Chairman's Address to the 2012 Annual Shareholders' Meeting
29 June 2012

Fellow shareholders,

When I addressed the 2011 shareholders' meeting I commented that we were awaiting meaningful signs of recovery in the economy. The Rugby World Cup tournament was still ahead of us and we expected a level of sales uplift from that event; however we remained somewhat cautious as to the flow through to the wider retail environment.

That cautious view has been truly vindicated. As the European financial crisis reaches new levels and bankers and politicians struggle to push through long term rescue packages we see continuing evidence that the general retail situation here in New Zealand still remains challenging. The most recent BNZ Confidence Survey result states that the New Zealand economy has yet to gain sustained firm upward momentum after exiting the global recession in the first half of 2009.

Last Year's Results

However, despite all the uncertainties, the company delivered a solid profit result in 2012. Although the result was below last year's record performance, it remained well above the levels achieved 3 to 5 years ago.

Restaurant Brands' profit – or Net Profit after Tax excluding non-trading items – for the 2012 financial year was a little over $18 million, down 27% on last year's profit of around $25 million but driving a solid 23% compound average growth rate since 2007 .

The latest result reflected a tough trading environment and higher input costs – particularly with items such as chicken and cheese, of which the Group is amongst the largest buyers in New Zealand.
Two other factors impacted our sales results in particular during the year. The 22 February 2011 earthquake in Christchurch affected trading in the first quarter of the 2012 financial year.
In addition the continued sale of Pizza Hut stores to franchisees during the year saw 8 less stores under our ownership, reducing total sales for this brand.

The impact of these factors was most evident in the first half, accounting for some $5 million of the $7 million reduction in profit. In the second half of the year we implemented a number of cost reductions and promoted more profitable lines to address the negative year on year performance.

Total sales of $308 million were down 5% on the prior year. KFC held its own but total sales for Pizza Hut and Starbucks Coffee declined 23% and 10% respectively, mainly on the back of store closures (earthquake-related) and in the case of Pizza Hut, sales of stores to independent franchisees.

Same store sales – which allow an “apples with apples” comparison between periods - reversed the increase seen in 2011 and were down around 2.5%.

At year end we had 194 stores, down 14 on February 2011. In addition to the sales of eight regional Pizza Hut stores to franchisees, one dine-in and two Pizza Hut delivery stores were closed. There were also two Starbucks Coffee stores closed at lease end. KFC lost one store, destroyed in the Christchurch earthquake.

To summarise the effect of the 22 February earthquake on our sales for this year, we saw KFC drop $2.9 million, Pizza Hut $0.5 million and Starbucks $2.5 million, a total of $5.9 million. Whilst these losses were substantial we fortunately had full loss of profits insurance policies that minimized the profit impact of these lost sales in the 2012 year.

Total store EBITDA (or earnings before interest, tax, depreciation and amortization) dropped 17% to $51.4 million. KFC accounted for over half of the reduction and Pizza Hut around one third.

Despite the slightly lower profitability and some negative working capital movements, operating cash flows for the year were still a healthy $30 million. With some easing in capital expenditure as we slowed the KFC store transformation, investing cash outflows reduced to around $14 million. Consequently bank debt is up slightly to $13.6 million but we are utilising less than 40% of the facility limit of $35 million.

The balance sheet remains very conservative with a gearing ratio of 19% (2011: 17%).

Dividend

Given the company’s strong cash flows and low debt levels we have decided to keep the dividend close to that paid last year. Today a final fully-imputed dividend of 9.5 cents per share will be paid to you, making the dividend for the full year 16 cents per share, compared with 17 cents in 2011.

The payout ratio is around 92% of profit. This is relatively high for a listed company but reflects the extremely strong cash generating nature of the business, conservative borrowing levels and a limited need to retain cash for reinvestment at the moment. For this reason the dividend re-investment plan remains suspended.

As far as future dividends are concerned we would like to continue to increase the payout in line with improvements in the company's profitability but, as always, with an eye to retaining funds for reinvestment where this is justified.

New brand opportunities

While it may look like we have been relatively slow bringing new brands to the country let me assure you we have actively looked at a number. Last year we commenced preliminary discussions with Yum on the possible introduction of the *Taco Bell* brand. However, with Yum placing international development of this brand on hold we have not proceeded with this opportunity for the time being.

We believe we have the depth of expertise and experience to "plug in" new franchises relatively quickly into the New Zealand market. There is the opportunity to add three or four new brands to our portfolio in a relatively short time. Rest assured we will only add new concepts where we are confident of increased net returns.

In the US, which continues to lead the world in QSR development and usage, the average number of visits to a restaurant per capita is 195 per annum. New Zealand is well behind this at 53 per annum.

Pies, sushi, steakhouses, beverage bars and ice cream are all possible areas of interest where strong franchises exist overseas. We have a small team that monitors these opportunities and, should we commit to proceeding with the New Zealand franchise for any of these, our strategy would be a gradual introduction and test of any such opportunity rather than "betting the farm".

Carl's Jr

Having said that, let me tell you about an area where we have seen an excellent opportunity to invest.

As you would have seen from the theme of our annual report, Restaurant Brands is a company of multiple dimensions, both in its inherent competencies and in the scope of its brands. The depth of our business was amply demonstrated by the acquisition last year of the rights to an exciting new burger brand – Carl's Jr., which both expands our brand stable and increases the diversity of our earnings.

In December 2011 the company entered into franchise and development agreements with CKE Restaurants Inc. in the U.S., giving Restaurant Brands the exclusive rights to the Carl's Jr brand throughout New Zealand and shared rights to develop stores in the Auckland region.

Carl's Jr has in excess of 1,000 stores in the United States and is commencing international expansion in earnest. It specialises in offering best-in-class premium-quality burgers targeting youthful demographics. Carl's Jr restaurants offer unique service attributes focusing on 'partial table service', with a 'made-to-order' menu, 'all-you-can-drink' beverage bars, and a strong breakfast offering.

We expect to open the first and up to four new Carl's Jr. stores in the second half of this financial year. All stores are expected to be immediately profitable, but some set up costs at the general and administrative expenses (G&A) level will be incurred in establishing the business.

Suffice to say Carl's Jr is an exciting addition to our business of managing multi-site branded food retail chains. Russel will tell you a little more about this in his address.

Strategy

To update you on strategy with our other brands …

KFC's strategy is to maintain and build on the transformation process that has delivered so well the results for KFC, and indeed Restaurant Brands, over recent years.

With a little over 2/3 of our KFC stores now transformed and a further eight planned for this year, we are starting to work on the next phases of this development. One of these is a further iteration of the transformation process – *Project Fusion*. The prototype for this is our new Lower Hutt store which Russel will also elaborate on in his address.

Despite the trading difficulties this year, Pizza Hut's focus remains on returning profitability to our pizza business whilst at the same time continuing to progressively reduce the numbers of our smaller regional stores through a controlled sell down process. These stores, which generally have smaller sales volumes can produce a stronger result when operated by an independent franchisee with a more personal approach to running the store.

We have now sold 16 stores to independent franchisees and expect to have more stores operating on this model by the end of the financial year. We continue to focus on rebuilding sales and margins on our residual core stores in the major urban centres.

The Starbucks Coffee strategy continues to be building profitable sales as it did this year and our intention is to continue to support this strategy through new menus, possible new sites and a continued focus on operational excellence.

Outlook

Looking forward we don't expect any let-up in the challenging economic conditions or competitive nature of the marketplace. Despite the continuing soft retail environment, directors believe that current levels of profitability will be maintained through a continued focus on efficiency and cost reductions, together with new marketing initiatives.

Even though the 2012 underlying profit was down on 2011's stellar result, Directors consider the 2012 profit performance to have been satisfactory given the continuing tough economic environment. We believe that these new levels of profitability are sustainable.

Our expectations for 2013 are for a result of at least the same level in the year ahead. Restaurant Brands reports to the market six times a year – four quarterly sales reports together with the interim and annual results – and we will provide a further update at the time of the release of the 2nd quarter's sales result in mid to late September.

Board

Before I hand over to Russel for his update, I would like to acknowledge the support of my fellow directors for their continued commitment to Restaurant Brands.

We continue to operate with a small and effective board of four who work well together and with management in the governance of the company.

Last year we indicated that we were looking to appoint an additional director to the board. While we have elected not to proceed with a new appointment for the time being we remain on the look out for the right skills to add value around our board table.

Staff and Management

One of the strengths of Restaurant Brands is its depth of people resource and capability. The board acknowledges the exceptional skill and hard work of our staff at all levels and thanks each and every member of the team for their outstanding contribution, and their families for their support.

Conclusion

In concluding I would like to thank you, our shareholders, for your continued support of the company and our brands over the past year. It has not been an easy year but we trust that the results you have seen continue to provide some assurance of a solid ongoing return on your investment.

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