

**THE INTENSIVE EFFORTS OF MANAGEMENT
TO TURN PIZZA HUT AROUND
ARE STARTING TO BEAR FRUIT.**

PERFORMANCE FIRST

MY FIRST YEAR AS CHIEF EXECUTIVE OFFICER HAS, AS THE CHAIRMAN REPORTS, BEEN A PERIOD OF "WORK IN PROGRESS" FOR THE GROUP. IT WAS MARKED BY HIGHER NEW ZEALAND GROUP SALES OF \$303.5 MILLION – A NEW RECORD FOR THE NEW ZEALAND BUSINESS – AND A SIGNIFICANTLY IMPROVED NET OPERATING PROFIT AFTER TAX.

This improvement has not come about by chance and is not being taken for granted. The slowdown in the New Zealand economy, which we are starting to witness, impacts the hospitality sector more than most but I am pleased to report that the signs are positive as far as Restaurant Brands is concerned. Key performance indicators suggest the company is well positioned to weather the storm should a recession take hold.

With 228 stores nationwide and close to 5,000 employees, Restaurant Brands is a significant economic barometer in its own right. The fact that the group performed better than anticipated in 2007/08 is confirmation that our sales efforts, efficiency programmes and employee productivity gains are making a real difference.

KFC continued to build from strength to strength and our Starbucks Coffee business, although still relatively small, delivered sound profit and sales growth. Even Pizza Hut, which has troubled the group for some time, is starting to turn around, although we do not underestimate the challenge ahead.

Non-trading items affected group bottom line profit in the period under review, notably from write downs of goodwill in the Pizza Hut NZ business, closure costs following Pizza Hut NZ store closures and KFC store transformations, together with final exit costs from Pizza Hut Victoria.

However, an NPAT (excluding non-trading items) of \$11.0 million, up \$4.5 million on prior year and a reported profit of \$9.0 million (including non-trading items) versus a loss last year of \$3.6 million represent a solid improvement.

AN EATING EXPERIENCE

We want to be a company that leads by example to strive for the highest levels of customer care and shareholder value.

We seek to achieve this by meeting our customers' expectations for the highest standards and delivering to them an eating experience that inspires confidence and loyalty.

This requires a professional and well trained workforce and it is no coincidence that some 1,800 of our employees (or partners as we prefer to call them) are currently undertaking some form of NZQA qualification.

FRANCHISE PROGRESS

We successfully renewed the franchises on a further 38 KFC and Pizza Hut stores this year. This means that the bulk of the franchises on our KFC stores have now been renewed for a further ten years with rights of renewal on transformed stores for a further ten years after that.

The bulk of our Pizza Hut stores come up for renewal in 2010 and we are working with Yum Restaurants International (the Pizza Hut and KFC franchisor) on renewal terms for the franchises on these stores.

COLLECTIVE AGREEMENTS

New collective agreements for our stores and call centre came into force after balance date – on 1 April 2008 – enabling staff and management to concentrate fully on improving sales and profitability.

The agreements, negotiated with the trade union *Unite*, extend for two years for the stores and one year for the call centre and provide rate increases commensurate with market movement.

The settlement of these agreements could not have come at a better time and I compliment the parties for their constructive approach in these challenging times.

WORKPLACE INITIATIVES

Safety in food standards and in the workplace is paramount in our organisation.

We work hard to implement processes to reduce accidents to our partners and guarantee the utmost quality for our customers.

We are also looking at initiatives to reduce waste and limit the Group's carbon footprint. Our staff support these initiatives and our customers expect us to act responsibly in this regard.

KFC

KFC's strong sales – a new high of just under \$200 million – reflect the strength of management and the success of the store transformations, the strong promotional calendar and the innovative product offering. Non-transformed stores also made solid sales gains from the positive brand perception as the transformation programme rolled out through the store network.

Successful promotions such as *Hot Rods*, *Boneless Chicken* and *Hot & Spicy Chicken* as well as innovations in the form of *Cheesies* and the new *Fiesta Burger* also contributed to the strong sales performance.

The KFC business produced record earnings for the year with an EBITDA of \$36.6 million, \$5.4 million or 17.3% up on the prior year. At the EBIT level KFC profit was \$28.3 million, \$4.1 million higher than 2006/7.

Nine transformations were completed bringing the total number of new format stores to 30, representing 34% of the total network. Total store numbers remained constant at 87 at year end.

PIZZA HUT

Despite its disappointing performance in 2007/08, Pizza Hut remains the largest operator in the New Zealand pizza market.

The challenge for the group is to build on the strength of the brand while progressively closing red roof restaurants as the opportunity arises and improving the profitability of poorer performing dedicated delivery/takeaway (delco) outlets.

The signs are that the intensive efforts of management to turn Pizza Hut around are starting to bear fruit. Whilst EBITDA for this business at \$4.7 million was \$0.4 million down on prior year, most of this shortfall was incurred in the first half of the year. EBITDA margins as a percentage of sales improved from 5.9% in the first half to 7.4% in the second.

Innovative products are essential for the brand's revival. During the last quarter of 2007/08, for instance, the *Cheesy Bites Pizza* and *Cheesy Potato Bites* promotions returned with some success and the new *Mediterranean Pizza* and additional side items also performed satisfactorily.

Store numbers in New Zealand totalled 97 nationwide at year end.

STARBUCKS COFFEE

Starbucks Coffee continued its quarter-on-quarter, year-on-year sales growth, making a satisfactory contribution to group sales and earnings. Sales at \$33.0 million reached a new high, up 5.6% on last year's levels.

The *Pass the Cheer* Christmas promotion produced strong growth in merchandising sales in the fourth quarter.

EBITDA was also up 5.7% to \$3.8 million.

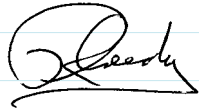
Some minor facility rationalisation saw store numbers reduce slightly to 44 at year end.

STAFF

The exceptional performance and dedication of our partners in 2007/08 greatly assisted my plans for lifting the performance of the group. I thank them for their commitment and loyalty.

OUTLOOK

We will continue to strive for improved profitability and expect KFC and a recovery from Pizza Hut to deliver a result higher than current year's result, economic conditions permitting.



RUSSEL CREEDY
Chief Executive Officer
9 April 2008