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

FORM 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2018

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ____________ to _________________

Commission file number 001-37762

Yum China Holdings, Inc.
(Exact Name of Registrant as Specified in Its Charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	**81-2421743** (I.R.S. Employer Identification No.)
7100 Corporate Drive **Plano, Texas 75024** **United States of America**	**Yum China Building** **20 Tian Yao Qiao Road** **Shanghai 200030** **People's Republic of China**

(Address, Including Zip Code, of Principal Executive Offices)

(469) 980-2898
(Registrant's Telephone Number, Including Area Code)

Not Applicable
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The number of shares outstanding of the registrant's common stock as of November 2, 2018 was 379,074,892 shares.

Yum China Holdings, Inc.

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PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Condensed Consolidated Statements of Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions, except for per share data)

	Quarter Ended		Year to Date Ended	
Revenues	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Company sales	$ 2,008	$ 1,924	$ 5,912	$ 5,326
Franchise fees and income	36	38	110	107
Revenues from transactions with franchisees and unconsolidated affiliates	159	160	461	448
Other revenues	9	8	18	16
Total revenues	2,212	2,130	6,501	5,897
Costs and Expenses, Net				
Company restaurants				
Food and paper	610	560	1,775	1,529
Payroll and employee benefits	430	403	1,296	1,137
Occupancy and other operating expenses	615	614	1,841	1,683
Company restaurant expenses	1,655	1,577	4,912	4,349
General and administrative expenses	119	123	334	339
Franchise expenses	18	19	55	54
Expenses for transactions with franchisees and unconsolidated affiliates	156	159	454	443
Other operating costs and expenses	6	8	17	14
Closures and impairment (income) expenses, net	(1)	2	15	20
Other income, net	(10)	(22)	(143)	(53)
Total costs and expenses, net	1,943	1,866	5,644	5,166
Operating Profit	269	264	857	731
Interest and other income, net	10	8	28	16
Income Before Income Taxes	279	272	885	747
Income tax provision	(67)	(87)	(227)	(220)
Net income – including noncontrolling interests	212	185	658	527
Net income – noncontrolling interests	9	9	24	22
Net Income – Yum China Holdings, Inc.	$ 203	$ 176	$ 634	$ 505
Weighted-average common shares outstanding (in millions):				
Basic	384	386	386	387
Diluted	394	398	398	397
Basic Earnings Per Common Share	$ 0.53	$ 0.46	$ 1.64	$ 1.30
Diluted Earnings Per Common Share	$ 0.51	$ 0.44	$ 1.59	$ 1.27
Cash Dividends Declared Per Common Share	$ 0.10	$ —	$ 0.30	$ —

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Comprehensive Income (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Net income - including noncontrolling interests	$ 212	$ 185	$ 658	$ 527
Other comprehensive income, net of tax of nil:				
Foreign currency translation adjustments	(98)	46	(156)	93
Comprehensive income - including noncontrolling interests	114	231	502	620
Comprehensive income - noncontrolling interests	6	10	19	25
Comprehensive Income - Yum China Holdings, Inc.	$ 108	$ 221	$ 483	$ 595

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Statements of Cash Flows (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	Year to Date Ended	
	9/30/2018	9/30/2017
Cash Flows – Operating Activities		
Net income – including noncontrolling interests	$ 658	$ 527
Depreciation and amortization	343	301
Closures and impairment expenses	15	20
Gain from re-measurement of equity interest upon acquisition	(98)	—
Deferred income taxes	46	(3)
Equity income from investments in unconsolidated affiliates	(52)	(54)
Distributions received from unconsolidated affiliates	51	39
Share-based compensation	18	18
Changes in accounts receivable	2	12
Changes in inventories	14	18
Changes in prepaid expenses and other current assets	(13)	(5)
Changes in accounts payable and other current liabilities	184	89
Changes in income taxes payable	41	51
Other, net	(36)	(28)
Net Cash Provided by Operating Activities	1,173	985
Cash Flows – Investing Activities		
Capital spending	(359)	(295)
Purchases of short-term investments	(513)	(394)
Maturities of short-term investments	513	387
Investment in equity securities	(74)	—
Acquisition of business, net of cash acquired	(91)	(25)
Other, net	(3)	—
Net Cash Used in Investing Activities	(527)	(327)
Cash Flows – Financing Activities		
Payment of capital lease obligation	(2)	(2)
Repayment of short-term borrowings assumed from acquisition	(10)	—
Repurchase of shares of common stock	(161)	(128)
Proceeds from exercise of stock options	—	5
Cash dividends paid on common stock	(115)	—
Dividends paid to noncontrolling interests	(29)	(22)
Other, net	(1)	—
Net Cash Used in Financing Activities	(318)	(147)
Effect of Exchange Rates on Cash and Cash Equivalents	(53)	27
Net Increase in Cash and Cash Equivalents	275	538
Cash and Cash Equivalents - Beginning of Period	1,059	885
Cash and Cash Equivalents - End of Period	$ 1,334	$ 1,423
Supplemental Cash Flow Data		
Cash paid for income tax	157	175

See accompanying Notes to Condensed Consolidated Financial Statements.

Condensed Consolidated Balance Sheets (Unaudited)
Yum China Holdings, Inc.
(in US$ millions)

	9/30/2018	12/31/2017
ASSETS		
Current Assets		
Cash and cash equivalents	$ 1,334	$ 1,059
Short-term investments	198	205
Accounts receivable, net	65	79
Inventories, net	270	297
Prepaid expenses and other current assets	179	162
Total Current Assets	2,046	1,802
Property, plant and equipment, net	1,605	1,691
Goodwill	266	108
Intangible assets, net	133	101
Investments in unconsolidated affiliates	68	95
Other assets	498	385
Deferred income taxes	75	105
Total Assets	$ 4,691	$ 4,287
LIABILITIES, REDEEMABLE NONCONTROLLING INTEREST AND EQUITY		
Current Liabilities		
Accounts payable and other current liabilities	$ 1,116	$ 985
Income taxes payable	76	39
Total Current Liabilities	1,192	1,024
Capital lease obligations	26	28
Other liabilities	385	388
Total Liabilities	1,603	1,440
Redeemable Noncontrolling Interest	5	5
Equity		
Common stock, $0.01 par value; 1,000 million shares authorized; 391 million shares and 389 million shares issued at September 30, 2018 and December 31, 2017, respectively; 382 million shares and 385 million shares outstanding at September 30, 2018 and December 31, 2017, respectively	4	4
Treasury stock	(315)	(148)
Additional paid-in capital	2,393	2,375
Retained earnings	916	397
Accumulated other comprehensive (loss) income	(14)	137
Total Equity – Yum China Holdings, Inc.	2,984	2,765
Noncontrolling interests	99	77
Total Equity	3,083	2,842
Total Liabilities, Redeemable Noncontrolling Interest and Equity	$ 4,691	$ 4,287

See accompanying Notes to Condensed Consolidated Financial Statements.

Notes to Condensed Consolidated Financial Statements (Unaudited)
(Tabular amounts in US$ millions)

Note 1 – Description of the Business

Yum China Holdings, Inc. ("Yum China" and, together with its subsidiaries, the "Company," "we," "us" and "our") was incorporated in Delaware on April 1, 2016. The Company separated from Yum! Brands, Inc. ("YUM" or the "Parent") on October 31, 2016 (the "separation"), becoming an independent publicly traded company as a result of a pro rata distribution (the "distribution") of all outstanding shares of Yum China common stock to shareholders of YUM. On October 31, 2016, YUM's shareholders of record as of 5:00 p.m. Eastern Time on October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. Yum China's common stock began trading "regular way" under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016.

The Company owns, franchises or has an ownership in entities that own and operate restaurants under the KFC, Pizza Hut, East Dawning, Little Sheep and Taco Bell concepts (collectively, the "Concepts"). In connection with the separation of the Company from YUM, Yum! Restaurants Asia Pte. Ltd., a wholly-owned indirect subsidiary of YUM, and Yum Restaurants Consulting (Shanghai) Company Limited ("YCCL"), a wholly-owned indirect subsidiary of Yum China, entered into a 50-year master license agreement with automatic renewals for additional consecutive renewal terms of 50 years each, subject only to YCCL being in "good standing" and unless YCCL gives notice of its intent not to renew, for the exclusive right to use and sub-license the use of intellectual property owned by YUM and its subsidiaries for the development and operation of the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands and their related marks and other intellectual property rights for restaurant services in the People's Republic of China, excluding Hong Kong, Taiwan and Macau (the "PRC" or "China"). In exchange, we pay a license fee to YUM equal to 3% of net system sales from both our Company and franchise restaurants. We own the intellectual property of East Dawning and Little Sheep and pay no license fee related to these Concepts.

The Company also owns a controlling interest in the holding company of DAOJIA.com.cn ("Daojia"), an established online food delivery service provider in China.

Note 2 – Basis of Presentation

In connection with our separation from YUM, the direct and indirect equity interests of all of our operating subsidiaries and intermediate holding companies were transferred from YUM to Yum China, when Yum China was still one of YUM's subsidiaries, through a series of transactions, which were completed in August 2016. The Company separated from YUM on October 31, 2016, becoming an independent publicly traded company as a result of a pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM.

For periods prior to October 31, 2016, the combined financial statements of YUM's China businesses and operations when Yum China was a wholly-owned subsidiary of YUM are referred to as Condensed Combined Financial Statements. For periods subsequent to October 31, 2016, the consolidated financial statements of the Company as a separate publicly traded company following its separation from YUM are referred to as Condensed Consolidated Financial Statements.

Our preparation of the accompanying Condensed Consolidated Financial Statements in conformity with Generally Accepted Accounting Principles in the United States of America ("GAAP") requires us to make estimates and assumptions that affect reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

We have prepared the Condensed Consolidated Financial Statements in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. The Condensed Consolidated Financial Statements include all normal and recurring adjustments considered necessary to present fairly our financial position as of September 30, 2018, and the results of our operations and comprehensive income for the quarters and years to date ended September 30, 2018 and 2017, and cash flows for the years to date ended September 30, 2018 and 2017. Our results of operations, comprehensive income and cash flows for these interim periods are not necessarily indicative of the results to be expected for the full year. These statements should be read in conjunction with the Consolidated and Combined Financial Statements and notes thereto defined and included in the Company's Annual Report on Form 10-K as filed with the SEC on February 27, 2018.

Through the acquisition of Daojia during the second quarter of 2017, the Company also acquired a variable interest entity ("VIE") and subsidiaries of the VIE effectively controlled by Daojia. There exists a parent-subsidiary relationship between Daojia and its VIE as a result of certain exclusive agreements that require Daojia to consolidate its VIE and subsidiaries of the VIE because Daojia is the primary beneficiary that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb substantially all of the profits and all of the expected losses of the VIE. The acquired VIE and its subsidiaries were considered immaterial, both individually and in the aggregate. The results of Daojia's operations have been included in the Company's Condensed Consolidated Financial Statements since the acquisition date.

During the first quarter of 2018, the Company completed the acquisition of an additional 36% equity interest in an unconsolidated affiliate that operates KFC stores in Wuxi, China ("Wuxi KFC"), for cash consideration of approximately $98 million, increasing the Company's equity interest to 83%, allowing the Company to consolidate the entity. The acquisition was considered immaterial. We began consolidating Wuxi KFC upon the completion of acquisition.

Recently Adopted Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASC 606"), to provide principles within a single framework for revenue recognition of transactions involving contracts with customers across all industries. The standard allows for either a full retrospective or modified retrospective transition method. In March, April and May 2016, the FASB issued the following amendments to clarify the implementation guidance: ASU No. 2016-04, *Liabilities-Extinguishments of liabilities (Subtopic 450-20): Revenue of Breakage for Certain Prepaid Stored-Value Products (a consensus of the FASB Emerging Issues Task Force)*, ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10 *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing* and ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*. The Company adopted these standards on January 1, 2018, and applied the full retrospective approach.

The new standard did not have an impact on our recognition of revenue from Company-owned restaurants or our recognition of continuing fees from franchisees and unconsolidated affiliates; however, it changed the way we account for upfront fees. Upfront fees, such as initial and renewal fees from franchisees and unconsolidated affiliates, were previously recognized as revenue when we performed substantially all initial services required by the franchise agreement, generally upon the opening of a store or when a renewal agreement with a franchisee became effective. We now recognize the upfront fees from franchisees and unconsolidated affiliates as revenue over the term of each franchise agreement as the franchise rights are accounted for as rights to access our symbolic intellectual property in accordance with the new standard. Any unamortized portion of fees received is accounted for as a contract liability.

The new standard also had an impact on certain transactions we entered into with franchisees and unconsolidated affiliates, such as sales of food and paper products and advertising services. These transactions were previously either not included or presented on a net basis in our statements of income or cash flows based on industry-specific guidance included in previous accounting guidance, which was superseded by the new standard. Under the new standard, we consider ourselves the principal in these arrangements as we have the ability to control a promised good or service before transferring that good or service to the customer. Therefore, we include such transactions in revenues and expenses on the Condensed Consolidated Statements of Income with no significant impact to Net income.

In January 2016, the FASB issued ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01"). ASU 2016-01 amends various aspects of the recognition, measurement, presentation and disclosure of financial instruments. Certain equity investments will be measured at fair value with changes recognized in net income. We adopted ASU 2016-01 on January 1, 2018. While the adoption did not have a material impact on our financial statements, the standard requires our equity investment in Meituan Dianping (see Note 9), which was consummated in September 2018, to be re-measured to fair value in each future reporting period with corresponding changes recorded in our Condensed Consolidated Statements of Income.

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230)* ("ASU 2016-15"), which provides clarification regarding how certain cash receipts and cash payments are presented and classified in the statement of cash flows. This update addresses eight specific cash flow issues with the objective of reducing the existing diversity in practice. ASU 2016-15 is effective for annual and interim periods beginning after December 15, 2017, with early adoption permitted. We adopted ASU 2016-15 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"), which requires the recognition of the income tax consequences of an intra-entity transfer of an asset, other than inventory, when the transfer occurs. We adopted ASU 2016-16 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash* ("ASU 2016-18"), which requires that entities show the changes in total cash, cash equivalents, restricted cash and restricted cash equivalents in the statement of cash flows. We adopted ASU 2016-18 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

In January 2017, the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* ("ASU 2017-01"), which revises the definition of a business and provides new guidance in evaluating when a set of transferred assets and activities is a business. We adopted ASU 2017-01 on January 1, 2018, and such adoption did not have a material impact on our financial statements.

Certain comparative items in the Condensed Consolidated Financial Statements have been reclassified to conform to the current period's presentation to facilitate comparison.

Our fiscal year ends on December 31. Effective at the beginning of fiscal year 2018, the Company changed its fiscal calendar from two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter, to four three-month quarters ending on March 31, June 30, September 30 and December 31 of each year. The change was made to align with how management now measures performance internally and to facilitate the comparability of our results with peers using calendar quarters. Quarterly results of all prior financial periods presented have been recast as if they had been reported under our new fiscal calendar.

Note 3 – Revenue Recognition

The Company's revenues primarily include Company sales, Franchise fees and income and Revenues from transactions with franchisees and unconsolidated affiliates.

<u>Company Sales</u>

Revenues from Company-owned restaurants are recognized when a customer takes possession of the food and tenders payment, which is when our obligation to perform is satisfied. The Company presents sales net of sales-related taxes. We recognize revenues from prepaid stored-value products, including gift cards and product vouchers, when they are redeemed by the customer. Prepaid gift cards sold at any given point generally expire over the next 36 months, and product vouchers generally expire over a period of up to 12 months. We recognize breakage revenue, which is the amount of prepaid stored-value products that is not expected to be redeemed, either (1) proportionally in earnings as redemptions occur, in situations where the Company expects to be entitled to a breakage amount, or (2) when the likelihood of redemption is remote, in situations where the Company does not expect to be entitled to breakage, provided that there is no requirement for remitting balances to government agencies under unclaimed property laws. The Company reviews its breakage estimates at least annually based upon the latest available information regarding redemption and expiration patterns.

<u>Franchise Fees and Income</u>

Franchise fees and income primarily include upfront fees, such as initial fees and renewal fees, and continuing fees. We have determined that the services we provide in exchange for upfront fees and continuing fees are highly interrelated with the franchise right. We recognize upfront fees received from a franchisee as revenue over the term of the franchise agreement or the renewal agreement because the franchise rights are accounted for as rights to access our symbolic intellectual property in accordance with ASC 606. The franchise agreement term is generally 10 years for KFC and Pizza Hut, and five or 10 years for Little Sheep. We recognize continuing fees, which are based upon a percentage of franchisee sales, as those sales occur.

<u>Revenues from Transactions with Franchisees and Unconsolidated Affiliates</u>

Revenues from transactions with franchisees and unconsolidated affiliates consist primarily of sales of food and paper products, advertising services and other services provided to franchisees and unconsolidated affiliates.

The Company centrally purchases substantially all food and paper products from suppliers for substantially all of our restaurants, including franchisees and unconsolidated affiliates, and then sells and delivers them to the restaurants. The performance obligation arising from such transactions is considered distinct from the franchise agreement as it is not highly dependent on the franchise agreement and the customer can benefit from the procurement service on its own. We consider ourselves the principal in this arrangement as we have the ability to control a promised good or service before transferring that good or service to the franchisees and unconsolidated affiliates. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the franchisees and unconsolidated affiliates.

For advertising services, the Company often engages third parties to provide services and acts as a principal in the transaction based on our responsibilities of defining the nature of the services and administering and directing all marketing and advertising programs in accordance with the provisions of our franchise agreements. The Company collects advertising contributions, which are generally based on certain percentage of sales from substantially all of our restaurants, including franchisees and unconsolidated affiliates. Other services provided to franchisees and unconsolidated affiliates consist primarily of customer support and technology support services. Advertising services and other services provided are highly interrelated to franchise right, so we do not consider them to be individually distinct and therefore account for them under ASC 606 as a single performance obligation and recognize revenue when the related sales occur.

Loyalty Programs

Each of the Company's KFC and Pizza Hut reportable segments operates a loyalty program that allows registered members to earn points for each qualifying purchase. Points, which generally expire 18 months after being earned, may be redeemed for future purchases of KFC or Pizza Hut branded products or other products for free or at a discounted price. Points cannot be redeemed or exchanged for cash. The value of points earned by the loyalty program members is recorded as a reduction of revenue at the time the points are earned, based on the percentage of points that are projected to be redeemed, with a corresponding deferred revenue liability included in Accounts payable and other current liabilities on the Condensed Consolidated Balance Sheets and subsequently recognized into revenue when the points are redeemed. The Company estimates the value of the future redemption obligations based on the estimated value of the product for which points are expected to be redeemed and historical redemption patterns, including an estimate of the breakage for points that members will never redeem. The Company reviews its breakage estimates at least annually based upon the latest available information regarding redemption and expiration patterns.

Disaggregation of Revenue

The following table presents revenue disaggregated by types of arrangements and segments:

Quarter Ended 9/30/2018	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
Company sales	$ 1,452	$ 548	$ 8	$ —	$ —	$ 2,008
Franchise fees and income	34	1	1	—	—	36
Revenues from transactions with franchisees and unconsolidated affiliates	16	1	6	136	—	159
Other revenues	—	—	10	2	(3)	9
Total revenues	$ 1,502	$ 550	$ 25	$ 138	$ (3)	$ 2,212

Quarter Ended 9/30/2017	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Total
Company sales	$ 1,347	$ 568	$ 9	$ —	$ 1,924
Franchise fees and income	36	1	1	—	38
Revenues from transactions with franchisees and unconsolidated affiliates	19	—	5	136	160
Other revenues	—	—	8	—	8
Total revenues	$ 1,402	$ 569	$ 23	$ 136	$ 2,130

Year to Date Ended 9/30/2018	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Elimination	Total
Company sales	$ 4,248	$ 1,640	$ 24	$ —	$ —	$ 5,912
Franchise fees and income	104	2	4	—	—	110
Revenues from transactions with franchisees and unconsolidated affiliates	48	1	17	395	—	461
Other revenues	—	—	18	4	(4)	18
Total revenues	$ 4,400	$ 1,643	$ 63	$ 399	$ (4)	$ 6,501

Year to Date Ended 9/30/2017	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated	Total
Company sales	$ 3,705	$ 1,592	$ 29	$ —	$ 5,326
Franchise fees and income	102	2	3	—	107
Revenues from transactions with franchisees and unconsolidated affiliates	51	1	14	382	448
Other revenues	—	—	16	—	16
Total revenues	$ 3,858	$ 1,595	$ 62	$ 382	$ 5,897

Accounts Receivable

Accounts receivable mainly consist of trade receivables and royalties from franchisees and unconsolidated affiliates, and are generally due within 30 days of the period in which the corresponding sales occur and are classified as Accounts receivable on the Condensed Consolidated Balance Sheets. Our provision for uncollectible receivable balances is based upon pre-defined aging criteria or upon the occurrence of other events that indicate that we may not collect the balance due. Additionally, we monitor the financial condition of our franchisees and record provisions for estimated losses on receivables when we believe it probable that our franchisees will be unable to make their required payments. While we use the best information available in making our determination, the ultimate recovery of recorded receivables is also dependent upon future economic events and other conditions that may be beyond our control. Trade receivables that are ultimately deemed to be uncollectible, and for which collection efforts have been exhausted, are written off against the allowance for doubtful accounts.

Costs to Obtain Contracts

Costs to obtain contracts represent the portion of upfront license fees that we paid to YUM prior to the separation in relation to initial fees or renewal fees we received from franchisees and unconsolidated affiliates. They meet the requirements to be capitalized as the Company expects to generate future economic benefits from such costs incurred, which allow us to enter into franchise agreements and collect fees. Such costs to obtain contracts are included in Other assets on the Condensed Consolidated Balance Sheets and are amortized over the term of the franchise agreement. Subsequent to the separation, we are no longer required to pay YUM any upfront fees that we receive from franchisees and unconsolidated affiliates. The Company did not incur any impairment losses related to costs to obtain contracts during any of the periods presented. Costs to obtain contracts were $9 million and $12 million at September 30, 2018 and December 31, 2017, respectively.

Contract Liabilities

Contract liabilities at September 30, 2018 and December 31, 2017 were as follows:

Contract liabilities	9/30/2018	12/31/2017
- Deferred revenue related to prepaid stored-value products	$ 50	$ 50
- Deferred revenue related to customer loyalty programs	18	16
- Deferred revenue related to upfront fees	37	39
Total	$ 105	$ 105

Contract liabilities consist of deferred revenue related to prepaid stored-value products, customer loyalty programs and upfront fees. Deferred revenue related to prepaid stored-value products and customer loyalty programs is included in Accounts payable and other current liabilities on the Condensed Consolidated Balance Sheets. Deferred revenue related to upfront fees that we expect to recognize as revenue in the next 12 months is included in Accounts payable and other current liabilities, and the remaining balance is included in Other liabilities on the Condensed Consolidated Balance Sheets. Revenue recognized in the quarter and year to date ended September 30, 2018 that was included in the contract liability balance at the beginning of each period amounted to $21 million and $39 million, respectively. Changes in contract liability balances were not materially impacted by business acquisition, change in estimate of transaction price or any other factors during any of the periods presented.

The Company has elected, as a practical expedient, not to disclose the value of remaining performance obligations associated with sales-based royalty promised to franchisees in exchange for franchise right and other related services. The remaining duration of the performance obligation is the remaining contractual term of each franchise agreement. We recognize continuing franchisee fees and revenues from advertising services and other services provided to franchisees and unconsolidated affiliates based on certain percentage of sales, as those sales occur.

Note 4 – Earnings Per Common Share ("EPS")

The following table summarizes the components of basic and diluted EPS (in millions, except for per share data):

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Net Income – Yum China Holdings, Inc.	$ 203	$ 176	$ 634	$ 505
Weighted-average common shares outstanding (for basic calculation) (a)	384	386	386	387
Effect of dilutive share-based employee compensation (a)	9	11	10	9
Effect of dilutive warrants (b)	1	1	2	1
Weighted-average common and dilutive potential common shares outstanding (for diluted calculation)	394	398	398	397
Basic Earnings Per Common Share	$ 0.53	$ 0.46	$ 1.64	$ 1.30
Diluted Earnings Per Common Share	$ 0.51	$ 0.44	$ 1.59	$ 1.27
Employee stock options, stock appreciation rights and warrants excluded from the diluted EPS computation (c)	10	8	4	12

(a) As a result of the separation, shares of Yum China common stock were distributed to YUM's shareholders of record as of October 19, 2016 and included in the calculated weighted-average common shares outstanding. Holders of outstanding YUM equity awards generally received both adjusted YUM awards and Yum China awards, or adjusted awards on shares of common stock of either YUM or Yum China in their entirety. Any subsequent exercise of these awards, whether held by the Company's employees or YUM's employees, would increase the number of common shares outstanding. The outstanding equity awards are included in the computation of diluted EPS, if there is dilutive effect.

(b) Pursuant to the investment agreements dated September 1, 2016, Yum China issued to strategic investors two tranches of warrants on January 9, 2017, with each tranche providing the right to purchase 8,200,405 shares of Yum China common stock, at an exercise price of $31.40 and $39.25 per share, respectively, subject to customary anti-dilution adjustments. The warrants may be exercised at any time through October 31, 2021. The outstanding warrants are included in the computation of diluted EPS, if there is dilutive effect when the average market price of Yum China common stock for the period exceeds the exercise price of the warrants.

(c) These outstanding employee stock options, stock appreciation rights and warrants were not included in the computation of diluted EPS because to do so would have been antidilutive for the quarters and years to date presented.

Note 5 – Equity

Changes in Equity and Redeemable Noncontrolling Interest

	Yum China Holdings, Inc.									
	Common Stock		Additional Paid-in	Retained	Accumulated Other Comprehensive	Treasury Stock		Noncontrolling	Total	Redeemable Noncontrolling
	Shares	Amount	Capital	Earnings	Income (Loss)	Shares	Amount	Interests	Equity	Interest
Balance at December 31, 2017	**389**	**$ 4**	**$ 2,375**	**$ 397**	**$ 137**	**(4)**	**$ (148)**	**$ 77**	**$ 2,842**	**$ 5**
Net Income				634				24	658	
Foreign currency translation adjustments					(151)			(5)	(156)	
Comprehensive income									502	
Acquisition of business								36	36	
Cash dividends declared ($0.30 per common share)				(115)					(115)	
Dividends declared								(33)	(33)	
Repurchase of shares of common stock						(5)	(167)		(167)	
Exercise and vesting of share-based awards	2	—	—						—	
Share-based compensation			18						18	
Balance at September 30, 2018	**391**	**$ 4**	**$ 2,393**	**$ 916**	**$ (14)**	**(9)**	**$ (315)**	**$ 99**	**$ 3,083**	**$ 5**

Share Repurchase Program

On February 7, 2017, we announced that our Board of Directors authorized a $300 million share repurchase program. On October 4, 2017, the Board of Directors increased Yum China's existing share repurchase authorization from $300 million to an aggregate of $550 million. Under the authorization, we repurchased shares of Yum China common stock during the years to date ended September 30, 2018 and 2017 as indicated below. All amounts exclude applicable transaction fees.

Authorization Date	Shares Repurchased (thousands)		Dollar Value of Shares Repurchased (millions)		Remaining Dollar Value of Shares that may be Repurchased (millions)
	2018	2017	2018	2017	2018
February 7, 2017	4,576	3,356	167	128	5
October 4, 2017	—	—	—	—	250
Total	4,576 (a)	3,356	167 (a)	128	255

(a) Includes 0.2 million shares repurchased for $6 million with trade dates prior to September 30, 2018 but cash settlement dates subsequent to September 30, 2018.

Note 6 – Other Income, net

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Equity income from investments in unconsolidated affiliates	$ 17	$ 19	$ 52	$ 54
Gain from re-measurement of equity interest upon acquisition(a)	—	—	98	—
Foreign exchange changes and other	(7)	3	(7)	(1)
Other income, net	$ 10	$ 22	$ 143	$ 53

(a) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, as disclosed in Note 2, the Company recognized a gain of $98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes.

Note 7 – Supplemental Balance Sheet Information

Accounts Receivable, net	9/30/2018	12/31/2017
Accounts receivable, gross	$ 67	$ 81
Allowance for doubtful accounts	(2)	(2)
Accounts receivable, net	$ 65	$ 79

Prepaid Expenses and Other Current Assets	9/30/2018	12/31/2017
Prepaid rent	$ 41	$ 41
Receivables from payment processors and aggregators	25	40
Dividends receivable from unconsolidated affiliates	31	21
Other prepaid expenses and current assets	82	60
Prepaid expenses and other current assets	$ 179	$ 162

Property, Plant and Equipment	9/30/2018	12/31/2017
Buildings and improvements	$ 2,145	$ 2,184
Capital leases, primarily buildings	27	28
Machinery, equipment and construction in progress	1,175	1,204
Property, plant and equipment, gross	3,347	3,416
Accumulated depreciation	(1,742)	(1,725)
Property, plant and equipment, net	$ 1,605	$ 1,691

Other Assets	9/30/2018	12/31/2017
Land use right	$ 140	$ 131
VAT assets	205	176
Costs to obtain contracts	9	12
Long-term deposits	61	56
Investment in equity securities	74	—
Others	9	10
Other Assets	$ 498	$ 385

Accounts Payable and Other Current Liabilities	9/30/2018	12/31/2017
Accounts payable	$ 551	$ 420
Accrued capital expenditures	115	142
Accrued compensation and benefits	183	219
Accrued marketing expenses	78	28
Contract liabilities	74	72
Other current liabilities	115	104
Accounts payable and other current liabilities	$ 1,116	$ 985

Other Liabilities	9/30/2018	12/31/2017
Deferred escalating minimum rent	$ 148	$ 162
Contract liabilities	31	33
Accrued income tax payable	97	112
Deferred income tax liabilities	66	32
Other noncurrent liabilities	43	49
Other liabilities	$ 385	$ 388

Note 8 – Goodwill and Intangible Assets

The changes in the carrying amount of goodwill are as follows:

	Total Company	KFC	Pizza Hut	All Other Segments
Balance as of December 31, 2017				
Goodwill, gross	$ 490	$ 80	$ 19	$ 391
Accumulated impairment losses(a)	(382)	—	—	(382)
Goodwill, net	108	80	19	9
Goodwill acquired(b)	175	175	—	—
Effect of currency translation adjustment	(17)	(16)	(1)	—
Balance as of September 30, 2018				
Goodwill, gross	648	239	18	391
Accumulated impairment losses(a)	(382)	—	—	(382)
Goodwill, net	$ 266	$ 239	$ 18	$ 9

(a) Accumulated impairment losses represent Little Sheep goodwill impairment.

(b) Goodwill acquired in connection with the acquisition of Wuxi KFC.

Intangible assets, net as of September 30, 2018 and December 31, 2017 are as follows:

	9/30/2018			12/31/2017		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Definite-lived intangible assets						
Reacquired franchise rights(c)	$ 149	$ (95)	$ 54	$ 100	$ (87)	$ 13
Daojia platform	17	(3)	14	18	(1)	17
Customer-related assets	12	(8)	4	12	(6)	6
Other	17	(9)	8	19	(10)	9
	$ 195	$ (115)	$ 80	$ 149	$ (104)	$ 45
Indefinite-lived intangible assets						
Little Sheep trademark	$ 53	$ —	$ 53	$ 56	$ —	$ 56
Total intangible assets	$ 248	$ (115)	$ 133	$ 205	$ (104)	$ 101

(c) Increase in gross carrying amount of reacquired franchise rights during the year to date ended September 30, 2018 primarily resulted from the acquisition of Wuxi KFC.

Amortization expense of definite-lived intangible assets was $7 million and $4 million for the quarters ended September 30, 2018 and 2017, respectively, and $20 million and $10 million for the years to date ended September 30, 2018 and 2017, respectively. As of September 30, 2018, expected amortization expense for the unamortized definite-lived intangible assets is approximately $7 million for the remainder of 2018, $19 million in 2019, $15 million in 2020, $15 million in 2021 and $14 million in 2022.

Note 9 – Fair Value Measurements

The Company’s financial assets and liabilities primarily consist of cash and cash equivalents, short-term investments, accounts receivable and accounts payable, and the carrying values of these assets and liabilities approximate their fair value in general. Cash equivalents primarily consist of money market funds, fixed income debt securities and time deposits with original maturities not exceeding three months from the time of purchase. Short-term investments primarily consist of time deposits and fixed income debt securities with original maturities over three months but less than one year from the time of purchase.

The Company subscribed for 8.4 million, or less than 1%, of the ordinary shares of Meituan Dianping ("Meituan"), an e-commerce platform for services in China, for a total consideration of approximately $74 million, when it launched initial public offering on the Hong Kong Stock Exchange in September 2018. The Company accounted for the equity securities at fair value with subsequent fair value changes recorded in our Condensed Consolidated Statement of Income. The fair value of the investment in Meituan is determined based on the closing market price for the shares at the end of each reporting period. The related unrealized loss recognized during the period was immaterial, and was included in Interest and other income, net.

The Company classifies its cash equivalents, short term investments and investment in equity securities within Level 1 or Level 2 in the fair value hierarchy because it uses quoted market prices or alternative pricing sources and models utilizing market observable inputs to determine their fair value, respectively. The following table is a summary of our assets measured or disclosed at fair value on a recurring basis and the level within the fair value hierarchy in which the measurement falls. No transfers among the levels within the fair value hierarchy occurred during the quarter and year to date ended September 30, 2018.

		Fair Value Measurement or Disclosure at September 30, 2018		
	Balance at September 30, 2018	Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 677		$ 677	
Money market funds	$ 242	$ 242		
Fixed income debt securities(a)	$ 29	$ 29		
Total cash equivalents	$ 948	$ 271	$ 677	$ —
Short-term investments:				
Time deposits	$ 184		$ 184	
Other investments	$ 14		$ 14	
Total short-term investments	$ 198	$ —	$ 198	$ —
Other assets:				
Equity securities	$ 74	$ 74		
Total	$ 1,220	$ 345	$ 875	$ —

		Fair Value Measurement or Disclosure at December 31, 2017		
	Balance at December 31, 2017	Level 1	Level 2	Level 3
Cash equivalents:				
Time deposits	$ 635		$ 635	
Money market funds	$ 93	$ 93		
Total cash equivalents	$ 728	$ 93	$ 635	$ —
Short-term investments:				
Time deposits	$ 143		$ 143	
Fixed income debt securities(a)	$ 62	$ 62		
Total short-term investments	$ 205	$ 62	$ 143	$ —
Total	$ 933	$ 155	$ 778	$ —

(a) Classified as held-to-maturity investments and measured at amortized cost.

Non-recurring fair value measurements

In addition, certain of the Company's assets, such as property, plant and equipment, goodwill and intangible assets, are measured at fair value on a non-recurring basis, if determined to be impaired.

During the quarter and year to date ended September 30, 2018, we recorded restaurant-level impairment (Level 3) of nil and $13 million, respectively. During the quarter and year to date ended September 30, 2017, we recorded restaurant-level impairment (Level 3) of $2 million and $20 million, respectively. The remaining net book value of the assets measured at fair value as of September 30, 2018, subsequent to these impairments, was not significant.

Note 10 – Income Taxes

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Income tax provision	$ 67	$ 87	$ 227	$ 220
Effective tax rate	24.2%	31.9%	25.7%	29.4%

The lower effective tax rate for the quarter ended September 30, 2018 was primarily due to a true up of the tax on Global Intangible Low Taxed Income ("GILTI") earned by certain foreign subsidiaries and less estimated repatriation of current year earnings outside of China. The lower year-to-date effective tax rate was primarily due to less estimated repatriation of current year earnings outside of China.

In December 2017, the U.S. enacted the *Tax Cuts and Jobs Act* (the "Tax Act"), which included a broad range of tax reforms, including, but not limited to, the establishment of a flat corporate income tax rate of 21%, the elimination or reduction of certain business deductions and the imposition of tax on deemed repatriation of accumulated undistributed foreign earnings. The Tax Act impacted Yum China in two material aspects: (1) all of the foreign-source dividends received by Yum China from its foreign subsidiaries will be exempted from taxation starting from the tax year beginning after December 31, 2017 and (2) Yum China recorded additional income tax expense in the fourth quarter of 2017, including an estimated one-time transition tax on its deemed repatriation of accumulated undistributed foreign earnings and additional tax related to revaluation of certain deferred tax assets.

The Tax Act requires a U.S. shareholder to be subject to tax on GILTI earned by certain foreign subsidiaries. We have elected the option to account for current year GILTI tax as a period cost as incurred, and therefore included it as part of the estimated annual effective tax rate.

As we collect and prepare necessary data, and interpret the Tax Act and any additional guidance issued by the U.S. Treasury Department, the Internal Revenue Service ("IRS"), and other standard-setting bodies, we may make adjustments to the provisional amounts. We continue to expect to complete our analysis within the measurement period not exceeding one year from the enactment date.

Note 11 –Segment Reporting

We have two reportable segments: KFC and Pizza Hut. We also have four operating segments, East Dawning, Little Sheep, Taco Bell and Daojia, which are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate.

	Quarter Ended 9/30/2018						
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated(a)	Combined	Elimination	Consolidated
Revenue from external customers	$ 1,502	$ 550	$ 22	$ 138	2,212	$ —	$ 2,212
Inter-segment revenue	—	—	3	—	3	(3)	—
Total	$ 1,502	$ 550	$ 25	$ 138	$ 2,215	$ (3)	$ 2,212

	Quarter Ended 9/30/2017						
Revenues	KFC	Pizza Hut	All Other Segments	Corporate and Unallocated(a)	Combined	Elimination	Consolidated
Revenue from external customers	$ 1,402	$ 569	$ 23	$ 136	2,130	$ —	$ 2,130
Inter-segment revenue	—	—	—	—	—	—	—
Total	$ 1,402	$ 569	$ 23	$ 136	$ 2,130	$ —	$ 2,130

Revenues	Year to Date Ended 9/30/2018 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated(a)	Combined	Elimination	Consolidated
Revenue from external customers	$ 4,400	$ 1,643	$ 59	$ 399	6,501	$ —	$ 6,501
Inter-segment revenue	—	—	4	—	4	(4)	—
Total	$ 4,400	$ 1,643	$ 63	$ 399	$ 6,505	$ (4)	$ 6,501

Revenues	Year to Date Ended 9/30/2017 KFC	Pizza Hut	All Other Segments	Corporate and Unallocated(a)	Combined	Elimination	Consolidated
Revenue from external customers	$ 3,858	$ 1,595	$ 62	$ 382	5,897	$ —	$ 5,897
Inter-segment revenue	—	—	—	—	—	—	—
Total	$ 3,858	$ 1,595	$ 62	$ 382	$ 5,897	$ —	$ 5,897

	Quarter Ended		Year to Date Ended	
Operating Profit	9/30/2018	9/30/2017	9/30/2018	9/30/2017
KFC(b)	$ 264	$ 256	$ 759	$ 683
Pizza Hut	53	54	107	173
All Other Segments	(6)	(7)	(17)	(9)
Unallocated revenues from transactions with franchisees and unconsolidated affiliates(a)	136	136	395	382
Unallocated Other revenues(a)	2	—	4	—
Unallocated expenses from transactions with franchisees and unconsolidated affiliates(a)	(135)	(136)	(392)	(379)
Unallocated Other operating costs and expenses(a)	(1)	—	(3)	—
Unallocated and corporate G&A expenses(a)	(42)	(43)	(94)	(124)
Unallocated Other income (loss)(a)(c)	(2)	4	98	5
Operating Profit	$ 269	$ 264	$ 857	$ 731
Interest and other income, net(a)	10	8	28	16
Income Before Income Taxes	$ 279	$ 272	$ 885	$ 747

	Total Assets	
	9/30/2018	12/31/2017
KFC(d)	$ 1,716	$ 1,544
Pizza Hut	580	668
All Other Segments	139	144
Corporate and Unallocated(e)	2,256	1,931
	$ 4,691	$ 4,287

(a) Amounts have not been allocated to any segment for performance reporting purposes.

(b) Includes equity income from investments in unconsolidated affiliates of $17 million and $19 million for the quarters ended September 30, 2018 and 2017, respectively, and $52 million and $54 million for the years to date ended September 30, 2018 and 2017, respectively.

(c) Primarily includes gain from re-measurement of previously held equity interest in connection with the acquisition of Wuxi KFC. See Note 2.

(d) Includes investments in unconsolidated affiliates.

(e) Primarily includes cash and cash equivalents, short-term investments, inventories and investment in equity securities that are centrally managed.

Note 12 – Contingencies

Indemnification of China Tax on Indirect Transfers of Assets

In February 2015, the Chinese State Administration of Taxation ("SAT") issued Bulletin 7 on Income arising from Indirect Transfers of Assets by Non-Resident Enterprises. Pursuant to Bulletin 7, an "indirect transfer" of Chinese taxable assets, including equity interests in a Chinese resident enterprise, by a non-resident enterprise, may be recharacterized and treated as a direct transfer of Chinese taxable assets, if such arrangement does not have reasonable commercial purpose and the transferor has avoided payment of Chinese enterprise income tax. As a result, gains derived from such an indirect transfer may be subject to Chinese enterprise income tax at a rate of 10%.

YUM concluded and we concurred that it is more likely than not that YUM will not be subject to this tax with respect to the distribution. However, given how recently Bulletin 7 was promulgated, there are significant uncertainties regarding what constitutes a reasonable commercial purpose, how the safe harbor provisions for group restructurings are to be interpreted and how the taxing authorities will ultimately view the distribution. As a result, YUM's position could be challenged by Chinese tax authorities resulting in a 10% tax assessed on the difference between the fair market value and the tax basis of the separated China business. As YUM's tax basis in the China business is minimal, the amount of such tax could be significant.

Any tax liability arising from the application of Bulletin 7 to the distribution is expected to be settled in accordance with the tax matters agreement between the Company and YUM. Pursuant to the tax matters agreement, to the extent any Chinese indirect transfer tax pursuant to Bulletin 7 is imposed, such tax and related losses will be allocated between YUM and the Company in proportion to their respective share of the combined market capitalization of YUM and the Company during the 30 trading days after the separation. Such a settlement could be significant and have a material adverse effect on our results of operations and our financial condition. At the inception of the tax indemnity being provided to YUM, the fair value of the non-contingent obligation to stand ready to perform was insignificant and the liability for the contingent obligation to make payment was not probable or estimable.

Guarantees

From time to time we have guaranteed certain lines of credit and loans of franchisees and unconsolidated affiliates. As of September 30, 2018, we have provided guarantees of approximately $1 million on behalf of franchisees and no guarantees were outstanding for unconsolidated affiliates.

Legal Proceedings

From time to time, the Company is subject to various lawsuits covering a variety of allegations. The Company believes that the ultimate liability, if any, in excess of amounts already provided for these matters in the Condensed Consolidated Financial Statements, is not likely to have a material adverse effect on the Company's results of operations, financial condition or cash flows. Matters faced by the Company from time to time include, but are not limited to, claims from landlords, employees, customers and others related to operational, contractual or employment issues.

Note 13 – Subsequent Events

On October 30, 2018, the Company announced that the Board of Directors authorized an increase in Yum China's existing share repurchase authorization from $550 million to an aggregate of $1.4 billion. The authorization does not have an expiration date.

On October 30, 2018, the Company announced that the Board of Directors declared a cash dividend of $0.12 per share, payable as of the close of business on December 18, 2018 to stockholders of record as of the close of business on November 27, 2018. The total estimated cash dividend payable is approximately $46 million.

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

References to the Company throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations (this "MD&A") are made using the first person notations of "we," "us" or "our." This MD&A contains forward-looking statements, including statements with respect to the retail tax structure reform and the potential effects thereof, our growth plans, future capital resources to fund our operations and anticipated capital expenditures, share repurchases, our ability to pay dividends and the impact of new accounting pronouncements not yet adopted. See "Cautionary Note Regarding Forward-Looking Statements" at the end of this Item 2 for information regarding forward-looking statements.

Introduction

Yum China Holdings, Inc. is the largest restaurant company in China, with over 8,300 restaurants as of September 30, 2018. Our growing restaurant base consists of China's leading restaurant brands and concepts, primarily KFC, Pizza Hut, East Dawning, Little Sheep and Taco Bell. Following our separation from YUM, we have obtained the exclusive right to operate and sub-license the KFC, Pizza Hut and, subject to achieving certain agreed-upon milestones, Taco Bell brands in China, excluding Hong Kong, Taiwan and Macau (the "PRC" or "China"), and we own the marks of East Dawning and Little Sheep outright. We were the first major global restaurant brand when we entered China in 1987 and we have developed deep operating experience in the market. We have since grown to become one of China's largest restaurant developers with locations in over 1,200 cities as of September 30, 2018.

KFC is the leading Quick-Service Restaurant ("QSR") brand in the PRC in terms of system sales and number of restaurants. As of September 30, 2018, KFC operated 5,800 restaurants in over 1,200 cities across China. Measured by number of restaurants, we believe KFC has a two-to-one lead over the nearest Western QSR competitor in China, and KFC has continued to grow in both large and small cities. During the first quarter of 2018, the Company completed the acquisition of an additional 36% interest in an unconsolidated affiliate that operates KFC stores in Wuxi, China ("Wuxi KFC"), increasing the equity interest to 83% and allowing the Company to consolidate the entity.

During the second quarter of 2017, we integrated the business of Pizza Hut Casual Dining and Pizza Hut Home Service as Pizza Hut. Segment financial information for prior periods has been recast to align with this change in segment reporting. After the integration, Pizza Hut continues to be the leading Casual Dining Restaurant ("CDR") brand in China as measured by system sales and number of restaurants. We believe Pizza Hut has a four-to-one lead in terms of number of restaurants over its nearest Western CDR competitor in China. As of September 30, 2018, Pizza Hut operated over 2,200 restaurants in over 500 cities.

Separation from YUM

The Company separated from YUM on October 31, 2016, becoming an independent publicly traded company as a result of a pro rata distribution of all outstanding shares of Yum China common stock to shareholders of YUM. On October 31, 2016, YUM's shareholders of record as of 5:00 p.m. Eastern Time on October 19, 2016 received one share of Yum China common stock for every one share of YUM common stock held as of the record date. Yum China's common stock began trading "regular way" under the ticker symbol "YUMC" on the New York Stock Exchange on November 1, 2016.

Overview

We intend for this MD&A to provide the reader with information that will assist in understanding our results of operations, including metrics that management uses to assess the Company's performance. Throughout this MD&A, we discuss the following performance metrics:

- The Company provides certain percentage changes excluding the impact of foreign currency translation ("F/X"). These amounts are derived by translating current year results at prior year average exchange rates. We believe the elimination of the F/X impact provides better year-to-year comparability without the distortion of foreign currency fluctuations.

- System sales growth reflects the results of all restaurants regardless of ownership, including Company-owned, franchise and unconsolidated affiliate restaurants that operate our Concepts, except for non-Company-owned restaurants for which we do not receive a sales-based royalty. Sales of franchise and unconsolidated affiliate restaurants typically generate ongoing franchise fees for the Company at a rate of approximately 6% of system sales. Franchise and unconsolidated affiliate restaurant sales are not included in Company sales on the Condensed Consolidated Statements of Income; however, the franchise fees are included in the Company's revenues. We believe system sales growth is useful to investors as a significant indicator of the overall strength of our business as it incorporates all of our revenue drivers, Company and franchise same-store sales as well as net unit growth.

- Effective January 1, 2018, the Company revised its definition of same-store sales growth to represent the estimated percentage change in sales of food of all restaurants in the Company system that have been open prior to the first day of our prior fiscal year. We refer to these as our "base" stores. Previously, same-store sales growth represented the estimated percentage change in sales of all restaurants in the Company system that have been open for one year or more, and the base stores changed on a rolling basis from month to month. This revision was made to align with how management measures performance internally and focuses on trends of a more stable base of stores. Prior periods have been adjusted accordingly.

- Company Restaurant profit ("Restaurant profit") is defined as Company sales less expenses incurred directly by our Company-owned restaurants in generating Company sales. Company restaurant margin percentage is defined as Restaurant profit divided by Company sales. Within the Company sales and Restaurant profit analysis, Store Portfolio Actions represent the net impact of new unit openings, acquisitions, refranchising and store closures, and Other primarily represents the impact of same-store sales as well as the impact of changes in restaurant operating costs such as inflation/deflation.

- In addition to the results provided in accordance with GAAP throughout this MD&A, the Company provides measures adjusted for Special Items, which include Adjusted Operating Profit, Adjusted Diluted Earnings Per Common Share, Adjusted Effective Tax Rate and Adjusted EBITDA, which we define as net income including noncontrolling interests adjusted for income tax, interest and other income, net, depreciation, amortization and other items, including store impairment charges. The Special Item for the year to date ended September 30, 2018 represents a gain recognized from the re-measurement of our previously held equity interest in Wuxi KFC at fair value upon acquisition, as described in Note 2. The Special Item for the quarter and year to date ended September 30, 2017 represents income from the reversal of contingent consideration. The Company excludes impact from Special Items for the purpose of evaluating performance internally. Special Items are not included in any of our segment results. In addition, the Company provides Adjusted EBITDA because we believe that investors and analysts may find it useful in measuring operating performance without regard to items such as income tax, interest and other income, net, depreciation, amortization and other items, including store impairment charges. These adjusted measures are not intended to replace the presentation of our financial results in accordance with GAAP. Rather, the Company believes that the presentation of these adjusted measures provides additional information to investors to facilitate the comparison of past and present results, excluding those items that the Company does not believe are indicative of our ongoing operations due to their nature.

All Note references in this MD&A refer to the Notes to the Condensed Consolidated Financial Statements. Tabular amounts are displayed in millions of U.S. dollars except percentages and per share and unit count amounts, or as otherwise specifically identified. Percentages may not recompute due to rounding. References to quarters are references to the Company's fiscal quarters.

Effective at the beginning of fiscal 2018, the Company changed its fiscal calendar from two months in the first quarter, three months in the second and third quarters and four months in the fourth quarter, to four three-month quarters ending on March 31, June 30, September 30 and December 31 of each year. Prior periods have been recast as if they had been reported under the new fiscal calendar.

Quarters and years to date ended September 30, 2018 and 2017

Results of Operations

Summary

The Company has two reportable segments: KFC and Pizza Hut. Our remaining operating segments, including the operations of East Dawning, Little Sheep, Taco Bell and Daojia, are combined and referred to as All Other Segments, as these operating segments are insignificant both individually and in the aggregate.

Quarterly highlights:

	% Change				
	System Sales(a)	Same-Store Sales(a)	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+6	+1	+8	+3	+4
Pizza Hut	(2)	(5)	+3	—	+1
All Other Segments(b)	(9)	(5)	+11	+28	+31
Total	+4	(1)	+6	+2	+4

Year to date highlights:

	% Change				
	System Sales(a)	Same-Store Sales(a)	Net New Units	Operating Profit (Reported)	Operating Profit (Ex F/X)
KFC	+6	+2	+8	+11	+6
Pizza Hut	(1)	(5)	+3	(38)	(40)
All Other Segments(b)	(22)	(6)	+11	(74)	(68)
Total	+4	—	+6	+17	+12

NM refers to changes over 100%, from negative to positive amounts or from zero to an amount.

(a) System Sales and Same-Store Sales percentages as shown in tables exclude the impact of F/X.

(b) Sales from non-Company-owned restaurants, for which we do not receive a sales-based royalty, are excluded from System Sales and Same-Store Sales.

As of September 30, 2018, the Company operated over 8,300 units, predominately KFC and Pizza Hut restaurants, which are the leading QSR and CDR brand, respectively, in mainland China. Given our strong competitive position, a growing economy and a population of approximately 1.4 billion in mainland China, the Company has rapidly added KFC and Pizza Hut restaurants.

As compared to the third quarter of 2017, Company sales in the third quarter of 2018 increased 4%, or 6% if excluding the impact of F/X. The increase in Company sales during the quarter, excluding the impact of F/X, was driven by net unit growth, partially offset by same-store sales decline. Company sales for the year to date ended September 30, 2018 increased 11%, or 6% if excluding the impact of F/X. The year to date increase in Company sales, excluding the impact of F/X, was primarily driven by net unit growth.

The increase in Restaurant profit for the quarter, excluding the impact of F/X, was driven by net unit growth, partially offset by higher promotion and product upgrade costs and wage inflation. The year to date decrease in Restaurant profit, excluding the impact of F/X, was driven by higher promotion and product upgrade costs and wage inflation, partially offset by same-store sales leverage and net unit growth.

The Consolidated Results of Operations for the quarters and years to date ended September 30, 2018 and 2017 are presented below:

	Quarter Ended		% B/(W) (a)		Year to Date Ended		% B/(W) (a)	
	9/30/2018	9/30/2017	Reported	Ex F/X	9/30/2018	9/30/2017	Reported	Ex F/X
Company sales	$ 2,008	$ 1,924	4	6	$ 5,912	$ 5,326	11	6
Franchise fees and income	36	38	(5)	(4)	110	107	3	(2)
Revenues from transactions with franchisees and unconsolidated affiliates	159	160	(1)	3	461	448	3	(1)
Other revenues	9	8	9	10	18	16	12	10
Total revenues	$ 2,212	$ 2,130	4	6	$ 6,501	$ 5,897	10	6
Restaurant profit	$ 353	$ 347	2	3	$ 1,000	$ 977	2	(2)
Restaurant Margin %	17.6%	18.0%	(0.4) ppts.	(0.4) ppts.	16.9%	18.3%	(1.4) ppts.	(1.4) ppts.
Operating Profit	$ 269	$ 264	2	4	$ 857	$ 731	17	12
Interest and other income, net	10	8	34	37	28	16	76	69
Income tax provision	(67)	(87)	22	21	(227)	(220)	(4)	1
Net Income - including noncontrolling interests	212	185	15	16	658	527	25	18
Net Income - noncontrolling interests	9	9	(5)	(6)	24	22	(8)	(3)
Net Income - Yum China Holdings, Inc.	$ 203	$ 176	15	17	$ 634	$ 505	26	19
Diluted Earnings Per Common Share	$ 0.51	$ 0.44	16	18	$ 1.59	$ 1.27	25	19
Effective tax rate	24.2%	31.9%			25.7%	29.4%		
Adjusted Operating Profit	$ 269	$ 261			$ 759	$ 728		
Adjusted Diluted Earnings Per Common Share	$ 0.51	$ 0.43			$ 1.41	$ 1.26		
Adjusted Effective Tax Rate	24.2%	32.4%			25.8%	29.5%		
Adjusted EBITDA	$ 379	$ 371			$ 1,125	$ 1,057		

(a) Represents period-over-period change in percentage.

Performance Metrics

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
System Sales Growth	2%	12%	9%	4%
System Sales Growth, excluding F/X	4%	12%	4%	8%
Same-Store Sales (Decline) Growth	(1)%	8%	-%	4%

Unit Count	9/30/2018	9/30/2017	% Increase (Decrease)
Company-owned(a)	6,711	6,197	8
Unconsolidated affiliates	802	880	(9)
Franchisees	800	736	9
	8,313	7,813	6

(a) Unit count as of September 30, 2018 includes six units operated under COFFii & JOY, a coffee concept recently developed by the Company.

Special Items

Special Items, along with the reconciliation to the most comparable GAAP financial measure, are presented below.

	Quarter Ended		Year to Date Ended	
Detail of Special Items	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Gain from re-measurement of equity interest upon acquisition[(a)]	$ —	$ —	$ 98	$ —
Income from the reversal of contingent consideration [(b)]	—	3	—	3
Special Items Income - Operating Profit	—	3	98	3
Tax Expenses on Special Items[(c)]	—	—	(24)	—
Special Items Income, net of tax - including noncontrolling interests	—	3	74	3
Special Items Expense, net of tax - noncontrolling interests	—	—	—	—
Special Items Income, net of tax - Yum China Holdings, Inc.	$ —	$ 3	$ 74	$ 3
Weighted-average diluted shares outstanding	394	398	398	397
Special Items Diluted Earnings Per Common Share	$ —	$ 0.01	$ 0.18	$ 0.01
Reconciliation of Operating Profit to Adjusted Operating Profit				
Operating Profit	$ 269	$ 264	$ 857	$ 731
Special Items Income - Operating Profit	—	3	98	3
Adjusted Operating Profit	$ 269	$ 261	$ 759	$ 728
Reconciliation of EPS to Adjusted EPS				
Diluted Earnings Per Common Share	$ 0.51	$ 0.44	$ 1.59	$ 1.27
Special Items Diluted Earnings Per Common Share	—	0.01	0.18	0.01
Adjusted Diluted Earnings Per Common Share	$ 0.51	$ 0.43	$ 1.41	$ 1.26
Reconciliation of Effective Tax Rate to Adjusted Effective Tax Rate				
Effective Tax Rate (See Note 10)	24.2%	31.9%	25.7%	29.4%
Impact on Effective Tax Rate as a result of Special Items[(c)]	—%	(0.5)%	(0.1)%	(0.1)%
Adjusted Effective Tax Rate	24.2%	32.4%	25.8%	29.5%

(a) As a result of the acquisition of Wuxi KFC in the first quarter of 2018, as disclosed in Note 2, the Company recognized a gain of $98 million from the re-measurement of our previously held 47% equity interest at fair value, which was not allocated to any segment for performance reporting purposes.

(b) During the third quarter of 2017, the Company recognized income from the reversal of contingent consideration previously recorded for a business combination as the likelihood of making payment became remote.

(c) The tax expense was determined based upon the nature, as well as the jurisdiction, of each Special Item at the applicable tax rate.

Adjusted EBITDA

Net income, along with the reconciliation to Adjusted EBITDA, is presented below.

	Quarter Ended		Year to Date Ended	
Reconciliation of Net Income to Adjusted EBITDA	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Net Income — Yum China Holdings, Inc.	$ 203	$ 176	$ 634	$ 505
Net Income — noncontrolling interests	9	9	24	22
Income tax provision	67	87	227	220
Interest and other income, net	(10)	(8)	(28)	(16)
Operating Profit	269	264	857	731
Depreciation and amortization	108	105	343	301
Store impairment charges	2	5	23	28
Special Items Income – Operating Profit	—	(3)	(98)	(3)
Adjusted EBITDA	$ 379	$ 371	$ 1,125	$ 1,057

Segment Results

KFC

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2018	9/30/2017	Reported	Ex F/X	9/30/2018	9/30/2017	Reported	Ex F/X
Company sales	$ 1,452	$ 1,347	8	10	$ 4,248	$ 3,705	15	10
Franchise fees and income	34	36	(7)	(5)	104	102	1	(4)
Revenues from transactions with franchisees and unconsolidated affiliates	16	19	(17)	(15)	48	51	(7)	(9)
Total revenues	$ 1,502	$ 1,402	7	9	$ 4,400	$ 3,858	14	9
Restaurant profit	$ 279	$ 265	5	7	$ 807	$ 717	13	8
Restaurant margin %	19.2%	19.6%	(0.4) ppts.	(0.4) ppts.	19.0%	19.3%	(0.3) ppts.	(0.3) ppts.
G&A expenses	$ 44	$ 44	(2)	(4)	$ 135	$ 121	(11)	(6)
Franchise expenses	$ 17	$ 19	8	6	$ 53	$ 53	—	4
Expenses for transactions with franchisees and unconsolidated affiliates	$ 16	$ 19	15	12	$ 48	$ 51	6	8
Closure and impairment expenses, net	$ —	$ —	31	22	$ 6	$ 10	43	46
Other income, net	$ (12)	$ (18)	(30)	(28)	$ (42)	$ (48)	(12)	(15)
Operating Profit	$ 264	$ 256	3	4	$ 759	$ 683	11	6

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
System Sales Growth	4%	14%	11%	5%
System Sales Growth, excluding F/X	6%	14%	6%	8%
Same-Store Sales Growth	1%	10%	2%	5%

Unit Count	9/30/2018	9/30/2017	% Increase (Decrease)
Company-owned	4,500	4,041	11
Unconsolidated affiliates	802	880	(9)
Franchisees	498	472	6
	5,800	5,393	8

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	9/30/2017	Store Portfolio Actions	Other	F/X	9/30/2018
Company sales	$ 1,347	$ 118	$ 15	$ (28)	$ 1,452
Cost of sales	(400)	(39)	(14)	9	(444)
Cost of labor	(266)	(26)	(11)	6	(297)
Occupancy and other	(416)	(36)	11	9	(432)
Restaurant profit	$ 265	$ 17	$ 1	$ (4)	$ 279

	Year to Date Ended				
Income (Expense)	9/30/2017	Store Portfolio Actions	Other	F/X	9/30/2018
Company sales	$ 3,705	$ 269	$ 94	$ 180	$ 4,248
Cost of sales	(1,101)	(87)	(39)	(54)	(1,281)
Cost of labor	(748)	(62)	(32)	(37)	(879)
Occupancy and other	(1,139)	(82)	(6)	(54)	(1,281)
Restaurant profit	$ 717	$ 38	$ 17	$ 35	$ 807

The quarter and year to date increases in Company sales and Restaurant profit associated with store portfolio actions, excluding the impact of F/X, were driven by net unit growth. Significant other factors impacting Company sales and Restaurant profit were the Company same-store sales growth, partially offset by higher labor costs mainly due to wage inflation of 6% and higher promotion costs.

Franchise Fees and Income

The quarter and year to date decreases in Franchise fees and income, excluding the impact of F/X, were primarily driven by the acquisition of Wuxi KFC, partially offset by net unit growth.

G&A Expenses

The quarter and year to date increases in G&A expenses, excluding the impact of F/X, were primarily driven by higher compensation costs due to merit increases.

Operating Profit

The quarter and year to date increases in Operating Profit, excluding the impact of F/X, were primarily driven by the Company same-store sales growth and net unit growth, partially offset by higher restaurant operating costs and higher G&A expenses.

Pizza Hut

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2018	9/30/2017	Reported	Ex F/X	9/30/2018	9/30/2017	Reported	Ex F/X
Company sales	$ 548	$ 568	(4)	(2)	$ 1,640	$ 1,592	3	(1)
Franchise fees and income	1	1	4	7	2	2	17	12
Revenues from transactions with franchisees and unconsolidated affiliates	1	—	(7)	(3)	1	1	(3)	(5)
Total revenues	$ 550	$ 569	(3)	(2)	$ 1,643	$ 1,595	3	(1)
Restaurant profit	$ 76	$ 81	(7)	(6)	$ 194	$ 259	(25)	(28)
Restaurant margin %	13.8%	14.4%	(0.6) ppts.	(0.6) ppts.	11.8%	16.3%	(4.5) ppts.	(4.5) ppts.
G&A expenses	$ 24	$ 27	15	13	$ 80	$ 78	(1)	3
Expenses for transactions with franchisees and unconsolidated affiliates	$ 1	$ —	5	2	$ 1	$ 1	2	5
Closure and impairment (income) expenses, net	$ (1)	$ 1	NM	NM	$ 9	$ 9	—	7
Other income, net	$ —	$ —	NM	NM	$ (2)	$ —	NM	NM
Operating Profit	$ 53	$ 54	—	1	$ 107	$ 173	(38)	(40)

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
System Sales (Decline) Growth	(3)%	7%	3%	4%
System Sales (Decline) Growth, excluding F/X	(2)%	7%	(1)%	7%
Same-Store Sales (Decline) Growth	(5)%	1%	(5)%	1%

Unit Count	9/30/2018	9/30/2017	% Increase
Company-owned	2,180	2,128	2
Franchisees	35	29	21
	2,215	2,157	3

Company Sales and Restaurant Profit

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

	Quarter Ended				
Income (Expense)	9/30/2017	Store Portfolio Actions	Other	F/X	9/30/2018
Company sales	$ 568	$ 15	$ (25)	$ (10)	$ 548
Cost of sales	(157)	(5)	(4)	3	(163)
Cost of labor	(135)	(3)	4	4	(130)
Occupancy and other	(195)	(3)	16	3	(179)
Restaurant profit	$ 81	$ 4	$ (9)	-	$ 76

	Year to Date Ended				
Income (Expense)	9/30/2017	Store Portfolio Actions	Other	F/X	9/30/2018
Company sales	$ 1,592	$ 52	$ (74)	$ 70	$ 1,640
Cost of sales	(418)	(17)	(30)	(21)	(486)
Cost of labor	(381)	(13)	1	(17)	(410)
Occupancy and other	(534)	(14)	22	(24)	(550)
Restaurant profit	$ 259	$ 8	$ (81)	$ 8	$ 194

The decreases in Company sales and Restaurant profit for the quarter, excluding the impact of F/X, were driven by Company same-store sales decline, higher promotion and product upgrade costs, and higher labor costs mainly attributable to wage inflation of 5%, partially offset by net unit growth and labor efficiency.

The year to date decreases in Company sales and Restaurant profit, excluding the impact of F/X, were driven by Company same-store sales decline, higher promotion and product upgrade costs, and higher labor costs mainly attributable to wage inflation of 6%, partially offset by net unit growth and labor efficiency.

G&A Expenses

The quarter and year-to-date decreases in G&A expenses, excluding the impact of F/X, were primarily driven by higher government incentives and reduced accruals of performance-based compensation.

Operating Profit

The increase in Operating Profit for the quarter, excluding the impact of F/X, was primarily driven by net unit growth and less G&A expenses and less closure impairment, partially offset by same-store sales decline.

The year to date decrease in Operating Profit, excluding the impact of F/X, was primarily driven by same-store sales decline and higher restaurant operating costs, partially offset by net unit growth and lower G&A expenses.

All Other Segments

All Other Segments includes East Dawning, Little Sheep, Taco Bell and Daojia.

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2018	9/30/2017	Reported	Ex F/X	9/30/2018	9/30/2017	Reported	Ex F/X
Company sales	$ 8	$ 9	(10)	(9)	$ 24	$ 29	(18)	(22)
Franchise fees and income	1	1	55	57	4	3	57	49
Revenues from transactions with franchisees and unconsolidated affiliates	6	5	25	26	17	14	20	15
Other revenues	10	8	27	27	18	16	13	12
Total revenues	$ 25	$ 23	13	14	$ 63	$ 62	2	(1)
Restaurant (loss) profit	$ (1)	$ 1	NM	NM	$ (1)	$ 1	NM	NM
Restaurant margin %	0.9%	5.8%	(4.9) ppts.	(4.9) ppts.	(1.6)%	3.3%	(4.9) ppts.	(4.9) ppt
G&A expenses	$ 9	$ 9	—	(1)	$ 25	$ 16	(59)	(54)
Expenses for transactions with franchisees and unconsolidated affiliates	$ 4	$ 4	(15)	(16)	$ 13	$ 12	(9)	(4)
Other operating costs and expenses	$ 9	$ 8	(21)	(17)	$ 18	$ 14	(27)	(23)
Closure and impairment expenses, net	$ —	$ 1	NM	NM	$ —	$ 1	(61)	(63)
Other income, net	$ —	$ —	NM	NM	$ (1)	$ —	NM	NM
Operating Loss	$ (6)	$ (7)	28	31	$ (17)	$ (9)	(74)	(68)

	Quarter Ended		Year to Date Ended	
	9/30/2018	9/30/2017	9/30/2018	9/30/2017
Same-Store Sales Decline	(5)%	(5)%	(6)%	(8)%

The quarter and year to date decreases in Company sales, excluding the impact of F/X, were primarily driven by unit closures and refranchising of Little Sheep units.

The year to date increase in G&A expenses was primarily due to G&A expenses incurred by Daojia, which was acquired by the Company during the second quarter of 2017.

Corporate and Unallocated

	Quarter Ended				Year to Date Ended			
			% B/(W)				% B/(W)	
	9/30/2018	9/30/2017	Reported	Ex F/X	9/30/2018	9/30/2017	Reported	Ex F/X
Revenues from transactions with franchisees and unconsolidated affiliates	$ 136	$ 136	1	4	$ 395	$ 382	4	—
Other revenue	2	—	NM	NM	4	—	NM	NM
Expenses for transactions with franchisees and unconsolidated affiliates	135	136	1	(3)	392	379	(3)	—
Other operating costs and expenses	1	—	NM	NM	3	—	NM	NM
Corporate G&A expenses	42	43	3	3	94	124	24	26
Other loss (income) (See Note 11)	2	(4)	NM	NM	(98)	(5)	NM	NM
Interest and other income, net	10	8	34	37	28	16	76	69
Income tax provision (See Note 10)	(67)	(87)	22	21	(227)	(220)	(4)	1
Effective tax rate (See Note 10)	24.2%	31.9%	7.7%	7.7%	25.7%	29.4%	3.7%	3.5%

Revenues from Transactions with Franchisees and Unconsolidated Affiliates

The increase in Revenues from transactions with franchisees and unconsolidated affiliates for the quarter, excluding the impact of F/X, was primarily driven by system sales growth of unconsolidated affiliates and franchisees, partially offset by the acquisition of Wuxi KFC.

G&A Expenses

The decrease in G&A expenses for the quarter, excluding the impact of F/X, was driven by less performance-based compensation and professional service fees.

The year to date decrease in G&A expenses, excluding the impact of F/X, was driven by higher government incentives, less performance-based compensation and less professional service fees.

Interest and Other Income, Net

The quarter and year-to-date increases in interest and other income, net were mainly driven by higher returns on larger balances of short-term investments and time deposits.

Income Tax Provision

Our income tax provision includes tax on our earnings at the Chinese statutory tax rate of 25%, a 10% withholding tax on repatriation of earnings outside of China and U.S. corporate income tax, if any. Our effective tax rate was 24.2% and 31.9% for the quarters ended September 30, 2018 and 2017, respectively, and 25.7% and 29.4% for the year to date ended September 30, 2018 and 2017, respectively. The lower effective tax rate for the quarter was primarily due to a true up of the tax on Global Intangible Low Taxed Income (“GILTI”) earned by certain foreign subsidiaries and less estimated repatriation of current year earnings outside of China. The lower year to date effective tax rate was primarily due to less estimated repatriation of current year earnings outside of China.

Significant Known Events, Trends or Uncertainties Expected to Impact Future Results

The Tax Act

In December 2017, the U.S. enacted the Tax Act, which included a broad range of tax reforms, including, but not limited to, the establishment of a flat corporate income tax rate of 21%, the elimination or reduction of certain business deductions and the imposition of tax on deemed repatriation of accumulated undistributed foreign earnings. The Tax Act has impacted Yum China in two material aspects: (i) all of the foreign-source dividends received by Yum China from its foreign subsidiaries will be exempted from taxation starting from the tax year beginning after December 31, 2017 and (ii) Yum China recorded, in the fourth quarter of 2017, an additional income tax expense of $163.9 million, which includes an estimated one-time transition tax of $129.8 million on the deemed repatriation of accumulated undistributed foreign earnings, $4.5 million primarily related to the re-measurement of certain deferred tax assets based on the rates at which they are expected to reverse in the future, and the valuation allowance of $29.6 million for certain deferred tax assets.

The Tax Act requires complex computations with significant estimates to be performed, significant judgments to be made in interpretation of the provisions, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the IRS, the SEC and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our current interpretation. As we complete our analysis of the Tax Act, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to provisional amounts that we have recorded that may materially impact our provision for income taxes in the period in which the adjustments are made. We expect to complete our analysis within the measurement period not exceeding one year from the enactment date.

Tax Examination on Transfer Pricing

We are subject to reviews, examinations and audits by Chinese tax authorities, the IRS and other taxing authorities with respect to income and non-income based taxes. Currently we are under a national audit on transfer pricing by the SAT in China regarding our related party transactions for the period from 2006 to 2015. It is reasonably possible that there could be significant developments within the next 12 months. The ultimate assessment will depend upon further review of the information provided and ongoing discussions with the SAT and in-charge local tax authorities, and therefore it is not possible to reasonably estimate the potential impact. We will continue to defend our transfer pricing position. However, if the SAT prevails in the assessment of additional tax due based on its ruling, the assessed tax, interest and penalties, if any, could have a material adverse impact on our financial position, results of operations and cash flows.

PRC Value-Added Tax ("VAT")

Effective May 1, 2016, the Chinese government implemented reform to its retail tax structure, which is intended to be a progressive and positive shift to more closely align with a more modern service-based economy. Under this reform, a 6% output VAT replaced the 5% business tax previously applied to certain restaurant sales. VAT rates imposed on goods and services included 17%, 13%, 11% and 6%. Input VAT would be creditable to the aforementioned 6% output VAT.

Entities that are VAT general taxpayers are permitted to offset qualified input VAT paid to suppliers against their output VAT upon receipt of appropriate supplier VAT invoices on an entity-by-entity basis. When the output VAT exceeds the input VAT, the difference is remitted to tax authorities, usually on a monthly basis; whereas when the input VAT exceeds the output VAT, the difference is treated as an input VAT credit asset which can be carried forward indefinitely to offset future net VAT payables. VAT related to purchases and sales which have not been settled at the balance sheet date is disclosed separately as an asset and liability, respectively, on the Condensed Consolidated Balance Sheets. At each balance sheet date, the Company reviews the outstanding balance of any input VAT credit asset for recoverability based on its forecasted operating results. We evaluate the recoverability of the net VAT credit asset based on our estimated operating results and capital spending, which inherently includes significant assumptions that are subject to change.

As of September 30, 2018, an input VAT credit asset of $205 million and payable of $5 million were recorded in Other assets and other current liabilities, respectively, on the Condensed Consolidated Balance Sheets. The Company has not made an allowance for the recoverability of the input VAT credit asset, as the balance is expected to be utilized to offset against net VAT payables more than one year from September 30, 2018. Any input VAT credit asset would be classified as Prepaid expenses and other current assets if the Company expected to use the credit within one year.

We have been benefiting from the retail tax structure reform since it was implemented on May 1, 2016. However, the amount of our expected benefit from this VAT regime depends on a number of factors, some of which are outside of our control. The interpretation and application of the new VAT regime are not settled at some local governmental levels. In addition, the timetable for enacting the prevailing VAT regulations into national VAT law, including ultimate enacted VAT rates, is not clear. As a result, for the foreseeable future, the benefit of this significant and complex VAT reform has the potential to fluctuate from quarter to quarter.

Effective from July 1, 2017, the 13% VAT rate primarily applicable to certain agricultural products was reduced to 11%. Effective from May 1, 2018, the VAT rates of 17% and 11% were lowered to 16% and 10%, respectively. These rate changes impact our input VAT on all materials and certain services, mainly including construction, transportation and leasing. However, the impact on our operating results is not expected to be significant.

Foreign Currency Exchange Rate

The reporting currency of the Company is the US$. Most of the revenues, costs, assets and liabilities of the Company are denominated in Chinese Renminbi (“RMB”). Any significant change in the exchange rate between US$ and RMB may materially affect the Company’s business, results of operations, cash flows and financial condition, depending on the weakening or strengthening of RMB against the US$. See “Item 3. Quantitative and Qualitative Disclosures About Market Risk” for further discussion.

Consolidated Cash Flows

Our cash flows for the years to date ended September 30, 2018 and 2017 were as follows:

Net cash provided by operating activities was $1,173 million in 2018 as compared to $985 million in 2017. The increase was primarily driven by higher Net income and timing of payments for inventory.

Net cash used in investing activities was $527 million in 2018 as compared to $327 million in 2017. The increase was primarily driven by the acquisition of Wuxi KFC, the investment in Meituan’s ordinary shares and higher capital spending.

Net cash used in financing activities was $318 million in 2018 as compared to $147 million in 2017. The increase was primarily driven by cash dividends paid to stockholders and an increase in the number of shares repurchased in 2018.

Liquidity and Capital Resources

Historically we have funded our operations through cash generated from the operation of our Company-owned stores and from our franchise operations and dividend payments from our unconsolidated affiliates.

Our ability to fund our future operations and capital needs will depend on our ongoing ability to generate cash from operations. We believe our principal uses of cash in the future will be primarily to fund our operations and to make capital expenditures, distributions to our stockholders and share repurchases as well as any acquisition or investment. We believe that our future cash from operations, together with our access to funds on hand and capital markets, will provide adequate resources to fund these uses of cash and that our existing cash and net cash from operations will be sufficient to fund our operations and anticipated capital expenditures for the next 12 months.

If our cash flows from operations are less than we require, we may need to access the capital markets to obtain financing. Our access to, and the availability of, financing on acceptable terms and conditions in the future or at all will be impacted by many factors, including, but not limited to:

- our financial performance;
- our credit ratings or absence of a credit rating;
- the liquidity of the overall capital markets; and
- the state of the Chinese, U.S. and global economies.

There can be no assurance, particularly as a relatively new company that currently has no credit rating, that we will have access to the capital markets on terms acceptable to us or at all.

Generally our income is subject to the Chinese statutory tax rate of 25%. However, to the extent our cash flows from operations exceed our China cash requirements, the excess cash may be subject to an additional 10% withholding tax levied by the Chinese tax authority.

Dividends and Share Repurchases

On February 7, 2017, we announced that our Board of Directors authorized a $300 million share repurchase program. On October 4, 2017, the Board of Directors increased Yum China's share repurchase authorization from $300 million to an aggregate of $550 million.

On October 30, 2018, the Board of Directors further increased the share repurchase authorization to an aggregate of $1.4 billion. Yum China may repurchase shares under this program from time to time in open market or privately negotiated transactions, including block trades, accelerated share repurchase transactions and the use of Rule 10b5-1 trading plans. During the year to date ended September 30, 2018, the Company repurchased $167 million, or 4.6 million shares, of common stock under the repurchase program.

For the year to date ended September 30, 2018, we paid cash dividends of approximately $115 million to our stockholders through quarterly dividend payments of $0.10 per share.

On October 30, 2018, the Board of Directors declared a cash dividend of $0.12 per share, payable as of the close of business on December 18, 2018 to stockholders of record as of the close of business on November 27, 2018. The total estimated cash dividend payable is approximately $46 million.

Our ability to declare and pay any dividends on our stock may be restricted by applicable Chinese laws. The laws, rules and regulations applicable to our Chinese subsidiaries permit payments of dividends only out of their accumulated profits, if any, determined in accordance with applicable Chinese accounting standards and regulations. Under Chinese law, an enterprise incorporated in China is required to set aside at least 10% of its after-tax profits each year, after making up previous years' accumulated losses, if any, to fund certain statutory reserve funds, until the aggregate amount of such a fund reaches 50% of its registered capital. As a result, our Chinese subsidiaries are restricted in their ability to transfer a portion of their net assets to us in the form of dividends. At the discretion of the Board of Directors, as an enterprise incorporated in China, each of our Chinese subsidiaries may allocate a portion of its after-tax profits based on Chinese accounting standards to staff welfare and bonus funds. These reserve funds and staff welfare and bonus funds are not distributable as cash dividends.

Borrowing Capacity

As of September 30, 2018, the Company had credit facilities of RMB 2,674 million (approximately $389 million), including onshore credit facilities of RMB1,300 million (approximately $189 million) in the aggregate and an offshore credit facility of $200 million.

The credit facilities have terms ranging from one to three years. Each credit facility bears interest based on the prevailing rate stipulated by the People's Bank of China or London Interbank Offered Rate (LIBOR) administered by the ICE Benchmark Administration. Each credit facility contains a cross-default provision whereby our failure to make any payment on a principal amount from any credit facility will constitute a default on other credit facilities. Some of the credit facilities contain financial covenants including, among other things, limitations on certain additional indebtedness and liens, and certain other transactions specified in the respective agreement. Interest on any outstanding borrowings is due at least monthly. As of September 30, 2018, the full amount of borrowings was available to us under each facility.

Off-Balance Sheet Arrangements

See the Guarantees section of Note 12 for discussion of our off-balance sheet arrangements.

New Accounting Pronouncements

<u>Recently Adopted Accounting Pronouncements</u>

See Note 2 for details of recently adopted accounting pronouncements.

<u>New Accounting Pronouncements Not Yet Adopted</u>

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)* ("ASU 2016-02"), which increases transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. ASU 2016-02 is effective for the Company from January 1, 2019 and we currently plan to elect the optional transition method provided in ASU 2018-11, which allows for a cumulative-effect adjustment in the period of adoption and will not restate prior periods. Additionally, we currently plan to use the package of practical expedients that allows us to not reassess: (1) whether any expired or existing contracts are or contain leases, (2) lease classification for any expired or existing leases and (3) initial direct costs for any expired or existing leases. We also plan to elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. We expect this standard will have a material effect on our financial statements. While we are continuing to assess the effect of adoption, we currently believe the most significant changes relate to the recognition and measurement of right-of-use assets and lease liabilities on our balance sheet for operating leases of the land and/or building of our restaurants and office space. At September 30, 2018, we operated more than 6,700 restaurants, leasing the underlying land and/or building, with our commitments expiring within 20 years from the inception of the lease. The amount of our future minimum lease payments under operating leases was approximately $3 billion as of September 30, 2018. We anticipate continuing to add more restaurants and increase our leasing activity between now and adoption. We are also implementing software to meet the reporting requirements of the new standard, and identifying changes to our business processes and controls to support the adoption of the new standard.

In June 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments ("ASU 2016-13"), which requires measurement and recognition of expected versus incurred credit losses for financial assets held. ASU 2016-13 is effective for the Company from January 1, 2020, with early adoption permitted beginning from January 1, 2019. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In May 2017, the FASB issued ASU No. 2017-09, *Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting* ("ASU 2017-09"), which clarifies that modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the changes in terms or conditions. ASU 2017-09 is effective for the Company from January 1, 2019, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In February 2018, the FASB issued ASU 2018-02, *Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income* ("ASU 2018-02"). The new guidance allows a reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act and will improve the usefulness of information reported to financial statement users. ASU 2018-02 is effective for the Company from January 1, 2019, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718) - Improvements to Nonemployee Share-Based Payment Accounting* ("ASU 2018-07"). The new guidance largely aligns the accounting for share-based awards issued to employees and nonemployees. Existing guidance for employee awards will apply to nonemployee share-based transactions with limited exceptions. The new guidance also clarifies that any share-based payment awards issued to customers should be evaluated under ASC 606, *Revenue from Contracts with Customers*. ASU 2018-07 is effective for the Company from January 1, 2019, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement* ("ASU 2018-13"), which amended the fair value measurement guidance by modifying disclosure requirements. ASU 2018-13 is effective for the Company from January 1, 2020, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software: Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract* ("ASU 2018-15"), which aligns the requirements for capitalizing implementation costs in a cloud computing arrangement service contract with those for an internal-use software license. ASU 2018-15 is effective for the Company from January 1, 2020, with early adoption permitted. We are currently evaluating the impact the adoption of this standard will have on our financial statements.

Cautionary Note Regarding Forward-Looking Statements

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. These statements often include words such as "may," "will," "estimate," "intend," "seek," "expect," "project," "anticipate," "believe," "plan," "could," "target," "predict," "likely," "should," "forecast," "outlook," "model," "continue," "ongoing" or other similar terminology. Forward-looking statements are based on our expectations, estimates, assumptions or projections concerning future results or events as of the date of the filing of this Form 10-Q. Forward-looking statements are neither predictions nor guarantees of future events, circumstances or performance and are inherently subject to known and unknown risks, uncertainties and assumptions that could cause our actual results and events to differ materially from those indicated by those statements. We cannot assure you that any of our assumptions are correct or any of our expectations, estimates or projections will be achieved. Numerous factors could cause our actual results to differ materially from those expressed or implied by forward-looking statements, including, without limitation, the following:

- Risks related to our business and industry, such as (a) food safety and food-borne illness concerns, (b) significant failure to maintain effective quality control systems for our restaurants, (c) significant liability claims, food contamination complaints from our customers or reports of incidents of food tampering, (d) health concerns arising from outbreaks of viruses or other diseases, (e) the fact that we derive substantially all of our revenue from our operations in China, (f) the fact that the operation of our restaurants is subject to the terms of the master license agreement with YUM, (g) the fact that our success is tied to the success of YUM's brand strength, marketing campaigns and product innovation, (h) shortages or interruptions in the availability and delivery of food and other supplies, (i) our inability to attain our target development goals and the potential cannibalization of existing sales by aggressive development, (j) fluctuation of raw materials prices, (k) risks associated with leasing real estate, (l) inability to obtain desirable restaurant locations on commercially reasonable terms, (m) labor shortages or increases in labor costs, (n) the fact that our success depends substantially on our corporate reputation and on the value and perception of our brands, (o) the occurrence of security breaches and cyber-attacks, (p) failure to protect the integrity and security of our customer or employee personal, financial or other data or our proprietary or confidential information that is stored in our information systems or by third parties on our behalf, (q) failures or interruptions of service or security breaches in our information technology systems, (r) the fact that our business depends on the performance of, and our long-term relationships with, third-party mobile payment processors, delivery aggregators, internet infrastructure operators and internet service providers, (s) failure to provide timely and reliable delivery services by our restaurants, (t) our inability to integrate Daojia successfully and the anticipated benefits of the acquisition may not be realized in a timely manner or at all, (u) the Chinese government may determine that the VIE structure of Daojia does not comply with Chinese laws on foreign investment in restricted industries, (v) our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media, (w) litigation and failure to comply with anti-bribery or anti-corruption laws, (x) U.S. federal income taxes, changes in tax rates, disagreements with taxing authorities and imposition of new taxes, (y) changes in consumer discretionary spending and general economic conditions, (z) competition in the retail food industry, (aa) loss or failure to obtain or renew any or all of the approvals, licenses and permits to operate our business, (bb) our inability to adequately protect the intellectual property we own or have the right to use, (cc) YUM's failure to protect its intellectual property, (dd) seasonality and certain major events in China, (ee) our failure to detect, deter and prevent all instances of fraud or other misconduct committed by our employees, customers or other third parties, (ff) changes in accounting standards and subjective assumptions, estimates and judgments by management related to complex accounting matters, (gg) failure of our insurance policies to provide adequate coverage for claims associated with our business operations, (hh) failure by us to maintain effective disclosure controls and procedures and internal control over financial reporting in accordance with the rules of the SEC and (ii) unforeseeable business interruptions;

- Risks related to doing business in China, such as (a) changes in Chinese political policies and economic and social policies or conditions, (b) changes in laws and regulations, (c) uncertainties with respect to the interpretation and enforcement of Chinese laws, rules and regulations, (d) fluctuation in the value of the Chinese Renminbi, (e) limitations on our ability to utilize our cash balances effectively due to governmental control of currency conversion and payments of foreign currency, (f) reliance on distributions by our operating subsidiaries in China to fund offshore cash requirements, (g) potential unfavorable tax consequences resulting from our classification as a China resident enterprise for Chinese enterprise income tax purposes, (h) uncertainty regarding indirect transfers of equity interests and enhanced scrutiny by Chinese tax authorities, (i) inability to use properties due to defects caused by non-registration of lease agreements related to certain properties, (j) risk in relation to unexpected land acquisitions, building closures or demolitions, (k) potential fines for failure to comply with law and (l) restrictions on our ability to make loans or additional capital contributions to our Chinese subsidiaries due to Chinese regulation of loans to, and direct investment in, Chinese entities by offshore holding companies and governmental control of currency conversion;

- Risks related to the separation and related transactions, such as (a) not achieving all of the anticipated benefits, (b) incurring significant tax liabilities if the distribution does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes and the Company could be required to indemnify YUM for material taxes and other related amounts pursuant to indemnification obligations under the tax matters agreement, (c) being obligated to indemnify YUM for material taxes and related amounts pursuant to indemnification obligations under the tax matters agreement if YUM is subject to Chinese indirect transfer tax with respect to the distribution, (d) limitations on our ability to engage in strategic transactions as a result of the separation, (e) our inability to satisfy financial reporting and other requirements to which we are subject as an independent publicly traded company, (f) limited experience of our management in managing a public company, (g) inability to access capital markets on acceptable terms, (h) increased administrative and other costs incurred by virtue of our status as an independent public company, (i) limitations on our ability to compete with YUM and other restrictions on our operations contained in the master license agreement, (j) failure by YUM to perform its obligations under the transaction agreements that we entered into with it as part of the separation, (k) potential indemnification liabilities owing to YUM pursuant to the separation and distribution agreement and there being no assurance that the indemnity provided by YUM with respect to certain liabilities in connection with the separation will be sufficient to insure us against the full amount of such liabilities, (l) the possibility that a court would require that we assume responsibility for obligations allocated to YUM under the separation and distribution agreement, (m) potential liabilities due to fraudulent transfer considerations and (n) actual or potential conflicts of interest of certain of our executive officers and directors because of their previous positions at YUM.

In addition, other risks and uncertainties not presently known to us or that we currently believe to be immaterial could affect the accuracy of any such forward-looking statements. All forward-looking statements should be evaluated with the understanding of their inherent uncertainty. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions “Forward-Looking Statements” and “Risk Factors” included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2017) for additional information regarding factors that could affect our financial and other results. You should not place undue reliance on forward-looking statements, which speak only as of the date of the filing of this Form 10-Q. We are not undertaking to update any of these statements, except as required by law.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Exchange Rate Risk

Changes in foreign currency exchange rates impact the translation of our reported foreign currency denominated earnings, cash flows and net investments in foreign operations, virtually all of which are denominated in RMB. While substantially all of our supply purchases are denominated in RMB, from time to time, we enter into agreements at predetermined exchange rates with third parties to purchase certain amount of goods and services sourced overseas and make payments in the corresponding local currencies when practical, to minimize the related foreign currency exposure with immaterial impact on our financial statements.

As substantially all of the Company’s assets are located in China, the Company is exposed to movements in the RMB foreign currency exchange rate. For the quarter ended September 30, 2018, the Company’s Operating Profit would have decreased approximately $27 million if the RMB weakened 10% relative to the US$. This estimated reduction assumes no changes in sales volumes or local currency sales or input prices.

Commodity Price Risk

We are subject to volatility in food costs as a result of market risks associated with commodity prices. Our ability to recover increased costs through higher pricing is, at times, limited by the competitive environment in which we operate. We manage our exposure to this risk primarily through pricing agreements with our vendors.

Investment Risk

In September 2018, we invested $74 million in Meituan's ordinary shares. The equity investment is recorded at fair value, which is measured on a recurring basis and is subject to market price volatility. See Note 9 for further discussion on our investment in Meituan.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes with respect to the Company's internal control over financial reporting or in other factors that materially affected, or are reasonably likely to materially affect, internal control over financial reporting during the quarter ended September 30, 2018.

PART II – Other Information

Item 1. Legal Proceedings

Information regarding legal proceedings is incorporated by reference from Note 12 to the Company’s Condensed Consolidated Financial Statements set forth in Part I of this report.

Item 1A. Risk Factors

We face a variety of risks that are inherent in our business and our industry, including operational, legal and regulatory risks. Such risks could cause our actual results to differ materially from our forward-looking statements, expectations and historical trends. There have been no material changes from the risk factors disclosed in Part I, Item 1A. “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2017, which was filed with the SEC on February 27, 2018.

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

On February 7, 2017, we announced that our Board of Directors authorized a $300 million share repurchase program. On October 4, 2017, the Board of Directors increased Yum China’s share repurchase authorization from $300 million to an aggregate of $550 million.

On October 30, 2018, the Board of Directors further increased the share repurchase authorization to an aggregate of $1.4 billion. The authorizations do not have an expiration date.

The following table provides information as of September 30, 2018 with respect to shares of Yum China common stock repurchased by the Company during the quarter then ended:

Period	Total Number of Shares Repurchased (thousands)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs (thousands)	Approximate Doll Value of Shares th May Yet Be Repurchased unde the Plans or Progra (millions)
Cumulative through June 30, 2018	1,910	$ 38.41	1,910	$
7/1/18-7/31/18	1,514	$ 35.76	1,514	$
8/1/18-8/31/18	-	N/A	-	$
9/1/18-9/30/18	1,152	$ 34.33	1,152	$
Total for the Quarter Ended September 30, 2018	2,666	$ 35.14	2,666	
Total	4,576		4,576	$

Item 6. Exhibits

Exhibit Number	Description of Exhibits
3.1	Amended and Restated Certificate of Incorporation of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.1 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
3.2	Amended and Restated Bylaws of Yum China Holdings, Inc. (incorporated by reference to Exhibit 3.2 to Yum China Holdings, Inc.'s Current Report on Form 8-K filed on November 1, 2016).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document *

* Filed or furnished herewith.

SIGNATURES

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

	Yum China Holdings, Inc.
	(Registrant)
Date: November 8, 2018	/s/ Xueling Lu
	Controller and Principal Accounting Officer

Exhibit 31.1

CERTIFICATION

I, Joey Wat, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ Joey Wat
Joey Wat
Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Jacky Lo, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Yum China Holdings, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant, as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2018

/s/ Jacky Lo

Jacky Lo
Chief Financial Officer

Exhibit 32.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the “Company”) on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the “Periodic Report”), I, Joey Wat, Chief Executive Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ Joey Wat
Joey Wat
Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Yum China Holdings, Inc. and will be retained by Yum China Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Yum China Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended September 30, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Periodic Report"), I, Jacky Lo, Chief Financial Officer of the Company, hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Periodic Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2018

/s/ Jacky Lo
Jacky Lo
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Yum China Holdings, Inc. and will be retained by Yum China Holdings, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.