8 April 2009
NZX

RESTAURANT BRANDS NEW ZEALAND LIMITED

Directors' Report to Shareholders for the Year ended 28 February 2009

Key Points

- Group Net Profit after Tax (excluding non trading items) was $11.7 million (12.1 cents per share), up $1.4 million or 13% on prior year, mainly because of the strong result for KFC.

- Reported Net Profit (including non trading items – primarily Pizza Hut impairment charges) was $8.3 million (8.5 cents per share) compared to $8.4 million in the prior year.

- Total revenues for the company were $309.6 million, up $5.6 million on prior year with same store sales up 1.6%.

- KFC achieved yet another sales record at $211.5 million (up 4.1% on a same store basis) with Starbucks Coffee flat at $33.0 million (up 3.6% same store). These were partly offset by lower sales of $64.6 million for Pizza Hut (down 6.5% same store).

- The KFC brand transformation continued its roll out with significant sales growth in the 34 transformed stores.

- Bank debt was down by $8.2 million (on top of the $6.1 million reduction in the prior year) as the company continued its debt reduction programme in the current economic environment.

- A final full year fully imputed dividend of 4.0 cents per share has been declared making a full year dividend of 7.0 cents, up 0.5 cents on prior year.

Note 1. Results for the 2008/9 financial year are on a 53 week basis vs 52 weeks for the previous year. Because the company normally uses a 52 week (364 day) year, a "leap" year is occasionally required; hence an extra week.

Note 2. A change in the company's accounting policy with respect to prepaid advertising and promotional expense following its adoption of the amendment to accounting standard NZ IAS38 now requires all advertising material (including television advertisements) to be expensed at time of production. This has meant a restatement of last year's result and all comparatives are based on these restated numbers. (The net result was an increase in NPAT for 2008/9 of $0.7 million and a corresponding decrease NPAT in 2007/8).

Group Operating Results

Directors are pleased to announce that the 2008/9 year has continued to be one of improved profitability for the company, primarily driven by further strong performance by the KFC business, although some benefit was derived from a change in accounting policy on prepaid advertising expenditure arising from the adoption of an amendment to the Accounting Standard relating to advertising.

Net Profit after Tax (excluding non trading items) was $11.7 million (12.1cps) compared to $10.4 million (10.7cps) in 2007/8.

Non trading costs of $5.0 million, being primarily impairment charges against goodwill in the Pizza Hut business brought reported NPAT (including non trading items) to $8.3 million (8.5cps), compared with $8.4 million (8.6cps) in the 2007/8 year.

Total store EBITDA for the year was down $0.5 million to $43.7 million. KFC's improvement of $2.1 million to $38.0 million was completely offset by EBITDA reductions in Pizza Hut of $1.7 million and Starbucks Coffee of $0.9 million respectively.

Other significant improvements on prior year were in G&A (above store overheads) of $0.4 million and funding costs of $1.0 million.

Total sales of $309.1 million were up $5.6 million up on the previous year's sales. Same store sales for the group were up 1.6% (3.4% in 07/8). Both KFC and Starbucks Coffee demonstrated continuing same store sales growth, up 4.1% (7.7% in 07/8) and 3.6% (4.0% in 07/8) respectively, but Pizza Hut New Zealand saw annual same store sales drop 6.5% (7.0% down in 07/8).

Year end store numbers at 219 were nine down on February 2008 following four Pizza Hut store closures (mostly as part of the red roof exit strategy), two Starbucks Coffee closures and three KFC closures (all at lease end). All closures have been margin positive.

KFC

KFC again grew both sales and margins with the momentum of the continuing brand transformation. Total sales reached a new record of $211.5 million, up $12.4 million on prior year and 4.1% on a same store basis (on top of 7.7% same store growth in 2007/8).

A further four stores were rebuilt over the year bringing total rebuilt or refurbished stores to 34, over one third of the total network. Store numbers reduced to 84 with the closure of loss making stores at Wainuiomata, Manners Mall (Wellington) and Howick (Auckland) all at lease end.

Earnings were also up, with EBITDA improving by $2.1 million (5.8%) to $38.0 million (18.0% of sales). The brand continued to improve its operational controls and benefit from volume growth leverage, despite the impact of substantial chicken price and labour cost increases.

Pizza Hut

The Pizza Hut business continued to face tough trading conditions with slow progress in arresting sales decline and building profitability. Sales of $64.6 million for the year were down 6.5% on a same store basis.

The impact of the sales deleverage, together with continued cost increases and limited opportunity to pass these on saw further margin deterioration with the brand producing an EBITDA result of $2.8 million for the year, $1.7 million down on prior year.

Pizza Hut continued to focus on margin management at lower sales volumes and improving sales in a very competitive environment. New product releases such as *More-4-All* and *Triple Dippers* helped address the sales decline as the year progressed with same store sales in the last quarter of only -1.2%.

Four stores closed over the course of the year. These comprised two red roof restaurants in Tauranga and Invercargill as part of a wider exit strategy and two unprofitable delcos at Mana in Wellington and Mangere East in Auckland. Store numbers at year end totaled 93.

Starbucks Coffee

Starbucks Coffee revenues were flat on prior year at $33.0 million with two store closures, but up by 3.6% on a same store basis. Two stores at Bayfair (Tauranga) and Pakuranga (Auckland) were closed (at lease end) over the year bringing store numbers at year end to 42.

Despite the satisfactory sales result, the Starbucks business was severely impacted by significant price increases for raw materials and continued increases in labour costs. The rapid deterioration in exchange rate significantly added to the cost of coffee and other imported materials. A number of initiatives are under way to address this problem for the new year.

The impact of higher costs on a flat sales base saw a reduction in EBITDA to $2.9 million, down 23.6% on prior year.

Corporate and Other Costs

Above store overheads (G&A costs) at $10.6 million were down $0.4 million on prior year and are running at 3.4% of sales compared with 3.6% in 2007/8 and 3.8% in 2006/7. Reductions in staff costs accounted for most of the saving.

With a slowing of the tempo in KFC transformation capital expenditure depreciation charges for the year were held at a similar level as the previous year at $12.4 million.

Non trading charges of $5.0 million included $0.5 million in fixed asset write offs arising from the KFC transformation programme, $0.4 million in write offs from Pizza Hut store closures (largely red roofs) and a further $3.7 million in Pizza Hut goodwill impairment charges following a review of the carrying value of this investment.

Interest and funding costs at $3.9 million were $1.0 million down on prior year with the company benefiting from both lower debt levels and the continued fall in interest rates.

Cash Flow and Balance Sheet
Despite the increase in reported profit, operating cash flows for the year at $23.3 million were down on prior year. This was largely because of working capital movements and increased taxation.

Investing cash flows of $8.1 million were $10.4 million down on prior year, reflecting a reduction in the pace of KFC transformation spend as the company faced up to the current economic environment and reached its contracted $35 million target with Yum. The capex levels in 2007/8 also had $3.1 million in franchise renewal fees that were not repeated in the current year.

The improved free cash flow position has meant that total bank borrowings reduced by $8.2 million over the year (in addition to the $6.1 million reduction in 2007/8) with closing bank debt of $34.3 million, well within current facility limits of $55 million.

Total assets at $101.1 million were down on the $112.0 million at last year end, reflecting the $3.7 million in Pizza Hut impairment charges and the differential between lower capital spend and depreciation expense over the year.

Franchise Renewals
The company is close to finalising an agreement with Yum that will provide a positive way forward for the Pizza Hut business. An announcement is expected to be made within the next month.

Change in Accounting Policy
With the issue of an amendment to NZ IAS38 (Intangible Assets) the company reviewed its policy on prepaid advertising expenditure. Whereas it previously treated expenditure on the development of advertising material such as television advertisements as a prepayment and spread the cost over the life of the advertisement, it now expenses these costs at the time the advertisement is made. This resulted in a transfer of these costs between the 2007/8 and 2008/9 years with a consequent restatement of last year's trading results. The net impact in the 2008/9 year is an improvement in Net Profit After Tax of $0.7 million (and a corresponding reduction in the prior year result).

Directors
After eight years on the board, Shawn Beck has decided to stand down as a director at the Annual Shareholders' Meeting in June. The board acknowledges the excellent contribution he has made to the company during this time.

Dividend
The company has produced an adequate overall performance for the current year (despite some continuing issues in the Pizza Hut and Starbucks operations). Directors believe that the continuing improved performance of the company should be reflected in an increased return to shareholders and have accordingly declared a final dividend of 4.0 cents per share. This brings the total dividend for the year to 7.0 cents from 6.5 cents last year.

The dividend will be paid on 26 June 2009 to all shareholders on the register as at 12 June 2009. A supplementary dividend of 0.70588 cents per share will also be paid to overseas shareholders on that date.

The dividend will be paid as fully imputed.

The dividend reinvestment plan will remain suspended for this dividend.

Outlook
Whilst this year's trading results must be considered satisfactory in the current environment and continue to show improvement over the past two years' performance, directors remain cautious as to next year's outcomes.

Investment in the KFC brand transformation programme will continue (together with pursuing new store opportunities) and this business is expected to continue to deliver sales growth.

Pizza Hut is expected to return to positive same store sales growth over the year, but continued competitive pressures and cost increases will limit any significant profit recovery. The company will be evaluating some potential store sales to independent franchisees and will continue its programme of unprofitable store closures, particularly of the red roof stores.

Starbucks Coffee is expected to continue its steady same store sales growth and produce a margin improvement on the current year.

The 2008/9 year has seen some profit improvement driven purely by the KFC business. Continued improvement in bottom line results requires this momentum to be sustained and both of the other brands to demonstrate a solid turnaround in their bottom line performance. This will not be easy in the current environment.

Restaurant Brands has demonstrated resilience in economic downturn and this is expected to continue, however given the current uncertain climate and existence of continued cost pressures, directors are expecting a similar profit performance in the new financial year.

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RESTAURANT BRANDS GROUP
Consolidated Income Statement

$NZ000's	28 February 2009 Audited		vs Prior %	Restated 29 February 2008 Audited	
Continuing operations:					
Sales					
KFC	211,531		*6.2*	199,116	
Pizza Hut	64,595		*(9.6)*	71,419	
Starbucks Coffee	32,980		*(0.1)*	33,012	
Total sales	**309,106**		*1.8*	**303,547**	
Other revenue	472		*5.6*	447	
Total operating revenue	**309,578**		*1.8*	**303,994**	
Cost of goods sold	(256,879)		*(3.3)*	(248,579)	
Gross margin	**52,699**		*(4.9)*	**55,415**	
Distribution expenses	(4,221)		*14.2*	(4,922)	
Marketing expenses	(17,438)		*9.8*	(19,334)	
General and administration expenses	(10,572)		*3.6*	(10,962)	
EBIT before non-trading	**20,468**		*1.3*	**20,197**	
Non-trading	(4,974)		*(46.1)*	(3,404)	
EBIT	**15,494**		*(7.7)*	**16,793**	
Interest income	21		*(75.0)*	84	
Interest expense	(3,943)		*21.7*	(5,037)	
Net profit before tax	**11,572**		*(2.3)*	**11,840**	
Taxation expense	(3,317)		*(9.5)*	(3,029)	
Net profit after tax (NPAT) from continuing operations	**8,255**		*(6.3)*	**8,811**	
Discontinued operations:					
(Loss) from discontinued operation net of tax*	-		*100.0*	(456)	
Total profit after tax (NPAT)	**8,255**		*(1.2)*	**8,355**	
Total NPAT excluding non-trading	**11,736**		*13.0*	**10,384**	
		% sales			% sales
EBITDA before G&A					
KFC	37,993	*18.0*	*5.8*	35,918	*18.0*
Pizza Hut	2,771	*4.3*	*(37.3)*	4,422	*6.2*
Starbucks Coffee	2,941	*8.9*	*(23.6)*	3,847	*11.7*
Total	**43,705**	***14.1***	***(1.1)***	**44,187**	***14.6***
Ratios					
Net Tangible Assets per security (Net Tangible Assets divided by number of shares) in cents	12.7c			5.9c	

* Pizza Hut Victoria is a discontinued operation

Cost of Goods Sold are direct costs of operating stores: food, paper, freight, labour and store overheads
Distribution Expenses are costs of distributing product from store
Marketing Expenses are call centre, advertising and local store marketing expenses
General & Administration Expenses (G&A) are non store related overheads