



2021

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES REPORT

Creating a responsible ecosystem





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Introduction

Yum China is committed to creating a responsible ecosystem and bringing positive impact across the value chain. As the largest restaurant company in China, the Company actively fulfills its social responsibility for sustainable development. Climate is an integral part of our sustainability agenda. We recognize the challenges posed by climate change to the environment and our society, particularly in relation to food production and access, as well as the urgency of actions needed to reduce climate risk for food systems and increase their sustainability.

Yum China sees itself as part of the global climate action to support the target of the Paris Agreement to limit global temperature rise to 1.5°C above pre-industrial levels, as well

as a contributor to China's commitment to peaking carbon emissions by 2030 and achieving carbon neutrality by 2060. The Company also understands the demands of stakeholders for more transparent and streamlined climate disclosure. Therefore, this year we publish this first climate-focused report in accordance with the Task Force on Climate-related Financial Disclosures ('TCFD') recommendations.

This report outlines our approach to addressing climate-related risks and opportunities and highlights key progress we have made on climate action. It is structured by the four pillars of the TCFD recommendations, namely Governance, Strategy, Risk Management, and Metrics and Targets.



We officially announced the signing and submission of the *Business Ambition for 1.5°C Commitment Letter* to the Science Based Targets initiative ('SBTi') on June 8, 2021, demonstrating ambition and dedication to climate action with a long-term target of achieving a net-zero value chain by 2050. On June 8, 2022, we submitted our near-term science-based greenhouse gas ('GHG') emissions reduction targets to SBTi for validation.



Our sustainability governance structure was further enhanced to involve more operational functions in our sustainability and climate efforts and prepare ourselves for net zero transformation across the organization. The sustainability management mechanisms incorporate all the way from the Board of Directors (the 'Board') to the Operations Teams to integrate sustainability strategically into our business.



Climate-related risks and opportunities material to Yum China were identified considering the macro environment in China, industry characteristics, and our business model. Scenario analysis was conducted with a focus on our restaurants and supply chain. It enabled us to obtain a forward-looking view of our exposure to climate-related risks and helped to guide our strategic planning and risk management.



A systematic and methodical approach was developed to measure and calculate our GHG emissions across the entire value chain from 2019 to 2021 in accordance with the Greenhouse Gas Protocol. This produced an emissions inventory that provides an overview of our emissions footprint and serves as the basis for our science-based target setting as well as risk management and opportunity identification.

Governance



Yum China recognizes a systematic and comprehensive management mechanism is the cornerstone of integrating sustainable development into the Company's operations and management. Yum China has established management

mechanisms on sustainability matters from the Board to the Operations Teams. We have a Sustainability Officer supported by a full-time sustainability team.

Oversight from the Board

At the Board level, the Food Safety and Sustainability Committee assists the Board in its oversight of the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental and supply chain. The Food Safety and Sustainability Committee monitors trends, issues and concerns affecting the Company's sustainability practices, policies, procedures, strategies and

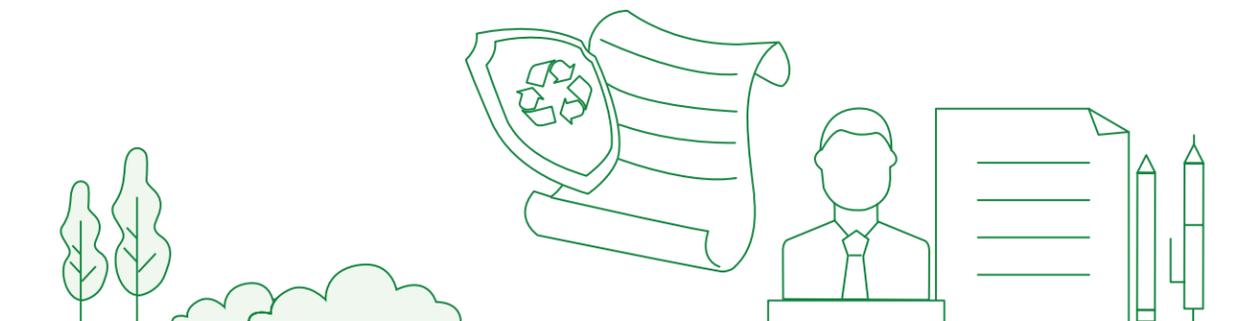
initiatives. The Board considers sustainability matters at least annually in connection with the strategic plan. In 2021, the Food Safety and Sustainability Committee held three meetings to discuss food safety and sustainability related issues. It is mainly responsible for, among others, the following matters that relate to sustainability and climate:

 Reviewing, evaluating and advising the Board regarding the Company's practices, policies, procedures, strategies and initiatives relating to sustainability, including environmental, supply chain, food safety, nutrition and health.

Reviewing and evaluating the trends, issues and concerns which affect or could affect the Company's sustainability practices, policies, procedures, strategies and initiatives. 

 Reviewing and overseeing the development and implementation of the goals the Company may establish from time to time with respect to its sustainability initiatives.

Overseeing the reporting and communication with stakeholders with respect to sustainability. 



In 2021, Yum China Management Team and the Food Safety and Sustainability Committee supported signing and submitting the *Business Ambition for 1.5°C Commitment Letter* to the SBTi, making commitment to reaching net-zero value

chain emissions by 2050. In 2022, our Management Team and the Food Safety and Sustainability Committee approved Yum China near-term science-based GHG emissions reduction targets for SBTi submission.



As we move further along our climate action journey, we are stepping up efforts to become a company committed to net-zero emissions. In order to transform sustainability challenges, such as climate change, into opportunities, Yum China will continue to collaborate with stakeholders across the value chain.

—Joey Wat, CEO of Yum China



The Board and management have engaged in extensive discussions regarding how to further incentivize and assess performance with respect to specific environmental, social and governance ('ESG') and sustainability initiatives. Beginning with the 2021 annual incentive program, ESG measures have been incorporated into the key performance indicators that are used to determine the individual performance factor for each leadership team member. ESG performance goals are tailored

for each member of the leadership team based on their roles and responsibilities and the Compensation Committee will assess their performance in these areas. ESG and sustainability goals included goals relating to the publication of the Company's sustainability report, goals relating to climate, the Company's supply chain and environmental impact, initiatives relating to customer awareness of environmental goals, plastic reduction initiatives, and goals relating to the KFC Food Bank.

Management's Role

Sustainability Committee



The Sustainability Committee is a management committee responsible for evaluating sustainability risks and monitoring the implementation of key initiatives, and regularly reports to the Food Safety and Sustainability Committee. It is comprised of selected leadership team members, the Sustainability Officer, and cross-functional teams. The Sustainability Committee members meet quarterly to track the implementation of material topics, evaluate sustainability risks, and develop risk management strategies and measures.

Sustainability Task Force

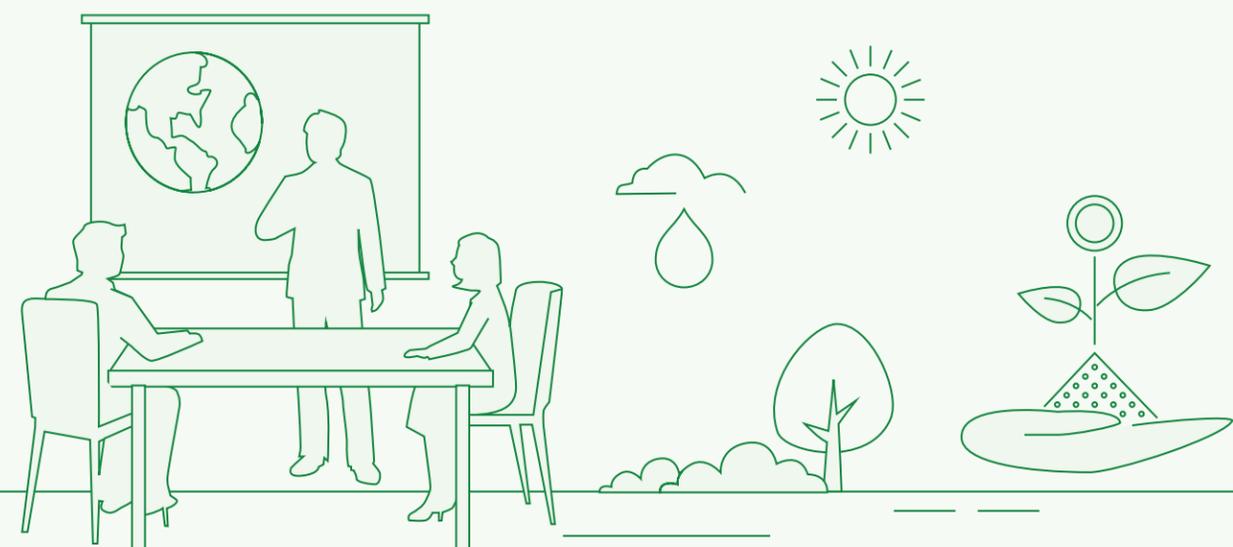
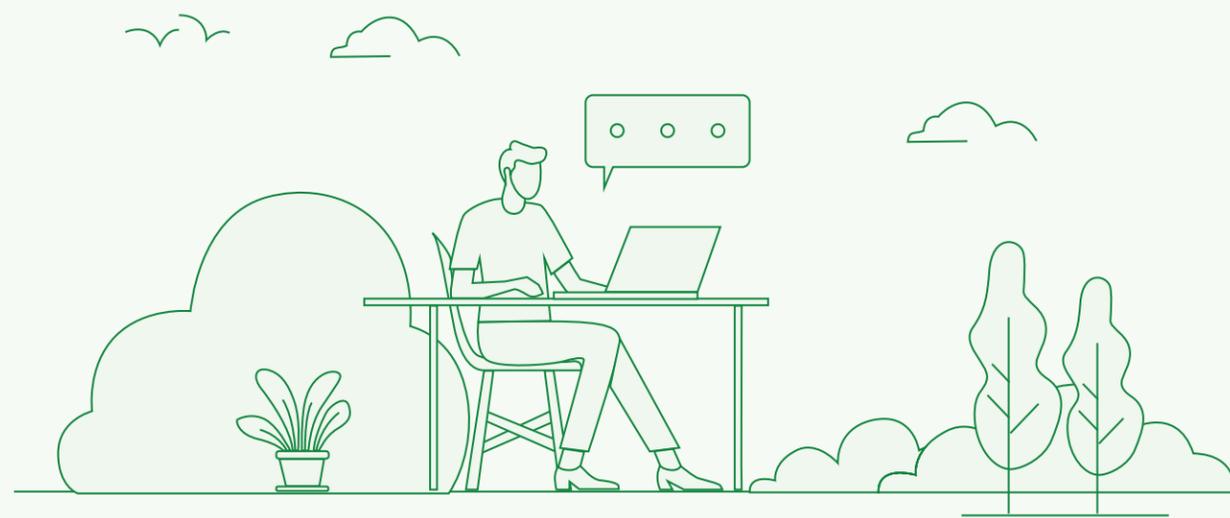


Yum China's Sustainability Task Force assists the Sustainability Committee in implementing sustainable initiatives, and includes cross-functional teams and a sustainability team. It is responsible for taking actions to achieve our sustainability goals under three strategic pillars of Food, Environment, and People, involving issues such as GHG emissions, energy efficiency, water efficiency, green building, and sustainable packaging. The Sustainability Task Force monitors current and emerging climate-related regulations, develops sustainability action plans, and promotes the implementation of key sustainability initiatives.

Operations Teams



The Operations Teams are responsible for implementing projects and initiatives relevant to sustainable restaurants, sustainable supply chain, and sustainable community to support Yum China's sustainability strategy.



Strategy



Our Decarbonization Commitment

Yum China has a strong track record of achieving energy saving and emissions reduction targets across the value chain. Back in 2018, the Company set a target of reducing restaurant energy consumption and GHG emissions by 10% by 2025 compared to a 2017 baseline. Through innovative energy-saving initiatives and technologies, the target was reached ahead of schedule in 2020.

To further demonstrate its decarbonization commitment and initiate the transition to low-carbon economy, Yum China

announced its signing and submission of the *Business Ambition for 1.5°C Commitment Letter* to the SBTi on June 8, 2021. The Company intends to align its business with the most ambitious goal of the Paris Agreement to limit global temperature rise to 1.5°C above pre-industrial levels, by pledging to establish SBTi-validated objectives and reaching net zero emissions by 2050. On June 8, 2022, Yum China submitted its near-term science-based GHG emissions reduction targets to SBTi for validation. Once the target is approved, the Company will publicly disclose its decarbonization strategy across the value chain.

Climate-related Risks and Opportunities

Yum China understands that climate change brings about potential risks and opportunities across the value chain, and affects our business strategy, operations, and financial performance. Material climate-related risks and opportunities have been identified based on the macro environment in China, industry characteristics, and our business model. We

have also outlined our mitigation response to manage the risks and pursue the opportunities from different aspects of our business, including operations, supply chain, logistics, as well as products and services. The risk management section further elaborates on the processes for risk identification, assessment, and management.

> Transition risks

Transition risks emerge from the need for enhanced efforts on decarbonization, and include policy and regulatory changes, technology advancement, market shifts, and

reputational impacts. These risks pose varying financial and reputational risks to Yum China.

Risk driver	Risk category	Timeframe
Mandates on existing products and services	Policy and legal	Medium term (3-10 years)
Description of risk and potential financial impact on our business		

Governments have raised their climate ambitions and deployed policies to decarbonize the economy. China launched its trial national carbon trading market in 2021 after pilot carbon trading schemes were implemented in multiple provinces, as well as a pilot scheme for green power trading to further boost renewable energy development. The power sector is expected to be impacted, and Yum China may see knock-on effect on energy price and spending. This may also affect operations of our suppliers and lead to knock-on effect to Yum China.

With regard to land use policies, expansion of agriculture into new regions may be limited and cultivation of certain crops may be restricted with increasing commitments from governments to combat deforestation and land degradation. For instance, more than 100 world leaders pledged to end deforestation by 2030 during the 2021 United Nations Climate Change Conference held in Glasgow, bringing new momentum to combat deforestation. Since we are expecting various and increasingly strict rules or policies to be promulgated, we may face more stringent requirements for responsible and sustainable sourcing for our food supply chain.

Risk driver	Risk category	Timeframe
Mandates on existing products and services	Policy and legal	Medium term (3-10 years)
Our mitigation response		

This risk affects our operations and supply chain.

Operations

- Yum China has established an energy saving and emissions reduction working group, in recognition of the importance of energy management and GHG emissions reduction and the need to promote carbon trading. We have developed our GHG emissions inventory and tracked and verified our annual emissions reduction performance. This helps to prepare us for the potential future regulations regarding GHG emissions in the restaurant industry.
- In addition, Yum China is actively exploring opportunities to adopt renewable energy solutions and improve energy efficiency to mitigate such risks. For instance, we have been actively exploring opportunities for off-grid renewable energy solutions in our restaurants and distribution centers. This provides localized and clean energy supplies and helps to reduce consumption of electricity generated from fossil fuel sources and enable cost savings.

Supply chain

- Yum China has conducted supplier Corporate Social Responsibility ('CSR') audits since 2017. In 2021, we started to include suppliers' efforts of energy saving and GHG emissions reduction into the checklist for supplier CSR audit. We encourage suppliers to develop energy management systems to track and monitor energy and resource consumption, and to deploy energy-efficient facilities and technologies to reduce GHG emissions from their operations.
- Yum China has set an ambitious goal of achieving a zero-deforestation supply chain in collaboration with our suppliers. We comply with national laws, support global forest protection initiatives, and explore opportunities to eliminate potential deforestation risks across our supply chain. We are exploring opportunities to enhance upstream traceability, identify major agricultural commodities from high-risk regions, and collaborate with supply chain partners to create a sustainable ecosystem.
- By continuously strengthening traceability management in our upstream supply chain, we support sustainable sourcing of commodities, including palm oil, soy, cattle, and timber. Since becoming a member of Roundtable on Sustainable Palm Oil in 2017, all palm oil purchased by Yum China has been RSPO certified. We have ramped up efforts to achieve the goal of 100% FSC-certified paper packaging by 2025. We also encourage our suppliers to obtain certification of sustainable food products, such as seafood certified by the Marine Stewardship Council (MSC) and the Best Aquaculture Practices (BAP), beef that meets the requirement of the Global Roundtable for Sustainable Beef (GRSB).

Risk driver	Risk category	Timeframe
Changing customer behavior	Market	Medium term (3-10 years)
Description of risk and potential financial impact on our business		
Our mitigation response		

The restaurant industry in which Yum China operates is highly competitive. The increased awareness about nutrition and healthy lifestyles may cause customers to demand more healthy foods. Also, interest in restaurants with more environmentally friendly design is growing among customers. If we are unable to respond to such changes in customer taste and preferences in a timely manner or at all, or if our competitors are able to address these concerns more effectively, our business, financial condition and results of operations may be materially and adversely affected.

This risk affects our products and services.

Products and services

- We have internal resources to actively monitor and engage in this area, and go to great lengths to satisfy our customer's desires for tasty food which are at the same time nutritious and balanced.
- Yum China is one of the first in the industry in China to introduce plant-based products as an alternative option for customers in response to rising customer awareness of impact from a meat-heavy diet on people's health and the environment. Since 2020, we have added various plant-based products and drinks to our menus based on KFC, Pizza Hut and Taco Bell, including plant-based 'beef' burgers and wraps, 'chicken' nuggets, tacos, and OATLY latte. In 2021, KFC sold 2.5 million units of plant-based 'meat' products in total.
- With regard to cooking methods, we combine modern food preparation technologies with traditional cooking methods to reduce the use of salt, oil, and sugar, as well as emissions from cooking process.
- In 2021, Yum China launched a new campaign to promote balanced diets by offering customers more fruit and vegetable options, covering 6,000 KFC, Pizza Hut and Taco Bell stores nationwide. A core component of the campaign is the 'Fruit and Vegetables 100+' program that encourages customers to add at least 100g of fruits and vegetables to their meals.
- With regard to sustainable dining experiences, we have launched the first batch of KFC Green Pioneer Stores in Beijing and Hangzhou which use advanced low-carbon technologies in construction and daily operations. These stores allow customers to experience and learn about environmentally friendly restaurants through 'green interior design'. At the Green Pioneer Store in Beijing, a special Family Bucket located at the store is made entirely of recycled KFC food packaging, showcasing the artistic charm of turning waste into resources. At the Green Pioneer Store in Hangzhou, a section of wall has been intentionally left unfinished with an opening to show customers the environmentally friendly construction process, including reducing construction waste by decorating over the store's existing walls.



> Physical risks

Physical risks are those associated with the physical impact of climate change, including event-driven impacts and long-term shifts in climate patterns. Potential consequences include damage to premises, disruption to operations and supply chain, as well as workforce health and safety issues.

Risk driver	Risk category	Timeframe
Increased severity of extreme weather events	Acute	Medium term (3-10 years)
Description of risk and potential financial impact on our business		

Climate change may lead to increased severity of extreme weather and climate events. Floods and typhoons pose a risk to employees' safety and could lead to disruptions in the operations of our restaurants and affect customer traffic.

Such events may also cause damage to physical assets, goods, and equipment, leading to higher spending on facilities' maintenance and repair. Insurance premiums may also increase, and the availability of insurance coverages may be affected, especially for 'high-risk' locations.

Extreme weather conditions could also cause disruption to our logistics and supply chain, affecting the stability and availability of raw material supplies and product delivery service.

Extreme weather may also affect the yield and quality of agricultural raw materials. Enhancing adaptation and building resilience is essential for the agricultural sector to respond to rising temperatures and climate changes. Crop failure may have a negative impact on the availability of supplies and result in increasing costs.

Our mitigation response

This risk affects our operations, logistics, and supply chain.

- Operations**
 - Yum China has taken extreme weather into consideration during site selection. For example, the elevation of restaurant locations is considered during site selection for restaurants in areas with high flood risk such as the middle and lower reaches of the Yangtze River Basin and the Poyang Lake Basin. Actions have also been taken to strengthen flood prevention measures in our construction process (e.g., setting up water barriers and booster pumps, conducting structural safety assessment tests).
 - We also ensure that our self-owned and leased buildings comply with national building codes, such as wind load requirements, and continuously adjust acceptance requirements according to national regulations. We have purchased buildings insurance to help us manage the financial risk of extreme weather events.
- Logistics**
 - Yum China operates a tailor-made, world-class logistics management system, which is capable of accommodating large-scale, wide-coverage and advanced information dissemination as well as fast store expansions. Our logistics management system helps to ensure supply chain stability and product delivery, providing a degree of resilience to impact brought by such acute risks.
- Supply Chain**
 - Yum China's diversified supply chain enables us to source from alternative locations which minimizes the impact of location-specific supply chain disruptions. We control our raw material costs by entering into multi-year bulk purchase agreements for some of our key food ingredients. We are committed to accelerating climate action and enhancing supply chain resilience through knowledge sharing, coaching, and collaboration.

Risk driver	Risk category	Timeframe
Rising mean temperatures	Chronic	Long term (10-30 years)

Description of risk and potential financial impact on our business

As temperature rises due to climate change, there is increasing need to create comfortable working and dining environment in our restaurants and distribution centers, for instance more use of air conditioning. Heatwaves may also pose negative health impacts to the workforce and potentially reduce the productivity of our workers.

Our mitigation response

This risk affects our operations.

- Operations**
 - Yum China chooses top-branded DC variable-frequency air conditioners in our restaurants that provide a high degree of comfort. Our air-conditioning systems are highly efficient in terms of minimizing energy consumption, with features including automatic on/off controls, mode selection and temperature settings, as well as air velocity settings.
 - With the office interior designed to meet the gold standard of the Leadership in Energy and Environmental Design ('LEED') building rating system, the Yum China Building in Shanghai incorporates a suite of advanced sustainable features that are intended to provide staff with the optimal working environment. Smart, low-carbon air conditioning systems save energy and ensure temperature and air flow are optimal.

Risk driver	Risk category	Timeframe
Water stress	Chronic	Long term (10-30 years)

Description of risk and potential financial impact on our business

Water scarcity is a widespread issue in China, especially in the northern part of the country, and is expected to be exacerbated with climate change. Increase in water stress will further reduce availability of water supplies and may bring challenges to our restaurants in water-stressed cities. Potential impacts include higher water charges and disruption to operations.

Our mitigation response

This risk affects our operations.

- Operations**
 - Yum China has assessed water resource risk levels in the areas where our restaurants are located in collaboration with the World Resources Institute. Based on the assessment results, we continue to prioritize the upgrading of water-saving equipment in water-stressed or water-scarce areas, such as thawing cabinets and tailor-made dishwashers. We are committed to reducing average restaurant water consumption by 10% by 2025 as compared to a 2017 baseline, and have achieved this goal ahead of schedule as of 2021.

> Opportunities

Apart from transition and physical risks, transition to a low-carbon economy presents opportunities for our business in areas including reducing emissions from our own operations through increasing resource efficiency and using renewable

energy, promoting low-carbon transition of our supply chain and logistics system, as well as advocating sustainable lifestyles to our customers.

Decarbonizing our own operations

Yum China has increased efforts to enhance energy efficiency in restaurants. We have been exploring new technologies such as photovoltaic generation, Internet of Things ('IoT') systems, Tubular Daylighting Systems, Big Data, and Artificial Intelligence, which are expected to drive additional efficiency improvements. While new investments require capital expenditure, adapting new technologies can help to reduce exposure emissions which consequently lower our sensitivity to changes in cost of carbon.

savings of approximately 12,670 MWh in the year. We are also incorporating IoT-enabled features as part of our efforts to develop 'intelligent restaurants', and plan to roll out this initiative nationwide as appropriate.

Renewable energy investment is a new space for us at Yum China, which in fact can be a kind of industry challenge. We have taken an important step to pilot Distributed Photovoltaics (DPV) installation in the first batch of KFC Green Pioneer Stores in Beijing and Hangzhou in early 2022. The installed rooftop solar panels generate about 10,000 kilowatt-hours of clean electricity a year for the restaurant, and we plan to further improve the restaurant's energy efficiency by incorporating energy storage technology. Compared with the average GHG emissions of KFC stores in 2020, Green Pioneer Stores are expected to further reduce GHG emissions by approximately 15% per year.

In 2021, Yum China continued to expand the Value-added Technology Application ('VTA') system in newly-built and remodeled restaurants. The VTA system is equipped with real-time monitoring of CO₂ concentrations and automatic fresh air volume control, contributing to the reduction of air-conditioning energy consumption while ensuring a comfortable environment. In 2021, the VTA system was installed in over 1,050 restaurants, leading to electricity

We are committed to driving meaningful change and pioneering in the restaurant industry towards net-zero emissions. Building Green Pioneer Stores is an important part of our journey. We will continue to explore utilization of innovative technologies in restaurant construction and operations to promote sustainable development as well as contribute to the low carbon economy.

—Joey Wat, CEO of Yum China

In the future, based on the technological advancement and pilot experience, we will continue to assess the feasibility of renewable energy utilization in operating sites such as deploying rooftop solar panels for restaurants, logistics centers and office buildings, as appropriate. In addition, we continue to explore more renewable energy opportunities

in the case of specific application for Yum China. In collaboration with various stakeholders, we are actively building know-how and seeking for every opportunity to leverage the green power trading system that China government stated to pilot since September 2021.

Transitioning our supply chain and logistics

Yum China engages and empowers suppliers to collaboratively create a net-zero value chain. In 2021, we offered carbon literacy training to suppliers and helped them develop carbon inventories. As the kick-off of the supplier engagement program to drive for value chain GHG emissions reduction, we held the first-ever Yum China Supply Chain Sustainability Workshop in February 2022. We brought together the leadership teams of our Top 50 key suppliers in the food and packaging category to participate in the workshop. A pilot program was launched with selected suppliers from the poultry and packaging categories to develop a carbon footprint scorecard and category management playbook in the next several years. We plan to replicate the program to all other categories afterwards, and expect to continue to partner with suppli-

ers to reduce supply chain carbon footprint and create a sustainable ecosystem.

Yum China has also been exploring opportunities to reduce energy consumption and GHG emissions in logistics and warehousing. We developed a Transportation Management System to optimize the distribution network and route planning throughout the country. The system helps to optimize vehicle loading rates and shorten delivery mileage, improving the efficiency of distribution and storage processes. This has led to cost savings and greater supply chain reliability. In addition, we have piloted the use of electric vehicle ('EV') fleets in Shenzhen, as part of our continued exploration into new energy vehicles to support our extensive distribution system.

Promoting low-carbon lifestyle

In addition to reducing GHG emissions in our own operations and mobilizing suppliers in this regard, customers are also one of the most important stakeholders in Yum China's efforts to address climate change challenges. Leveraging our strong online and offline connections with customers, we strive to increase environmental awareness among the public through a series of green marketing campaigns, encouraging and rewarding more eco-friendly choices, in order to turn sustainability challenges into opportunities.

KFC members across the country actively participated in the campaign, completing over 63 million Super App check-ins and carbon reduction actions and leading to a total carbon reduction of 145 tCO₂e.

In addition, KFC launched an oat drink on its breakfast menu, its first 'carbon zero' product. The whole lifecycle carbon footprint of the oat drink was certified by a third-party institution in accordance with ISO 14067. To offset the GHG emissions of the oat drink, KFC joined hands with the China Green Carbon Foundation to plant trees and launched the KFC Carbon-neutral Forest Program in Baoshan, Yunnan province.

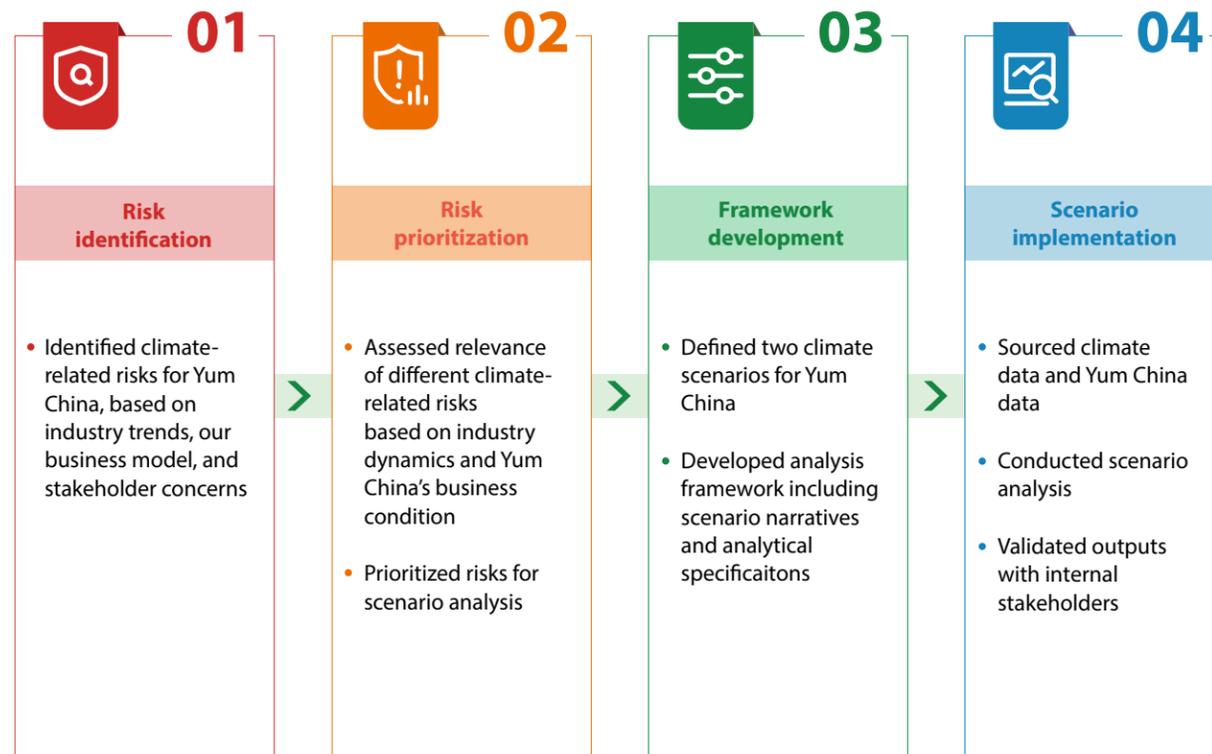
In the future, we will explore more innovative ways to motivate customers and other stakeholders to join us on our journey to drive meaningful change and contribute to a more sustainable planet.



Scenario Analysis

Climate-related scenario analysis enables an organization to take a forward-looking view of its exposure to climate-related risks and helps to guide its strategic planning and risk management. Yum China has conducted climate

scenario analysis to assess the potential impact of material transition and physical risks on its businesses under different hypothetical climate futures. Steps taken are shown below.



This section outlines our methodology framework used for scenario analysis, including the rationale and narratives of each scenario, as well as data sources and assumptions that underpin the analysis. We have also provided a high-level

overview of the key findings from our initial analysis, and aim to conduct additional analysis and provide detailed disclosure on results in the coming years.

> Framework of analysis

Yum China has defined two climate scenarios: (i) 'Paris-aligned': limiting global warming to 1.5°C, and (ii) 'no mitigation': leading to more than 4°C of global warming towards the end of this century. Ambitious climate action is taken in the 1.5°C scenario with drastic policy measures, technological developments, and market changes, while the 4°C scenario sees no climate action taken with continued increase in emissions and global temperatures. Transition risk is therefore the focus of the Paris-aligned scenario

whereas under the no mitigation scenario physical risk is of greater materiality. Data and scenario narratives used for this analysis are mainly taken from the International Energy Agency ('IEA') Net Zero Emissions by 2050 scenario, and the Intergovernmental Panel on Climate Change ('IPCC') Representative Concentration Pathway ('RCP') 8.5. The Principles for Responsible Investment's 1.5°C Required Policy Scenario is also used as a reference. Impacts are assessed over 2030 and 2050 timeframes.

Scenario	Paris-aligned scenario (1.5°C)	No mitigation scenario (4°C)
Selection rationale	This scenario was selected to assess the impact of ambitious climate action to meet the 1.5°C target of the Paris Agreement.	This scenario was selected to assess the impact of increasing climate changes due to the lack of mitigating actions.
Scenario narrative	Nations ramp up climate action to limit global warming to below 1.5°C by the end of the century, leading to drastic policy measures to reduce emissions. Technological advances are made to facilitate low-carbon transition, while market also shifts towards more climate-friendly production and consumption. Pressure from civil society and customers on corporates' climate action also increases.	No action is taken to mitigate climate change, leading to increased emissions and higher GHG concentration in the atmosphere. Physical impacts from climate change significantly exacerbate over time, with global mean temperature increase rising to above 4°C towards the end of the century and extreme weather impacts becoming more frequent and severe.
Main reference	IEA Net Zero Emissions by 2050 scenario	IPCC RCP8.5

Our scenario analysis this year is based on the following assumptions:

- Analysis is conducted on our business operations profile in 2021. Climate-related risks in 2030 and 2050 are considered against this profile to assess future risks relative to our current business model.
- Yum China's data input includes emissions, restaurant locations, as well as procurement category, volume, and spending.
- Data on climate-related risks is extracted from publicly available sources such as IEA and IPCC.
- Transition risks are assessed under the 1.5°C scenario, while physical risks are assessed under the 4°C scenario. We recognize that physical risks are also present in the 1.5°C scenario, but given their significance is much lower as compared with the 4°C scenario, we have chosen to focus our physical risk assessment under the latter as a more 'extreme' case.

> Overview of findings

In consideration of risk materiality, our analysis focuses on two risk drivers: mandates on existing products and services,

and increased severity of extreme weather events. Key findings are summarized in the table below.

Paris-aligned scenario (1.5°C)	No mitigation scenario (4°C)
<ul style="list-style-type: none"> Increased costs from more stringent carbon pricing mechanisms applied in the wider economy Enhanced global efforts to limit agricultural expansion and combat deforestation Increased requirements for responsible and sustainable sourcing, with potential cost implications 	<ul style="list-style-type: none"> Varied risk exposure across different geographical locations Flood risk hotspots in parts of eastern and northern China Typhoon risk hotspots in parts of the southeastern coast Increased damage to agricultural production from extreme weather events, in particular droughts, floods, and storms, causing unstable supplies and volatile prices

> Resilience of our business

Scenario analysis reveals that Yum China is subject to varying degrees of transition and physical risks under different climate futures. While we recognize that both decarbonization and climate adaptation present challenges, our business is well positioned to address them. The broad presence of our restaurants across different parts of China means that impact from location-specific singular events

tends not to affect our overall operations and financial performance significantly. Regarding supply chain, our wide supplier base and diversification strategy provide resilience to potential supply-side shocks including those from climate-related risks. The upcoming decarbonization roadmap will guide emissions reduction actions across the value chain and further enhance the resilience of our business.

Risk Management



Yum China has established risk management systems with relevant policies and procedures that we believe are appropriate for our business operations.

We have conducted risk screening to identify climate-related risks and opportunities in accordance with the TCFD recommendations, taking into account industry climate-related trends, our business condition and development strategy, as well as concerns raised by stakeholders both internally and externally. An analytical framework was developed and used to ensure systematic identification and

prioritization of material risk factors. This resulted in a matrix of climate-related risks and opportunities with varying degrees of relevance to our business.

Yum China's broad business footprint and diversification strategy provide a degree of resilience to impact brought by climate-related risks. Below is a summary of how climate-related risks are being managed within our existing risk management measures in four aspects, namely restaurants, supply chain, logistics, and products and services.

Restaurants

Yum China has been exploring ways to conserve energy and safeguard the environment in all aspects of restaurant design, construction, and operations. We created the Yum China Green

Building Standards by benchmarking the LEED criteria, and all of our restaurant have been designed and built in accordance with such green building standards since 2016.

4R Principles

We are committed to strengthening environmental management as an ongoing priority. The Sustainability 4R Principles (Reduce, Reuse, Recycle, and Replace) serve as clear guidance across the value chain of Yum China, which are adopted to set relevant environmental goals accordingly. We strive to reduce environmental impact from farm to fork, including raw material sourcing, logistics and warehousing, restaurant operations and delivery services, and to incorporate sustainability into daily operations.



Investment in innovative technologies

We have been upgrading equipment and facilities as well as applying digitalized and automated solutions in our restaurants to save energy and reduce emissions. These include kitchen fume exhaust control systems, heat pump water heaters, DC variable-frequency air conditioning systems, LED lighting and IoT system. Our use of refrigerants is compliant with the Montreal Protocol on Substances that Deplete the Ozone Layer. By implementing these energy-saving measures, more than 50 million kilowatt-hours of electricity was saved in 2021. Off-grid renewable energy solutions have also been piloted in restaurants in Hangzhou and Beijing. In the future, we will further promote IoT technology to enable network-wide monitoring and optimize energy consumption, as well as increase the use of renewable energies through off-grid solutions and direct or virtual power purchase agreements.

Supply chain

Yum China requires all suppliers to sign the Yum China Supplier Code of Conduct to ensure that they comply with the legal requirements regarding, among others, environmental management and security, child/minor labor, forced labor,

health and safety, discrimination, disciplinary measures, working hours, wages and benefits, and follow business ethics when doing businesses with us.



We work closely with our supply chain partners to create a more sustainable model in each sector, further consolidate achievements made in sustainable development, and build a green and sustainable supply chain ecosystem.

—Howard Huang, Chief Supply Chain Officer of Yum China



We have strict selection processes for our suppliers and actively monitor their performance, using evaluation criteria including cost and quality of supplies, as well as resilience and sustainability of supply chain management. Our restaurant business depends on reliable sources of large quantities of raw materials such as protein (including poultry, pork, beef, and seafood), cheese, oil, flour, and vegetables (including potatoes and lettuce). Such raw materials are subject to price volatility caused by

fluctuation in aggregate supply and demand as well as other external factors such as climate and environmental conditions, which may affect expected harvests. We therefore maintain appropriate capacity buffers in our inventory to allow for unexpected disruptions in our supply chain. Our menu management and portfolio diversification strategies also help to mitigate the impact of site-specific supply chain disruptions, including those incurred by physical climate risks.

Supply chain management

Supply chain decarbonization

Yum China actively collaborates with suppliers and supports their decarbonization actions. We encourage suppliers to monitor and record their energy and resource consumption, adopt energy-efficient technologies and facilities, and reduce GHG emissions. We have conducted supplier CSR audits since 2017 to standardize our supplier

social responsibility management and mitigate risks involving the supply chain. We are in the process of setting Carbon Footprint another KPI in addition to Cost and Quality, into supplier management system. Supplier performance on GHG emissions would become one part of supplier selection criteria and annual business review.

Logistics

Yum China has built a vast logistics network that enables continuous and stable supply of products. We recognize that logistics and

warehousing are one of the major sources of our emissions footprint and have been exploring ways to reduce the impact.

Logistics management system

Yum China operates a tailor-made, world-class logistics management system to secure food safety and provide efficient and reliable logistics services for our restaurants. Our supply chain strategy of working with multiple suppliers, as well as building a vast logistics network, allows for continuous supply of products in the event that supply from an individual supplier or logistics center becomes unfeasible.

With regard to site selection for logistics centers, disaster risks such as floods and earthquakes have been incorporated in relevant assessments. Our Business Continuity Plan has also been strengthened to deal with potential disruption. These measures help ensure the stability of our logistics system and provide a degree of resilience to potential disruption including that brought by physical risks.

Low-carbon transformation

Yum China has deployed new technologies including LED and IoT in logistics centers to enhance energy efficiency. We are also actively exploring affordable, reliable and scalable renewable energy solutions in operation sites as appropriate, such as deploying rooftop solar panels for logistics centers.

With regard to the electrification of transportation, we are actively assessing and monitoring the use of EV for refrigerated transportation and have piloted the use of EV fleets in Shenzhen.

Products and services

Offering appealing, tasty and convenient food at great prices is Yum China's value proposition. We believe that introducing new menu items that meet evolving customer preferences can create excitement for our customers and drive them to

visit, which is crucial for us to maintain brand excellence and broaden brand appeal. This includes responding to shifts in customer preferences towards low-carbon menu options and more sustainable dining experiences.

Research and development

In January 2019, Yum China opened a world-class 27,000 square-foot innovation center in downtown Shanghai. It is an integrated research and development facility designed to generate new ideas and concepts to enable the rapid roll-out of innovative products. Its facilities include a test kitchen, a sensory test area, a coffee training studio, as well as a suite of labs covering restaurant equipment and technology innovation, packaging innovation, new store model prototyping, quality assurance, and content production.

The innovation center has already generated immense benefits to us in: (i) developing new menu items with new ingredients as well as new cooking methods for catering to guests' local tastes; (ii) developing and prototyping new restaurant models to enhance the guest experience as well as operations efficiency; (iii) providing operational and technical trainings to new coffee baristas; (iv) innovating new restaurant equipment and technologies to improve sustainable growth and operational efficiency; and (v) developing new packaging materials and packaging solutions that are more environmentally friendly.



Metrics and Targets

As the largest restaurant company in China, we see the needs to be part of the global climate action to meet the long-term targets of the Paris Agreement, to limit global temperature rise to 1.5°C above pre-industrial levels, and China's commitment to peak carbon emissions by 2030 and achieve carbon neutrality by 2060. We officially announced the signing and submission of the *Business Ambition for 1.5°C Commitment Letter* to SBTi on June 8, 2021, demonstrating our commitment to science-based targets to reduce GHG emissions and the ambition to reach net-zero value chain emissions by 2050.

had undertaken a systematic and methodical approach to measure and calculate the GHG emissions across our entire value chain including upstream, downstream and our own operations from 2019 to 2021, in accordance with the latest Greenhouse Gas Protocol and SBTi manuals. We use this as a basis to develop GHG emissions reduction targets that align with the methodologies and requirements of the SBTi.

Developing a comprehensive GHG emissions inventory is our first priority in this journey to identify major sources of our emissions and track our progress over time. In 2021, we

We have developed our near-term targets in line with 1.5°C pathway and the SBTi criteria. We are pleased to announce that on June 8, 2022, Yum China submitted our near-term science-based GHG emissions reduction targets to SBTi for validation. Once the target is approved, we will publicly disclose Yum China's carbon reduction ambitions and GHG reduction strategy across the value chain.

CO₂ **Organizational Boundary of GHG Emissions Inventory**

To set organizational boundary of our GHG emissions inventory, we use the control approach to consolidate GHG emissions, which covers our own operations (restaurants, office buildings and logistics centers) and 11 relevant Scope 3 categories in upstream and downstream of the value chain. We calculated the GHG emissions within the organizational boundary for three consecutive years from 2019 to 2021.

Accounting Methodology of GHG Emissions

Formulating a full GHG emissions inventory of our entire value chain is a complex and challenging task. We estimated our GHG emissions by using a systematic, comprehensive and methodical approach. In 2021, we relied on a hybrid approach to calculate Scope 1, 2 and 3 emissions. We calculated GHG emissions from purchased goods, which account for the largest proportion of scope 3 emissions, through top-down estimation and bottom-up data calibration. We also verified the GHG emissions of selected suppliers by performing site visits to further improve data integrity, reliability and accuracy.

Selection of Data Types

We prioritize calculating our GHG emissions through primary data which directly measures our activities that result in GHG emissions. We use other methods to utilize financial data for calculation where primary data is not available.

Selection of Emission Factors

The emission factors and Global Warming Potential adopted for the entire value chain GHG emissions calculation were taken from the following sources:

- IPCC Fifth Assessment Report
- Food and Agriculture Organization of the United Nations (UN FAO)
- Average CO₂e* emission factors of the grid in China issued by the National Development and Reform Commission (NDRC)
- Other published databases and government statistics

*Carbon Dioxide equivalent



The table below shows Yum China's GHG emissions from 2019 to 2021. For additional metrics including energy and water consumption, please refer to our 2021 Sustainability

Report. We plan to enhance our disclosure in the coming years with regard to metrics and targets for climate-related risks and opportunities including our decarbonization targets.

	Unit	2021	2020	2019
Summary				
Direct (Scope 1) GHG Emissions	tCO ₂ e	158,887	135,615	114,720
Energy Indirect (Scope 2) GHG Emissions	tCO ₂ e	2,158,856	1,873,757	1,956,072
Other Indirect (Scope 3) GHG Emissions	tCO ₂ e	8,446,963	7,079,379	/
Emissions intensity				
Average Restaurant Energy Indirect GHG Emissions	tCO ₂ e	205	207	233
Scope 3 composition				
Purchased goods and services	tCO ₂ e	6,366,184	5,345,233	/
Upstream transportation and distribution	tCO ₂ e	463,074	370,911	/
Franchises	tCO ₂ e	258,095	213,019	/
Others	tCO ₂ e	1,359,610	1,150,216	/

Notes

- Scope 1 refers to direct GHG emissions from sources that are owned or controlled by Yum China, and includes natural gas and refrigerant consumed. Scope 2 refers to indirect emissions from electricity and heat purchased by Yum China.
- The Scope 1 and 2 GHG emissions of Yum China in 2019 and 2020 only covered the company-owned restaurants and unconsolidated affiliates of KFC and Pizza Hut, and scope 2 emissions include emissions from purchased electricity only. In 2021, we expanded the scope of GHG emissions to company-owned restaurants across all brands and all own-operated logistics centers and office buildings, and scope 2 emissions included emissions from both purchased electricity and heat.
- Scope 1 emissions were verified by third party for years 2020-2021. Scope 2 emissions were verified by third party for years 2019-2021.
- Scope 3 refers to indirect GHG emissions from sources that are not owned or controlled by Yum China and occur in our value chain. The following Scope 3 categories are considered applicable: purchased goods and services, capital goods, fuel-and-energy-related activities (not included in Scope 1 or 2), upstream transportation and distribution, waste generated in operations, business travel, employee commuting, upstream leased assets, downstream transportation and distribution, franchises, and investment.



About this Report

This report is Yum China's first Task Force on Climate-related Financial Disclosures ('TCFD') Report (the 'Report') covering the period from January 1, 2021 to December 31, 2021, though some facts and figures may fall outside of the period

if necessary. This Report is prepared in accordance with the TCFD recommendations, covering Governance, Strategy, Risk Management, and Metrics and Targets.

Reporting Scope

Yum China Holdings, Inc. and its subsidiaries and branches.

Reference

'Yum China Holdings, Inc.' in the Report is also referred to as 'Yum China', 'YUMC', 'We' and 'the Company'.

'China' in this Report refers to the People's Republic of China, excluding Hong Kong, Macau, and Taiwan.

Report Access and Feedback

The Report is available in English, in electronic format. If you have any suggestions, please contact us at:

- E-mail: CSR@yumchina.com
- Address: 6F-16F, Yum China Building, 20 Tian Yao Qiao Road, Shanghai 200030, China

Note

In this report, the description of 'The largest restaurant company in China' is based on the 2021 system sales.

This report includes 'forward-looking statements' within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend all forward-looking statements to be covered by the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. You should consult our filings with the Securities and Exchange Commission (including the information set forth under the captions 'Risk Factors' and 'Management's Discussion and Analysis of Financial Condition and Results of Operations' in our Annual Report on Form 10-K and our Quarterly Reports on Form 10-Q) for additional detail about factors that could affect our financial and other results.

About Yum China

Yum China Holdings, Inc. is a licensee of Yum! Brands in mainland China. It has exclusive rights in mainland China to KFC, China's leading quick-service restaurant brand, Pizza Hut, the leading casual dining restaurant brand in China and, subject to achieving certain agreed upon milestones, Taco Bell, a California-based restaurant chain serving innovative Mexican-inspired food. Yum China also owns the Little Sheep, Huang Ji Huang and COFFii & JOY concepts outright. In addition, Yum China has partnered with Lavazza to explore and develop the Lavazza coffee shop concept in China. The

Company had 12,117 restaurants in over 1,700 cities at the end of March 2022.

In 2021, Yum China has been selected as a member of both Dow Jones Sustainability Indices (DJSI): World Index and Emerging Market Index. In 2022, Yum China ranked # 359 on the Fortune 500 list. The Company was also named to the Bloomberg Gender-Equality Index and was certified as a Top Employer 2022 in China by the Top Employers Institute, both for the fourth consecutive year.