people here. If you came to the KFC restaurant in Jinshan, Luohu District in Shenzhen, I would say, 'Hello! What would you like to order? I can serve for you!' Yes, I can serve you, just like other KFC staff!"*



community



# Our Community

**Our mission is not just to become the best restaurant operator in the world, but to improve the lives of those within the communities of which we are at the heart. Yum China leverages our resources to support and empower our communities and encourages our employees to do the same.**

With over 8,100 restaurants across over 1,200 cities throughout China, our restaurants and our food are a part of the everyday lives of the people we serve. In addition to providing delicious and nutritious meals, we're also committed to providing aid and opportunities that would make an impact in the communities in which we operate. Whether it's providing supplementary meals for school children who might not otherwise have access to a nutritional meal or supporting active lifestyles through sport, we focus on the areas in local communities where our expertise and scale can make the biggest impact - poverty reduction, community care, children and youth development and healthy living.



## Alleviating Poverty and Nurturing the Next Generation

At Yum China, we're committed to feeding China with nutritious and delicious meals. We believe in giving back to the communities in which we work and live, and we believe that by working to alleviate poverty we can make a positive difference in the lives of our customers, employees, franchisees and their families.

## One Yuan Donation Program: A Ten-Year Journey on Which Anyone Can Make an Impact on Society

In 2017, the One Yuan Donation program celebrated its ten-year anniversary. Over the past ten years, the program has evolved and grown into a powerful source of funding and poverty alleviation. Through the program, anyone can make an impact on society and help to improve the lives of millions of people in need.

Each year, the One Yuan Donation program runs in every KFC, Pizza Hut, Taco Bell and East Dawning restaurant across China for 2-3 weeks, encouraging customers and employees to donate a single yuan to help enrich the diets of children living in impoverished regions. The One Yuan Donation Program was founded in 2008 in partnership with the China Foundation for Poverty Alleviation (CFPA), one of China's largest nongovernmental charitable organizations. Through the program, Yum China has built a network of fundraising locations across the country to harness the power of giving through scale. In addition to our restaurant donations and community campaigns, mobile and online donations have become increasingly important channels for engagement and activation of our customers.

In 2017, the One Yuan Donation program raised and donated nearly RMB 20 million, and the program continues to broaden its scope in order to increase its impact on hunger alleviation. Meanwhile, it further promotes nutrition education, ensuring that children gain a better understanding of the value of a nutritious diet and the benefits that it has on their health and well-being. One such example from 2017 was our development and distribution of booklets explaining the fundamentals of a healthy diet. This booklet was

*"This year marks the 10<sup>th</sup> year of the program and we are honored to provide a platform for customers and employees to contribute to and improve the lives of hundreds of thousands of school-children in impoverished regions throughout China."*

*-Mickey Pant, Vice Chairman and former CEO of Yum China*

distributed to students to provide them the resource both at school and at home.

We have also worked to broaden the geographic reach of the program - expanding into locations in Xinjiang and Heilongjiang. In 2017, the "One Yuan Donation" program started at the Ye Yi Li Gan Elementary School in Xinjiang. At the kick-off event, former Yum China CEO and current Vice Chairman Micky Pant met students from the school and distributed nutritional meals to them before unveiling the new "Love Kitchen" that supports the elementary school in providing regular and nutritional meals for all its students.





The One Yuan Donation program is one of the largest public donation campaigns in China.



**110,000,000**

More than **110 million** customers have donated directly to One Yuan Donation program in restaurants affiliated with Yum China.



**170,000,000**

The total amount of money raised has surpassed **170 million** as of the end of 2017, contributing to over **37.4 million** nutritious meals distributed to students from **10** provinces including Sichuan, Yunnan, Guizhou, Hubei, Guangxi, Hunan, Fujian, Hebei, Xinjiang and Heilongjiang.



**860**

**860** schools in China's impoverished regions have been equipped with "Love Kitchens".



**547,000**

The program benefits more than **547,000** students.

## Our Stories with the "One Yuan Donation" Program

*"There are three reasons contributing to the enduring success of the One Yuan Donation program. First, Yum China employees are fully engaged in the program and they share a strong sense of recognition in the program. Second, the concept that the program promotes, 'micro public good' has been broadly accepted by customers. Finally, the joint efforts of the CFPA and Yum China work to increase and ensure transparency and help the program win deep trust from its donors, which in turn attracts more people to join the program."*

*—Liu Wenkui, Vice President and Executive Director of CFPA*

*"In the past, many students were short and thin because they had just two meals a day. Their staple food was potatoes and their diets lacked protein. After the launch of the 'One Yuan Donation' program, students could enjoy an egg and some milk as nutritious meal options every day. 'One Yuan Donation' brings love from people across the country and it is making a big difference for the children here – they are stronger now and can concentrate more on school courses."*

*—Li Wenfu, the Headmaster of Ao Zi Primary School, Yunnan*



## From One Yuan to Millions

The "One Yuan Donation" program is one of the earliest examples of a Corporate Social Responsibility (CSR) program in China that advocates the concept that "anyone can make an impact on society." Ten years ago, when starting the One Yuan Donation Program, many CSR programs and funds found difficult to raise a large amount of small donations. However, for Yum China, it was the perfect initiative. We asked ourselves, rather than asking a single donor for a large sum, why not ask many donors for a small one? We serve and communicate with millions of customers daily, and we love making a positive impact on the lives of our customers - through our food, our superior service and our people - so why don't we make an impact by giving our customers the chance to give back. From this, the "One Yuan Donation Program" was born.

Through this program, we have developed the core value of the "One Yuan Donation" program - namely, that "anyone can make an impact on society". We've proven that beyond donating money, CSR activity can be an important platform and an important catalyst for change around important issues. We've raised enthusiasm and understanding of these issues, and we've made a significant impact on the lives of millions of people - both those receiving and those donating the funds.

By the end of 2017, the program had raised more than RMB 170 million, with Yum China and its employees donating over RMB 35 million.





## Innovate to Empower: “To Teach People How to Fish Instead of Giving Them Fish”

More children in impoverished areas have benefited from the program and have seen their nutrition improve over the years. At the same time, we continually explore ways to ensure the sustainability of the program and to address the challenges faced by the families in need. In September 2017, the “One Yuan Donation” potato charity sale took place through the KFC Super APP. The event aimed to help sell potatoes, which are a primary source of income for families in impoverished regions of Yunnan province. All of the net proceeds will be returned to local farmers to improve their economic and living conditions. We hope that we can leverage these innovative strategies to “teach people how to fish instead of giving them fish” and truly empower people’s lives.



The One Yuan Donation program is one of the most highly recognized programs in China.



The “Company of the Year” award at the China Annual Conference on Philanthropy.



“Outstanding Contribution Award” by the China Foundation for Poverty Alleviation (CFPA).



One of the top corporate philanthropy programs in China by the Nanfang Philanthropy Communication Award Jury Panel.



“Social Value Co-Creation” China CSR Excellence Award from the SIMENG CSR Promotion Center



## Community Care Bring Love into the Neighborhoods



In the 30 years since we opened the first KFC restaurant in China, we have been living out our commitment to giving back to society with love. We have created a wide range of caring activities that consider real local situations in real communities, and we strive to provide care and improvement to benefit these local people's lives.



## Disaster Relief and Donation

Yum China has focused on giving back to society over the past 30 years as the company has grown its business in the country. Disaster relief and donation are together one of the most important community care initiatives that Yum China continuously makes to fulfill its commitment to the areas and customers served by Yum China restaurants.

In August 2017, a 7.0-magnitude earthquake struck the Jiuzhaigou scenic area, causing widespread damage and injury. Yum China took immediate action by providing all-day food and beverage supplies to aid workers working at our restaurants. We quickly established a special fund to support the affected employees and their families. Yum China also donated 4 million RMB via the China Foundation for Poverty Alleviation to support post-disaster reconstruction and recovery.

Yum China takes charity as one of its priorities and has positively engaged in countless disaster relief efforts through the donation of supplies and resources like food. In 2008, the company made cumulative donations worth more than 21 million RMB to the Wenchuan Great Earthquake areas, and in 2010, a 2 million RMB donation was sent to the Yushu disaster area to aid in relief efforts. In 2013, we donated 5 million RMB to the Sichuan Ya'an Earthquake area, and in 2014 we donated 2 million to the Yunan Ludian Earthquake and coordinated the distribution of relief supplies including water, rice and tents.



## KFC Vcare: Being There for Kids After School

KFC opened its first "School After 4:30pm" themed restaurant in Shenzhen in June 2016 as a part of KFC's initiatives to serve local communities. The restaurant provides school children with a safe and relaxing space after 4:30 pm, when they return from school and while their parents are still at work. Additionally, lots of meaningful programs are offered to enrich their stay utilizing technology, such as playing with VR glasses, 3D modeling and 3D printing. Some have even built exclusive spaces where school kids can read, do homework and listen to music. Every month, these themed restaurants hold a variety of activities including story-telling and kitchen-exploration activities that help contribute to children's overall development and the harmony of the community.



## KFC Launches the Community Care Month to Celebrate KFC's 30<sup>th</sup> Anniversary

In 2017, Yum China's KFC restaurants launched a Community Care Month through a nationwide community service initiative to echo and celebrate the 30<sup>th</sup> anniversary of Yum China's operations in China. Starting in March, our restaurants used various activities to show their gratitude to and care for the communities where they live and work. As part of the campaign, select KFC restaurants in Chongqing and Changsha launched initiatives to provide job opportunities for local mothers who would otherwise seek employment far away from their children and homes.

## Pizza Hut Public Reading Program: Pizza Hut Book Exchange Center

To support the advocacy and promotion of nationwide reading, Yum China and the Shenzhen Book Donation and Exchange Center jointly established a Community Reading Center - the "Shenzhen Pizza Hut Book Donation and Exchange Sub-center" in November 2017. This center is in the Shenzhen Pizza Hut Oriental Garden Restaurant, has a capacity of 2,500 books and can offer services including reading, sharing, and communicating, just like a library. These efforts provide customers and community members with a platform to communicate and interact. Each month, the restaurant purchases and donates top-selling books to this center for readers to share their comments and exchange books.



## KFC and Pizza Hut: Rest and Warmth During a Long Day of Work

Love can make the chilly winter even warmer. Yum China has been dedicated to being a “good neighborhood” by helping provide key resources to the communities in which we operate through our more than 8,100 restaurants across more than 1,200 cities in China. We drive these efforts by launching a series of community activities. Among them, sanitation workers, public security officers and other front-line outdoor workers have always been the focus. These outdoor workers, regardless of extreme cold or heat, are always quietly serving the public. To appreciate their hard work, Yum China’s KFC and Pizza Hut restaurants are transformed into a “home” to send warmth and care to these important members of our society. During winter months, restaurant staff invite sanitation workers, public security officers and other outdoor workers to come into their restaurants to enjoy a cup of hot water and to warm up their hands - and during hot summer months, to have a quick rest with some fresh fruit drinks.



### Warmest Birthday Cake Ever

On the second day of the 2017 Spring Festival, it was a Baotou police officer’s daughter’s 9<sup>th</sup> birthday. The officer could not celebrate with his daughter at home because he was on duty. His daughter went to the public station to visit her father. To her surprise, the local KFC restaurant had specially prepared a birthday cake, meal and small gifts for the little girl, and had sent them to the station upon learning of the situation. Yum China hopes to continue paying tribute to these workers and their family members who are on duty during festivals through our small but, hopefully, heart-warming actions.

## Children and Youth Development Through Education and Engagement



Children and young people are the future of society, and at Yum China it is our privilege and responsibility to make an impact on the lives of these young people. We believe that by connecting with young people on key issues like education, reading, and support for special groups, we can create meaningful change.



## KFC Little Migratory Birds Fund: Provide Support So Left-Behind and Floating Children Can Fly High

At Yum China, we believe that we can make the greatest impact by helping those most in need. “Little Migratory Birds” is a term that refers to left-behind children in rural areas and migrant children who move to cities alone with their parents as they pursue work opportunities. According to the Ministry of Civil Affairs of the People’s Republic of China, there are more than 9 million left-behind children who have both parents away from home in search of work. These left-behind children receive care and education in their home communities, but they only get to see their parents once or twice a year in most instances, and many of these children struggle in school and some have higher rates of health issues.



**1,015**

reading corners  
established



**1,198,882**

reading hours spent



**4,805**

reading activities  
organized

As of Dec. 31, 2017, the program has made great achievement.



In partnership with the China Children and Teenagers’ Foundation (CCTF), Yum China and its KFC restaurants initiated the Little Migratory Birds Fund in 2016. The nationwide charity program provides children with books and reading programs by donating the Little Bird Reading Corner, and leveraging KFC’s restaurant chains throughout China to accompany kids and cheer them up.

As of December 2017, the program had benefited about 600,000 left-behind and migrant children from 1,015 communities. KFC has also established 1,015 permanent reading corners by working with local communities and donating books, audio books and audio equipment. In addition, we have hosted in-store reading sessions and fun gatherings at KFC restaurants across 22 provinces and 97 cities during holiday breaks and summer/winter school breaks. According to an evaluation by the Research Center of Philanthropy and Social Enterprise at Beijing Normal University, an independent 3rd party, beneficiary children are 100% satisfied with the in-store activities and are more than willing to come again.

The program celebrated its first anniversary in November 2017 by upgrading its fund to “version 2.0” and working to benefit an estimated 900,000 left-behind and migrant children in the second year, involving more social investment to care for these populations.

“We hope to grow the ‘Little Migratory Birds’ program into a charitable platform with a nationwide impact that fosters the physical and mental development of left-behind children through comprehensive care.”

—Joey Wat, CEO of Yum China

“When I was little, I spent most of the time with my grandparents and only got the chance to reunion with Mom and Dad during Spring Festival. Everything changed after Mom started to work in KFC, I can stay with Mom and Dad every single day!”

—Su Hongao, used to be a “little migratory bird”



### Mom Restaurant's for Little Migratory Birds

Starting in March 2017, KFC restaurants in Chongqing started a pilot program whereby open job vacancies would be provided to the mothers of left-behind children. These mothers are provided with basic welfare support and flexible working schedule, which allow them to spend more time with their children. Some KFC restaurants even arrange “book corners” for children and mothers also enjoy the freedom to bring their kids to work where the kids can read and play with toys during their mother's working hours.



### Highly Recognized by Media and Charity Community

The program has also been honored with a range of charitable awards including:



“2015-2016 China Women and Children Charity Award” by the All China Women's Federation



“2016 Medal of Caring for Public Welfare” by the Chinese Corporate Philanthropy Medal Summit



“CSR Case of the Year” by the 9th China Corporate Social Responsibility Award



Yum China was awarded “2017 Annual Public Service Enterprises” by China Philanthropy Times due to its outstanding performance in “Little Migratory Birds” program.



## KFC Kid's Book Club: From Learning to Read to Reading to Learn

Reading is among the most important activities for children from birth. It is the most important skill necessary for a happy, productive and successful life - and the transition from “learning to read” to “reading to learn” imbues children with skills and self-confidence.

At Yum China, we're pleased to see our stores function as community centers and places of learning.

Yum China operates one of China's largest children's book clubs in KFC stores across the country. In 2017, we held more than 275,000 storytelling sessions in KFC stores and have given away more than 18 million children's books. We expect that a total of 100 million books will be given away within the next five years, and we will work on creating high-quality audio books for sharing through Yum China's social media platforms, as well as KFC's mobile app.

First rolled out in 2015, our Kid's Book Club initiative aims to cultivate a habit of reading in children by giving away books. In April 2017, under the guidance of the China Women's Federation, Yum China partnered with the China Youth Development Foundation to release the Guidance for Children's Reading by the Kid's Book Club. The report analyzed the current situation and challenges that many children in China face because of insufficient or uneven distribution of reading materials. It also highlighted the importance of reading materials that can benefit children with a better understanding the world, developing their personality and enabling them to experience emotions. Based on this analysis, the report created a list of 78 books in distinct categories for children aged 3+ and 6+, with the goal of promoting a scientific reading system and building up a harmonious reading atmosphere for children.

A group of education specialists, authors and reading experts came together to help create the reading list to ensure the impact and success of the program and the children receiving aid.



**Chinese Culture:** Beautiful Chinese Folktales, Chinese Top Drawing Books Collection, The 24 Solar Terms, etc.



**Children's Literature:** The Wind in the Willows, Cao Wenxuan's Classic Collection, Children's Poems Collection, etc.



**Picture Books:** The Wild Things, Dr. Seuss's Cartoon Books, The Cat with One Million Lives, Reunion, etc.



**Popular Science:** Magic school bus, The best coolest science book, Under earth, under water, etc.



**Humanities and Art:** You Can't Take a Balloon into the Metropolitan Museum, Big Questions From Little People, The book of Travel, etc.



Johnson Huang, General Manager of KFC China made a speech at an event of KFC Kid's Book Club.





## KFC First Light Foundation: Benefiting the Community, Giving Back to Society

In partnership with the China Youth Development Foundation (CYDF), KFC China established the First Light Foundation in 2002 to help students in need. The program created a three-in-one funding mode that combines financial support, practical work placement and community service to enable the students in need to receive education opportunities and grow up.

In 2017, selected students received a two-year grant worth 10,000 RMB. These funds enable students to complete their education with less financial burden. Additionally, we provide students with the opportunity to gain practical work experience in KFC restaurants, with students working over 400 hours in KFC restaurants. Finally, we provide funding and training to students so that they can launch their own community service projects under the “First Light Commune”- embedding in them the spirit of giving back that is so key to Yum China.

Over the past 16 years, KFC has contributed more than 94 million RMB, and the project today covers 64 universities across 30 cities and helps more than 14,000 students with their educational advancement.



*“The KFC ‘First Light’ Foundation came to my life at just the right time. With its funding, I was able to stick to and continue my studies.”*

— Shi Congcong, a First Light Student and Philosophy Major at Northwest University



*“We are always proud to say that we are First Light Students, because we really cherish this opportunity. I thank KFC for giving us a platform to gain these real-world experiences and skills. I have learned countless valuable life skills from working with KFC restaurants. I understand my own strengths and weaknesses, and I know how to work with these teams. I know I will continue to use these skills throughout my career.”*

— Qiao Yongbo, Xi’an University of Finance and Economics student and President of the “First Light Commune” at the Xi’an University of Finance and Economics



*“Because of some tragedies that happened in my family, I had to take over responsibilities from my parents and support the whole family at a very early age. The financial pressure was huge because the whole family was counting on me and only me. The First Light Foundation had relieved some of this pressure. But to me, I must be self-reliant and as a First Light Student, I must work hard and improve myself. As such, I was extremely proud to be awarded the ‘Star of Self-improvement’ amongst Chinese University Students.”*

— Liu Xing, First Light Student and 2008 graduate of China Agricultural University



## Healthy Living – Promote Active and Healthy Lifestyles



Yum China is committed to promoting the importance of balanced, active lifestyles. We believe that exercise, physical activity and living a healthy and active lifestyle are important for every individual, and particularly for children and young people who are forming habits that they will carry throughout their lives.



## KFC 3x3 Basketball Championship: Promoting Sports and an Active Lifestyle

2017 marks the 14th year of KFC's 3X3 basketball championship, one of the most influential youth basketball tournaments in the country. Launched in 2004, it has today evolved into the world's largest grassroots basketball program, hosting more than 1.6 million participants.

Through a partnership with the Chinese Basketball Association (CBA), the KFC 3x3 basketball program encourages teamwork and inspires young people to lead active, healthy lifestyles. At Yum China, we hope that this competition serves as a platform for young emerging basketball players to showcase their amazing skills and to realize their dreams.

In 2017, a total of 430,000 student participants from over 4,600 schools representing 50 cities took part in this year's games. After a 3-month journey of competition, 32 teams made it through to the final match. A growing number of teenagers from tier two and three cities also joined the competition. Yao Ming, President of the Chinese Basketball Association (CBA) and a large supporter of the program, said: "3x3 basketball is entering a new phase of explosive

growth and the sport has recently been added to the roster for the 2020 Olympic Games in Tokyo. KFC's national competition demonstrates the huge potential of the sport in China and will provide a launch pad for the players of the future."

In addition to our partnership with CBA, we also partnered with the Chinese Society of Education to introduce the KFC 3x3 program to junior and senior high schools, significantly increasing the number of participants and helping promote active lifestyles and participation in sports amongst students.

In June 2017, the 3x3 basketball game was officially added to the roster of the 2020 Olympic Games in Tokyo, demonstrating how the sport has evolved from a minority street exercise to a broadly popular sport. "KFC, as the promoter and advocate of the sport in China, has been supporting grassroots programs to enable students to realize their dreams. This program has been running for 14 years and will continue to provide a bigger platform to motivate more teenagers to pursue their dreams," said Joey Wat, CEO of Yum China.





## Marathon: Running for a Healthy and Active Lifestyle

With more than 450,000 employees throughout China, our culture and our company priorities have a significant impact across the country. As such, we work to promote an active and balanced lifestyle and encourage employees to stay fit and exercise.

KFC has not only been committed to providing quality food to consumers, but is also working hard to ensure that our brand is healthy, fashionable, dynamic and youthful for consumers throughout China.

We initiated our support for the development of marathons in 2016 through our K-Run teams, encouraging not only employees and KFC WOW members to join K-Run teams to participate in full marathons, but also encouraging families across China to thrive together through family runs. In 2016, we helped assemble 650 K-Run team members and 1000 families across 9 marathons.

In 2017, KFC actively practiced the theme of "running and not stopping" through marathons to promote the spirit of living a healthy and active lifestyle for more people. This year, we have engaged 1,895 K-Run team members and 2,500 families across 19 marathons.

By the end of 2017, KFC had supported 28 marathons, with 3,500 families participating in the family runs, and more than 2,500 runners joining our K-Run teams.

We hope that the impact of these events will continue to develop and impact the lives of our employees and their families.



### A Journey to Dreams Beyond Expectation

Over the past 14 years, the KFC 3X3 Youth Basketball Championship has created a journey whereby thousands of teenagers are able to pursue their dreams. This program encourages these teens to enjoy the game and the spirit of teamwork and cooperation while learning never to give up.

Liu Xiaoyu, who was the first champion of the game, is now a professional player in the China Basketball Association, and has been selected to represent the China national team in international competitions.

KFC's basketball program also provided the opportunity for Chinese basketball player Liu Xiaoyu to launch his professional career. In 2004, as a senior high school student, Liu Xiaoyu participated in the 3x3 basketball game, representing Jilin province and eventually winning the final national competition. The experience encouraged him to continue to passionately pursue his dream and practice his basketball skills to become a professional player. The platform motivated him to grow into an excellent basketball player and a role model for teenagers, and even winning the CBA grand championship four times.



### See for You - KFC K-Run Team Volunteered for Blind Runners in Shanghai Marathon

Yum China believes that by leveraging marathon and K-Run teams, we can relentlessly pass on the spirit of living a healthy and active lifestyle. We not only promote a healthy lifestyle amongst employees at Yum China through many K-Run teams, but we also help the public outside the company practice these lifestyles.

In November 2017, the 2017 Shanghai Marathon opened with more than 40,000 participants worldwide. Two blind runners also joined the competition, wearing bright orange T-shirts and successfully completing the competition together with two guides. The two guides are both volunteers from KFC's K-Run team who were there to guide the blind runners as they ran on the track, securing their safety. KFC also organized volunteers to cheer for them and encouraged them to enjoy a healthy and active lifestyle.



# Environment

肯德基



# Our Environment


**Sustainability is at the core of our operations and we continuously implement initiatives to reduce our environmental footprint for the benefit of our customers, stakeholders and the planet. We recognize that what we do today will matter tomorrow.**


At Yum China, we acknowledge our role as an environmentally responsible corporate steward and we cultivate our corporate culture to encourage environmental sustainability and greener operations.


Similar to the global community, environmental protection and sustainability are key priorities for Chinese leaders. The report by China's President Xi Jinping at the 19th Party Congress highlights that China will promote balanced economic, political, cultural, social and ecological progress. The report stresses that "ensuring harmony between humans and nature" is one of the fourteen fundamental principles laid out by the Party. At Yum China, we are committed to supporting these goals and striving to make positive contributions towards China's sustainable development.


We believe that the work we do today to improve our environmental protection and promote environmental sustainability will benefit not just the current generation, but many generations to come. We are dedicated and relentless in our efforts to leverage our strength to drive positive changes in the Food we Eat, the Water we Drink, and the Air we Breathe - to make every life taste beautiful.

At Yum China, we drive environmental protection priorities and best practices into our day-to-day business. We set ambitious - and, in some cases, aspirational - goals, aiming to develop greener restaurants, create a greener supply chain, and build greener communities. We are committed to:

 Designing and building 100% of company-owned restaurants in accordance with Yum China green building standards.

 Driving an additional 10% energy efficiency improvement for company-owned restaurants by 2025.

 Driving an additional 5-10% water efficiency improvement for company-owned restaurants by 2025.

 Promoting sustainable sourcing that benefits the protection of forests.





## Developing Greener Restaurants : Design and Operate Sustainable Restaurants

As one of China's most successful and rapidly growing restaurant companies, we are committed to developing greener restaurants to reduce our environmental footprint. We test, evaluate and implement a variety of solutions to design and construct sustainable restaurants, improve energy and water efficiency, and reduce waste.



## Green Building

At Yum China, we follow our comprehensive green building standards for all of our restaurants, and we work to achieve a desirable balance between creating a comfortable dining experience for our customers and operating sustainably.

The Yum China green building standard draws reference from relevant aspects of the Leadership in Energy and Environmental Design (LEED) green building certification program. This green building standard focuses on core areas of energy saving, water conservation, sensible material use, and suitable human environment design. It also provides specific, actionable green building solutions that have been tested in our foundational green buildings, including six LEED Gold certified KFC restaurants in cities across climatically diverse regions in China.

We are committed to designing and building 100% of our company-owned restaurants to meet Yum China green building standards. We are pleased to report that, in 2017, all of our 691 new company-owned restaurants were in full compliance with this standard.



In 2016, all KFC and Pizza Hut restaurants in Shanghai were awarded the “Green Restaurant” designation by the Shanghai Restaurants Cuisine Association.



We also make continuous efforts to enhance our customers' dining experiences at all our restaurants.



We use high-performance paint for the interior walls at our restaurants, creating lower volatile organic compound (VOC) emissions than China national standard.



We install high color rendering index LED lights at our restaurants, displaying our meals in natural colors to create a comfortable and welcoming atmosphere, and more importantly, to protect customers' vision health.



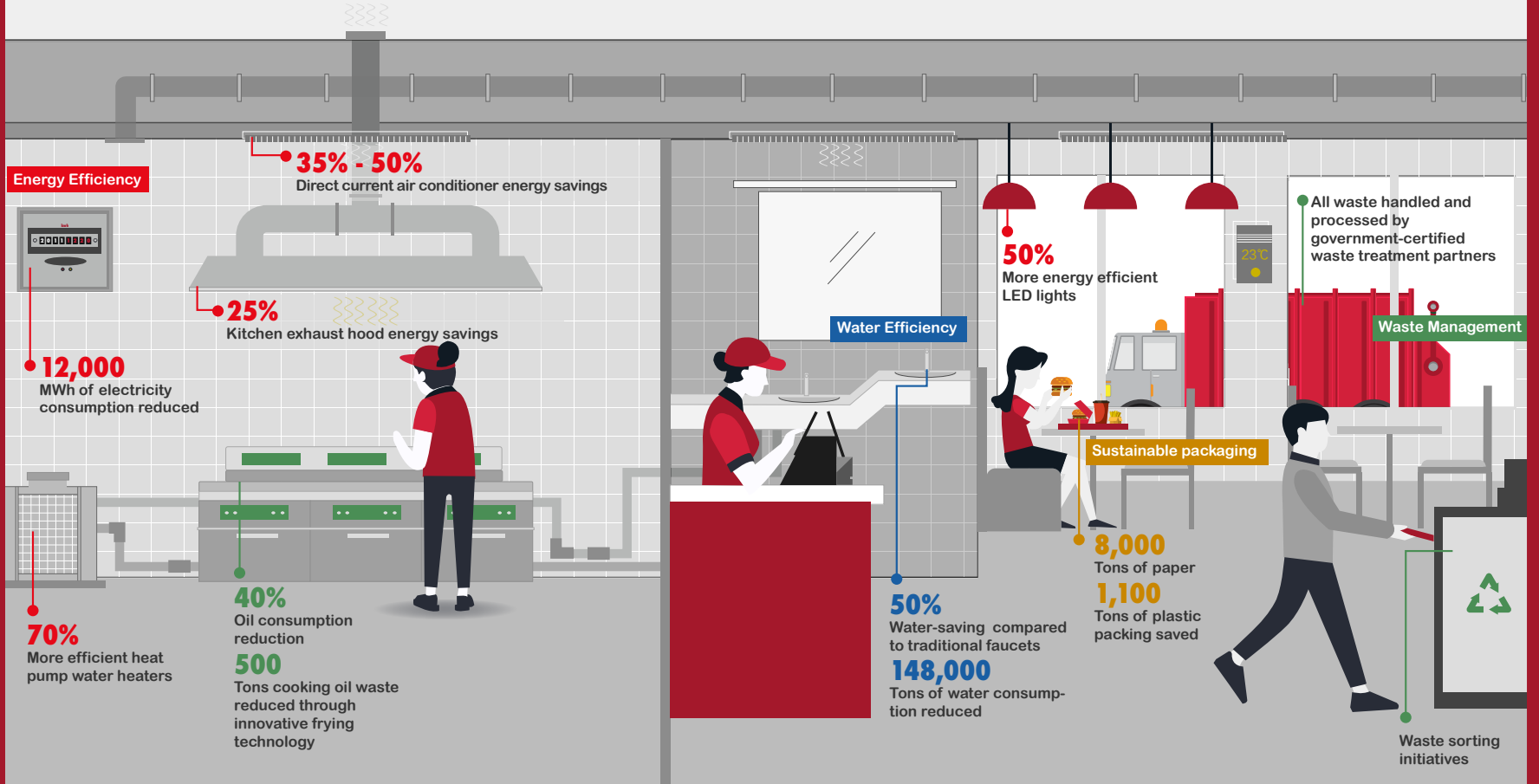
We set seasonal temperatures at our restaurants with high-efficiency direct current (DC) inverter air conditioning to ensure constant temperature control.



We ensure our restaurants are well ventilated with the use of fresh air systems.



# We Build Sustainability into Every Aspect of Our Restaurants



We build our greener restaurants via Energy Efficiency Improvement, Water Efficiency Improvement, Waste Reduction and Sustainable Packaging.

In 2017, we reduced 8,100 tons of greenhouse gases emissions, equivalent to 875 homes' energy use for one year.

\* All percentage figures represent the technical indicators of the technologies adopted in our restaurants.

\* All absolute figures represent the actual savings generated in 2017.



## Energy Efficiency

At Yum China, energy efficiency has been instrumental to our sustainability roadmap. We impart energy saving into our daily restaurant operations. We measure and control the level of energy consumption in our restaurants to ensure they are energy sustainable. We drive the research and implementation of innovative technologies and systems to improve energy efficiency. We are committed to addressing climate change by reducing greenhouse gas emissions (GHG) in our own business and beyond.

Through the end of 2017, the energy-saving initiatives that we developed and implemented have contributed to about 10% of energy efficiency improvement in our company-owned new restaurants. We will continue to explore energy efficiency improvement opportunities through new technologies in the future. We are committed to our bold goal to drive a further 10% energy efficiency improvement for company-owned restaurants by 2025.

We evaluate and select our new equipment based upon its total cost of ownership (TCO), including energy consumption and maintenance cost, instead of simply the initial equipment cost. This measure guides us to choose higher energy efficiency equipment, even in cases where such equipment has higher initial cost.

We make restaurant energy management one of the key responsibilities of restaurant general managers (RGM). We design our restaurant energy management system to be management friendly for our front-line staff, as well as to be adaptable and scalable. We developed a color code system that manages the operation of our kitchen equipment and facilities based on specific operational hours and business requirements.

In 2017, with innovative energy-saving technologies and an energy management system, we reduced nearly 12,000MWh of electricity consumption - equivalent to over 8,100 tons of GHG emissions, or over 875 homes' energy use for one year<sup>1</sup>.

1. The GHG emissions is calculated with Greenhouse Gas Equivalencies Calculation published on US Environmental Protection Agency.





### **Kitchen cooking fume exhaust control system**

Our high-efficiency exhaust hoods reduce exhaust volumes by around 40%, and save energy consumption by up to 25%. These hoods were installed in KFC restaurants starting July 2017 and will be replicated in Pizza Hut restaurants from 2018. In 2017, these energy-saving hoods contributed to nearly 1,300 MWh of electricity saving, equivalent to 884 tons GHG emissions reduction.



### **LED Lighting at all our restaurants**

LED technology has been applied in our company-owned restaurants since 2013. In 2017, we saved more than 3,900 MWh of electricity through the application of LED lighting. This is equivalent to more than 2,600 tons GHG emissions reduction.



### **High-Efficiency Direct Current Air Conditioning System**

Our DC air conditioning system can reduce 35-50% of total energy consumption per unit. We started to install these equipment in our company-owned restaurants in 2012. In 2017, 761 units were installed, generating more than 5,800 MWh worth savings on electricity - equivalent to nearly 4,000 tons GHG emissions reduction.



### **Heat pump water heater**

Heat pump water heaters have been installed in our KFC restaurants since May 2017, and will be rolled out to all Pizza Hut restaurants in 2018. By the end of 2017, more than 200 installations have been completed, generating over 900 MWh of electricity savings, equivalent to more than 600 tons GHG emissions.

## Water Management

At Yum China, water efficiency is also a key component of our sustainability roadmap. We are actively taking measures to reduce water consumption and to conserve water resources. We improved our water efficiency by approximately 3.5% through 2017, and we are committed to driving a further 5-10% water efficiency improvement for company-owned restaurants by 2025.

We have implemented various technologies to improve our ability to measure and reduce water usage. We work with the World Resources Institute (WRI) to assess and identify potential impacts generated by water resources on Yum China's existing and future business operations to enhance our overall water management capabilities.

Water efficiency is one of our most important criteria for new equipment selection. In 2016, we started to install water-saving faucets at the customer and employee wash basins in our new company-owned restaurants. These water-saving faucets consume approximately 50% less water than is required by the China national standard. These efforts collectively saved over 148,000 tons of water in 2017.



**5-10%**

We are committed to driving a further 5-10% water efficiency improvement for company-owned restaurants by 2025.

## Waste Management

Yum China is committed to reducing waste through waste management. We have stringent waste management system in place to comply with relevant national and local regulations. In addition, we make every effort to reduce wastes generated from our operations.

Our specialized teams in different markets collaborate with 3<sup>rd</sup> party waste treatment companies that are certified by local government authorities to handle all wastes. In order to ensure proper traceability and disposal of waste cooking oil, all of our 3<sup>rd</sup> party waste treatment companies are required to record and document the details of waste cooking oil collected. These requirements form part of our formal contract with suppliers.

We continuously explore new technologies to reduce waste throughout our operation. In 2017, innovative frying technologies were adopted to control the volume of oil used in cooking. This technology is able to reduce cooking oil consumption and subsequently reduce cooking oil waste by 40%. By applying this technology in our KFC restaurants, we reduced cooking oil consumption by more than 500 tons in 2017.

In addition, we piloted waste sorting projects in KFC restaurants in 2016 to allow our customers to properly sort waste through the use of newly-designed garbage bins. By the end of 2017, we implemented this project in over 100 KFC restaurants, and we are targeting a rollout to over 1,000 restaurants in 2018.



# Creating a Greener Supply Chain: Sustainability from Planning to Procurement to Product



At Yum China, we work to create one of the best supply chains in the industry, and we are continuously making efforts to create a greener ecosystem. We embrace every opportunity to engage our suppliers to collectively drive environmental sustainability priorities and responsible practices. We prioritize sustainable sourcing initiatives based on our product impact and influence, through which we focus on the products that carry the least impact on deforestation and the areas where we have the most influence to create positive change.



## Supplier's Code of Conduct

We guide and encourage our suppliers to commit to responsible production. As mentioned in the FOOD section, in addition to a rigorous Code of Conduct that all of our suppliers must abide by and follow, we also developed a Corporate Social Responsibility (CSR) audit program in which suppliers' performance on environmental protection measures is a key element.

## Supporting Sustainable Palm Oil

Sustainable palm oil is an important issue for our business and the industry.

We are committed to working with our peers, suppliers, NGOs, and other stakeholders to support the production of sustainable palm oil. In 2017, we became a member of the Roundtable on Sustainable Palm Oil (RSPO), a global nonprofit initiative uniting stakeholders across the supply chain to develop and implement global standards for sustainable palm oil.



### **Working with Suppliers Who Are Committed to Sustainability**

*We encourage our suppliers to make integrated environmental efforts. For example, some suppliers utilize farming and animal breeding waste as a source of fuel to create more environmental efficiency and sustainability. Some suppliers use rice husks for power generation.*

*Fujian Sunner Development Co., Ltd, a leading chicken supplier in China, has been proactively protecting the environment and successfully practicing sustainable operations. Currently, Sunner is able to annually process over 100,000 tons of wasted side products and over 1,000,000 tons of chicken manure.*



## Sustainable Packaging

Yum China is committed to protecting our environment through sustainable packaging initiatives. We adopt the principle of Reduce, Reuse, Replace to actively drive innovation in the application of new packaging solutions, new materials and new technology to reduce packaging usage. In addition to our constant effort to reduce packaging weight and substitute plastic with paper material,

- we embraced digital technologies to reduce paper usage. Since 2010, we have replaced paper coupons with digital coupons, resulting in 98% less paper coupon usage.
- we included the option of “0 tableware” on all KFC and Pizza Hut online ordering platforms so that our customers can join our effort to reduce disposable packaging for delivered meals.
- we applied 100% water-based flexographic printing ink on all paper packaging at KFC.

With the technologies and weight reduction projects implemented last year, we saved about 8,000 tons of paper and over 1,100 tons of plastic in 2017.



**98%**

Since 2010, we have replaced paper coupons with digital coupons, resulting in 98% less paper coupon usage.



# Building a Greener Community : Promoting Sustainability Culture Within Our Community



At Yum China, we are passionate about sustainability and we are committed to encouraging environmental awareness, education and action by extending our efforts and values to our customers and communities. Overcoming environmental challenges requires collective efforts and actions, and no one organization can overcome all of the vast environmental challenges we face.



From GHG emissions reduction, energy efficiency improvements and water conservation to sustainable urbanization and environmental protection planning and policy research, tackling environmental challenges requires the participation of many stakeholders. As such, at Yum China we are proud to promote sustainability culture in our communities and address environmental challenges collaboratively and comprehensively.



### **Eco-friendly KFC Restaurant in Fuzhou Engages and Mobilizes the Community**

*On April 19, 2017, before the 48th annual Earth Day, a fun KFC Environmental Carnival was held in an eco-friendly KFC restaurant located in Fuzhou University Town. The event was organized by the Fuzhou Environmental Protection Agency, the Fuzhou Environmental Protection Association, Yum China and the Green Min Youth Volunteer Service Center. This event attracted about 300 community residents and college students.*

*At this event, a series of interactive environmental experience projects were organized to engage and educate the community. The participants could easily learn the environmental knowledge through the event's games, and many were happy to invite their families and friends to join the "environmental protection army."*

*The Fuzhou Environmental Protection Association awarded this restaurant by naming it the "Green Practice Base for College Students". During the past year, college students from neighboring universities held a total of 13 environmental charity salons and lectures in the restaurant. These events collectively garnered nearly ten thousand RMB in charity sales.*



# Final Remarks

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Since we opened our first restaurant in Beijing, Yum China has been committed to making a material difference on the economic and social development of China. Becoming an independent, publicly-traded company was a major milestone for our company. As such, we're pleased to double down on our commitment to making a positive impact on China - as we showcase in this report. Indeed, we are building on our past success and new capabilities, and we look forward to working towards these sustainability goals and making an impact across four key areas:



**Our Food:** We serve millions of customers annually, and from raw ingredients to our supply chain and restaurants, we take every action to ensure that we provide customers with healthy, nutritious and high-quality food products.



**Our People:** At the heart of our efforts, successes and aspirations are our more than 450,000 employees. Every day across our over 8,100 stores, our employees provide nourishing food for families and communities. As one of the largest employers in China, we're honored to continue investing significant resources in developing our people.



**Our Community:** We focus on areas where our expertise and scale can make the biggest impact and benefit the communities we operate in. Programs like our flagship One Yuan Donation program impact our communities directly, providing aid and opportunities that make an impact.



**Our Environment:** We promote environmental sustainability and leadership throughout our operations, acknowledging our role as an environmentally responsible corporate steward and cultivating our corporate culture to encourage environmental sustainability and greener operations.

Yum China has made considerable progress in the past 30 years and we are committed to bringing more value to stakeholders and communities throughout China in the years ahead. Together with our employees and partners, we look forward to working together to make every life taste beautiful!

# About this Report

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## Report Profile, Scope and Boundary

Since entering China in 1987, Yum China has been committed to sustainability and making an impact. The Yum China Corporate Social Responsibility (CSR) and Sustainability Report is our first such report as an independently listed company. As this report showcases, we focus our performance on four key areas where our scale and expertise can make the biggest impact: on our Food, our People, our Community and our Environment.

We recognize that we have a duty to provide transparent sustainability information to our broad groups of stakeholders including employees, customers, consumers, suppliers, shareholders, governments, and more. In this report, we aim to provide a transparent assessment of our sustainability journey and provide information on our sustainability efforts, partnerships and programs.

This report covers all Yum China's corporate operations, including our restaurant support centers, restaurants and other Yum China owned and operated facilities. The reporting time frame covers January to December 2017. All information, facts and figures contained in this report fall within this reporting frame unless otherwise noted. Data and figures are reported in Chinese RMB with the exception of the Yum China stock price which is displayed in USD.

This report was produced in accordance with the Global Reporting Initiative (GRI) G4 Sustainability Reporting Guidelines.

## Materiality Assessment

Yum China conducted a materiality assessment to identify the sustainability issues most material to our business and our stakeholders to determine the content and information contained in this report. We're constantly looking across our business operations to identify the key areas where we have the strongest ability to make a material impact on the communities we operate in.

## Assurance

To ensure accuracy of the content and information in this report, Yum China conducted an internal review of all data and assertions contained in this report. Yum China's internal subject matter experts and all members of the Yum China Leadership Team reviewed and approved the report.

We sincerely hope that this 2017 Yum China Corporate Social Responsibility (CSR) and Sustainability Report will enable our stakeholders to easily identify and find the information that is most relevant to them. We welcome your feedback on this report.

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# GRI G4 Content Index

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<b>Environment</b>		
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Compliance	G4-DMA	Generic disclosures on management approach
Effluents and waste	G4-EN23	Total weight of waste by type and disposal method
	G4-DMA	Generic disclosures on management approach
Emissions	G4-EN19	Reduction of greenhouse gas (GHG) emissions
	G4-DMA	Generic disclosures on management approach
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Supplier environmental assessment	G4-DMA	Generic disclosures on management approach
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## Social

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	G4-DMA	Generic disclosures on management approach
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	G4-DMA	Generic disclosures on management approach
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Occupational Health and Safety	G4-DMA	Generic disclosures on management approach
Supplier assessment for labor practices	G4-DMA	Generic disclosures on management approach



Category	G4	Notes
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	G4-LA9	Average hours of training per year per employee by gender, and by employee category
	G4-DMA	Generic disclosures on management approach
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**Yum China Holdings, Inc.**  
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