

RESTAURANT BRANDS Annual General Meeting

CHIEF EXECUTIVE'S ADDRESS - NZX

9 June 2006

Welcome and good morning.

The past 12 months has seen many changes for Restaurant Brands as we continue to implement our main strategies. Our largest business, KFC is by far the biggest highlight as we continue to invest in the transformation of the brand and see the corresponding sales and margin improvements. Starbucks Coffee continues its stellar performance and in the first quarter of this year delivered the tenth consecutive period of same store sales growth.

But we are faced with a number of challenges, most notably in Pizza Hut Victoria which culminated in our recent announcement to exit this business. While we had a decline in sales, we maintained our focus on operational improvements and we delivered a flat store profit result compared to the prior year.

Pizza Hut New Zealand has had 6 years of year on year sales growth with an equivalent CAGR of 12.5%, while the total market during this time has also grown at a similar rate of 12.6%. Over the last three years it has been as high as 7.7% year on year. During the last two years we have had increased competition in the pizza category, possibly off the back of our own public success. We have known that these competitors were arriving and would change the market substantially. We have been preparing to meet this challenge for some time building 18 new stores and improved our operating standards.

I believe that we have taken the necessary steps to address the challenges facing our business and are committed to delivering a stable performance for shareholders, all other market forces being equal.

Before I address each of our operating divisions, I would like to introduce to you our loyal and dedicated Management Team:

- **Grant Ellis** – Our Chief Financial Officer. He provides financial advice to us all and is also the Board Secretary.
- **Rod de Vries** – General Manager of KFC. Rod has been with Restaurant Brands for 15 years and 3 years ago took on the role of General Manager for KFC. He has been instrumental in the success of KFC and improving the operations, and also leading the brand transformation project.
- **Russel Creedy** – General Manager of Pizza Hut New Zealand. Russel has been leading Pizza Hut team now for the past two years and has been with the company for five years.
- **Alan Brookbanks** – General Manager People and Performance has been with us now for two years. Alan has done some excellent work on people strategies, retention and training and was key to our resolution with the Union.
- **Steve Montgomery** – General Manager of Starbucks Coffee has been with us for 15 years and has been involved in the Starbucks Coffee business since inception back in 1998. He took on the role of General Manager, 18 months ago, has made some strong improvements in the business and leads a motivated and passionate team.
- **Michele Teague** – General Manager Marketing. Michele has been with us since February this year and has already made some substantial changes to our marketing programmes. Michele has an extensive background in retail and brand marketing including Air New Zealand, Pacific Retail Group and Woolworths.

KFC

There is no doubt that KFC has been the biggest highlight of the year as we saw continued improvements in performance of the brand, across all metrics and not just from our newly transformed stores.

KFC has a long history in New Zealand, dating back to the early 1970s. We are proud of the KFC brand here in New Zealand which will continue to evolve along with the communities in which we serve. Transformation is our largest strategic project in the company involving the deployment of capital, people, and new brand strategies underpinned by our *Running Great Restaurants* programme. It is worthwhile taking you behind the scenes of KFC brand Transformation.

Our new look stores are a great example of that evolution, reflecting the needs of today's society with a variety of menu options for our core customers of families and groups, as well as contemporary features such as large family tables, booth seating, and flat screen TV.

We have noticed that our customers enjoy these new features and choose to dine-in at these stores.

So what is transformation? It is not just a major refurbishment of the store (although this is a very important part of it), it is a total process to ensure all operational aspects, including great service, have equal focus along with our menu changes. For example, we retrain our people in customer service and great teamwork for every store that is transformed.

At this time last year, only three KFC stores had been through this transformation; Frankton, Mangere East and Hamilton East. Today, that number is nine and we are seeing excellent returns on our investment. But what is even more significant is the flow on effect this is having on all of our customers and staff who are re-energised and excited to be part of this world first programme. At present we have Ponsonby, Pakuranga and Riccarton Road stores in transformation mode and by the end of the year we will have over 20 stores completed.

We began to introduce a variety of new menu items. Our store in New Lynn was selected to trial nine new items including a variety of grilled chicken options, three flavours of a new Toasted Twister and delicious new Sara Lee desserts.

While still early days, we have been extremely pleased with the customer response and have been rolling them out to other stores over the year.

It's all part of our effort to offer a wider range of options to our customers, many of whom are families or groups looking to satisfy their hunger with our distinctive, great tasting, finger licking chicken. I can assure you the flavour of our grilled chicken is just as good as the traditional recipe and I encourage you to try these new menu items the next time you are in KFC.

This is KFC Brand Transformation which we will roll out across the country so that all customers can enjoy the benefits of this new initiative.

This flow on effect resulted in a 5.9% improvement in store profit over the prior year and an increase in same store sales of 1.9%. Total sales for the concept for the year were \$171.8 million, an increase of 1.1%, which would have been higher if not for our store closures under the transformation project. Same store sales over the last year have been positive for 5 out of the last 6 quarters. As a result of this improvement KFC now contributes 54% of total company sales and 65% of EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) to Restaurant Brands overall results, making the improvement in this business even more significant for the company.

We have also seen a marked improvement in our staff turnover rates. We have had the same area management team at KFC for nearly three years, which is a significant achievement in the fast food industry. Annual staff turnover is now under 70% compared with 87% three years ago and store manager turnover is at historic low levels. These are exceptionally good numbers in the QSR industry and a tightening labour market.

We have worked hard on our operational performance in KFC which has paid off with improved mystery shopper scores. Our mystery shopper programme is called CHAMPS. It this runs across all KFC markets globally, and is run independently. Here in New Zealand we are now world class

with a score of 95.5%. You will see in the annual report this is the highest since the company was floated. This is not to say we are complacent as we know there is always more to do. More to do for our customers, our employees and our shareholders. In the immediate future, our goal is to improve the speed of service at KFC, particularly in drive through where we believe the greatest improvements can be made.

It has also been the first time in more than three years that we opened a brand new KFC store – in fact we opened two of them, one in Kaikohe and the other in Taihape. These stores have been a great success in each of their local communities providing up to 30 new jobs. These are special stores as they fit well with the local landscape as in-line stores which gives us opportunities in other smaller communities.

Many of these new look transformed stores have significant same store sales growth. Last year I mentioned that KFC Frankton had an average of over 20% same store sales growth. This growth has held for the store and for many of our transformed stores.

As we look to the year ahead we will continue to accelerate the speed of the brand transformation programme and aim to roll it out to most of our KFC stores within the next three to four years.

The results I have shared with you today give us the confidence to continue with this strategic programme. We are extremely pleased with the results that have generated from the work we have done with the KFC brand and the KFC team.

We believe that the best is still to come.

Pizza Hut New Zealand

As I said earlier, the results were mixed for the company this year. The Pizza Hut New Zealand business has had a much more challenging year. After six years of growth and two years of explosive growth, Pizza Hut is now by far the largest brand in this sector of the market with now

105 stores; our nearest competitor has approximately 56 stores. The growth of new stores for Pizza Hut was a key strategy which we put in place to meet competition.

The strength of our brand, and of our 0800 838383 phone number, ensures that we continue to dominate the pizza takeaway and delivery market. But the growth of the sector in general has seen a number of players enter the market and increase competition across the board.

I can assure you we are committed to maintaining our market leadership position and remaining competitive with all of these new entrants. This will mean that margins will be under pressure in this competitive environment. The pizza category is more competitive on price than any other part of the Quick Service Restaurant industry. What we are seeing here is no different to other markets around the world.

While total sales increased by 3.6% during the year as a result of store growth, margin was impacted by cost increases and competitive pressures. Store margin declined from \$13.6m to \$12.2m as a result of these pressures. The margin was 13.6% of sales.

In our Pizza Hut business we have two distinct types of operation –

1. Our Delco or Delivery Company stores which are pick-up/delivery outlets – of which we have 87 stores.
2. We also have 20 Red Roof family restaurants as well, part of the Pizza Hut heritage here in New Zealand. Last year we noted we were trialing a refurbishment programme. Although the store is an improvement, we believe there is still work to do before we undertake further store refurbishments. We need to balance the capital required with the returns that are acceptable. There are a number of restaurants which are coming up to their lease end which we will be exiting in the current year.

As the chairman has mentioned, we are ready to meet the competition in this new environment. Last year we launched our Gourmet range of pizzas which have proved popular with a particular segment of the market and responsive to promotion.

Our marketing programme is set to ensure we meet our customers expectations while maintaining our competitive edge.

We have recently launched a new online ordering system at www.pizzahut.co.nz which is already proving to be popular. (We have for you here today, a do-it-yourself kit for you to online order). This online ordering system is fully integrated into our call centre which also offers voice recognition automated order taking as well as the traditional call centre operator. I encourage you all to go online and try this new way of accessing Pizza Hut to experience it for yourself.

Operationally the business KPIs are in good order with our mystery shopper scores high at 96.4%, still top of the Australia/New Zealand market. Over 80% of our delivery orders are delivered under 30 minutes which is a target we rigorously meet for service to our customers.

Pizza Hut New Zealand has a strong position in this competitive market with a dominant store footprint and the highest level of brand awareness. I am determined that we will come through this current period in an equally strong position.

Pizza Hut Victoria

Across the Tasman we took a difficult decision at the end of the financial year to exit the Pizza Hut Victoria business.

While we have continued to improve the operational performance of this business, it has never delivered the financial rewards we expected of it. Store profitability dropped back from a marginal profit to a small loss of \$300,000 and total sales fell 4.9%.

As you may recall, our original intention back in 2002 when we entered this market was to leverage the experience gained from our success in the New Zealand pizza market when we purchased Eagle Boys. Despite investment into the existing store base in Victoria, the business was unable to justify the expansion of new stores required for critical mass in this market.

This was due to a number of factors. Pizza Hut did not have the same level of brand awareness or customer loyalty that it does in New Zealand, the marketing dollars required to improve this in such an expensive media market was out of our reach with the number of stores we had.

We will be exiting the business over the coming year by selling the 50 remaining stores to independent franchisees.

There has already been considerable interest in stores and since the announcement we are pleased to announce we have interest in 26 stores of which offers have been accepted on 17 stores, just on a third of the network. We are focused on exiting as quickly as possible

While difficult to make, the decision to sell the Pizza Hut Victoria business this will allow us to remove the trading losses associated with Pizza Hut Victoria and focus on the New Zealand operations where we can generate superior returns.

Starbucks Coffee

Nowhere are these returns more evident than in the Starbucks Coffee business. We ended the year with the ninth consecutive quarter of same store sales growth and that trend continues into the first quarter of this year. This current success is due to our back to basics approach where we are focused on the operating performance of each individual store and our customer care programme – the Green Apron Book. Customer Service is key to the performance of this business along with the world class coffee which we serve

Total sales for the year grew 14.4% on a comparative weekly basis to a high of \$27.9 million for the year. Same store sales for the year grew by 2.6% and store earnings improved 6.3%.

Starbucks Coffee New Zealand has also been recognised internationally for our local marketing activity. We topped the international Starbucks markets in launching the new Java Chip Frappuccino blended beverage – with average store sales during the launch setting a new record.

We have had excellent success this year in building new Starbucks Coffee stores at 6 new locations. These stores have been well received by local communities in Queenstown, Nelson, Lower Hutt, Mt Maunganui, Botany Downs and Westgate. Yesterday we opened our 45th store at the new Sylvia Park Centre. We will be continuing with steady store development in the coming year.

Starbucks Coffee continues to be a shining star in our portfolio and there are no signs of its light dimming. In fact I am proud of our New Zealand Starbucks team for the work they have done and the recognition we have received from Starbucks Coffee International.

On behalf of the entire management team, I would like to extend our gratitude to all of our 7,000 employees at Restaurant Brands. Without their dedication and passion, in ensuring we deliver the best customer service every day, we would not be able to deliver these results to you.

I would also like to thank you for your continued support.

While the external environment we work in can seem challenging, we will always focus on doing our best for the business and our shareholders.

As I have outlined today, we have made further changes to our businesses along with our continued strategies for sustainable growth in each of our brands and sincerely believe that these will result in an improved performance in the years ahead.

I hope that you share our vision for the coming year. We are confident that the changes we have made to our Pizza Hut business will enable us to have a sustainable, profitable business for the future. We are of course excited about the ongoing potential at both KFC and Starbucks.

Thank you.