RESTAURANT BRANDS NEW ZEALAND LTD
ANNUAL MEETING,
Ellerslie Events Centre, 19 June 2008

ADDRESS BY CHAIRMAN E K (Ted) van Arkel

Fellow Shareholders, Ladies and Gentlemen

I am pleased to be able to report to you today on a year that represents a significant turnaround on our previous year's performance. It has been a testing 12 months with solid achievements, not the least of which has been a significant improvement in profitability.

Our net operating profit after tax for the year was up 69% to $11 million on more than $300 million in sales, an improvement directors consider satisfactory but by no means at a level where we would feel totally comfortable with the outcome.

'WORK IN PROGRESS' BUT WITH UNLIMITED VISION

Restaurant Brands' annual report is appropriately named "Work in Progress" but this should not suggest that the company is unduly inward looking or has somehow lost the vision of managing the most readily recognised brands in the hospitality industry.

In fact, if the fiscal year ended 29 February 2008 told us anything it was that we can manage brands well in the most challenging of circumstances but that we can also do better.

KFC remains, by any measure, extraordinarily successful with sales close to $200 million and earnings before interest, tax, depreciation and amortisation (EBITDA) in the year under review reaching a new record of $36.6 million.

Starbucks Coffee, the smallest of our brands, was a similar success story with revenue topping $33 million and EBITDA of nearly $3.9 million. It has now enjoyed 18 continuous quarters of sales growth.

Our achilles' heel was Pizza Hut New Zealand, where sales fell $8.3 million to $71.4 million, generating a disappointing EDITDA of $4.7 million.

The problems of Pizza Hut have been well signalled, as has our resolve to deliver positive results in <u>all</u> our businesses. We will take whatever steps necessary to achieve this.

There is, I am pleased to report, some light at the end of the tunnel. We have successfully exited our Victorian Pizza Hut operation and the drain on profits and management time from that operation is over. We can now concentrate fully on Pizza Hut New Zealand where, despite its poor performance, it remains the brand leader in a most challenging market.

I referred in the annual report to directors' concerns at the longer-than-expected turnaround in Pizza Hut New Zealand and our resolve to get the business back on track. Our chief executive officer, Russel Creedy, will expand later at this meeting on actions that are under way to restore the operation to profitability.

What I can say, though, is that Pizza Hut New Zealand is in a better position than its competitors. The pizza market is crowded and price sensitive. Our competitors, all single-brand operators, are also hurting. We are increasingly seeing our competitors' pizza franchises on the market, desperately looking for buyers. Several have already gone to the wall.

Pizza Hut New Zealand, on the other hand, has the backing of Restaurant Brands, which has demonstrated to the market time and again that it can manage brands successfully over the longer term.

The Board will consider any actions that might end the drain by Pizza Hut New Zealand on company profits, including its sale, if the turnaround is not forthcoming. In the meantime, the company is redoubling its marketing efforts to hold the line in the current economic climate.

A recent article in *Unlimited* magazine (June, 2008) captured accurately our problems with Pizza Hut New Zealand and undue pressure it is putting on Restaurant Brands. It remains our "problem child" and, like most problem children, will take time to correct.

Sadly for our hardworking management and staff, Pizza Hut's poor performance takes the shine off the achievements of KFC and Starbucks Coffee.

KFC, in particular, has been a stellar performer. It is one of the best-performing KFC franchises in the world and its growth reflects the success of the bold store transformation programme and the old-fashioned "value for money" its meals offer — no mean feat in a weaker economy.

Despite the poor performance of Pizza Hut New Zealand, Restaurants Brands' net operating profit after tax grew a healthy $4.5 million to $11 million in fiscal 2007/08 — a solid 69% increase.

PARTNERSHIP WITH YUM

In the annual report I noted that the franchises for a further 38 KFC stores had been renewed with the franchisor, Yum Restaurants International, and that Restaurant Brands continued to lock in extended 20-year franchises for transformed stores.

Our relationship with Yum! is sound — after all we pay them royalties of $16.6 million a year on our Pizza Hut and KFC sales — but as we come up to the renewal of the majority of our Pizza Hut New Zealand franchises in 2010 there is room for renegotiating our Pizza Hut arrangements. Our current agreements with Yum do not recognise the true nature of the New Zealand pizza market where consumer tastes have changed and where there has been a 250% increase in the number of branded pizza outlets in the past five years.

A franchise agreement is a two-way partnership. We look forward to working with Yum in the future but the size and growth prospects of the New Zealand market — tiny in world terms — need to be taken into account. Fortunately, our management of KFC counts hugely in our favour.

It's worth noting that the challenges we're facing in Pizza Hut New Zealand are being felt in the home of the brand, the United States, and elsewhere. A recent article in *Forbes* magazine (30 May) refers to the "tough time for pizza makers" in the US who face higher cheese and flour costs and nervous consumers who have been affected by a weakening economy.

Last year, according to the magazine, Pizza Hut Inc closed more US restaurants than it opened. That said, Pizza Hut remains the world's largest pizza chain and the brand extremely strong in world terms.

BRAND STRATEGY

The board from time to time reviews our brand portfolios to assess profitability and growth potential in view of restaurant and café trends in local and international markets. This process is the framework within which we determine the retention and addition of brands and was a major part of our consideration in exiting Victoria and concentrating on the New Zealand market.

CEO APPOINTMENT BRINGS BENEFITS

In September last year we appointed Russel Creedy chief executive officer after a global search for a replacement for Vicki Salmon. Russel had proved his worth as acting CEO in the previous six months and was a unanimous choice by the Board.

He has continued to offer excellent leadership and strategic advice, building an *esprit de corps* among his fellow managers and staff that has led to important sustainability, cost-saving and marketing initiatives.

DIRECTORS FACING RE-ELECTION

In keeping with the constitution, one-third of the directors (two) are required to retire at the annual meeting, being Shawn Beck and myself. Under the constitution, we offer ourselves for re-election today.

IMPROVED DIVIDEND REFLECTS BETTER PERFORMANCE

The improved performance in the 2007/08 year encouraged directors to increase the dividend by 1c to 6.5c a share. This reflects the "work in progress" I referred to previously and is a clear signal from the Board to long-term investors and to the investment community at large that the dividend will increase in line with rises in operating profit.

SHARE PRICE LOWER THAN IT SHOULD BE

Directors consider Restaurant Brands' share price does not reflect its intrinsic value; in fact broker analysts consider the stock worth buying up to around $1.25.

The challenge for directors is to better communicate the company's improved performance to the market and convince the doubters and doomsayers that the problems of Pizza Hut New Zealand are being addressed.

The closure of Pizza Hut Victoria and the end of the associated severance costs should assist in a market re-rating of Restaurant Brands' share price.

GOVERNANCE WORKING WELL

As I indicated earlier I am particularly impressed with the calibre of my fellow directors. They understand the importance of good governance and have allowed our new CEO to get on with the job.

Our recent Institute of Directors' evaluation has confirmed that this Board acts in a united, decisive and collegial manner in providing strategic direction and guidance for management in this company.

The role of a good Board is to get the policy and reporting structures right, ensure the right senior appointments are made and not to become involved in the operational aspects of the company. I am satisfied we have the balance right.

DIRECTORS' FEES COULD RISE

Directors' fees have not been increased since 1998 and no longer reward board members adequately for their input. We have had the current levels of directors' fees professionally appraised and, not surprisingly after 10 years, they are now well below market levels.

We are also aware that the company has not delivered adequate returns to shareholders over this time. Therefore directors are proposing to ask shareholders at next year's annual meeting to approve an increase in fees, subject to a satisfactory result for the year.

I thought it prudent to give shareholders due notice of this possible increase at this early opportunity.

TESTING FIRST QUARTER IN 2008/09

Restaurant Brands' total sales across the three brands for the first quarter of 2008/09 (12 weeks ended 19 May 2008) were $69.8 million, a decrease of 0.9% on the equivalent period last year. Same-store sales however increased 0.4%.

Sales were affected by a contraction in retail spending during the quarter and the rollover of a strong combined Easter/school holiday trading period from the previous year.

But the decline centred on Pizza Hut New Zealand's 13% decrease in total sales, largely because store numbers were down seven on previous year with red roof restaurant closures. The same-store decline was 7.1%.

KFC sales actually grew by 3.4% over the prior year as the brand continued to benefit from its transformation of stores. Starbucks Coffee also showed growth in total sales over prior year of 1.4%, despite a reduced number of stores.

ECONOMIC OUTLOOK DIFFICULT BUT NOT DIRE

Most observers, not least politicians and the Reserve Bank, expect the New Zealand economy to contract sharply over the next six to 12 months. This will inevitably have some impact on the hospitality industry, which is already carrying higher ingredient, labour and fuel costs and is experiencing a falloff in consumer demand.

Our flatter first quarter for 2008/09 is evidence of the more difficult trading conditions all retailers are facing and indeed, our second quarter sales to date look to be slightly behind last year. However, we do expect our reliable earners, KFC and Starbucks, to buck the national trend, even if sales do ease.

The next 12 months will be critical for the national pizza market and we expect a number of our competitors' franchises to close or go to the wall. At any one time there are up to 40 rival franchises up for sale and we expect that number to rise as the economy slows. In the chicken market we have already seen the closure of three of our competitors' stores in the past six months.

Restaurant Brands is in a strong position to weather an economic shakeout and continue to build its brand presence, but many individual operators of single-brand franchises are not. With lower levels of disposable income among consumers, all three of our brands remain very competitive and offer good value for money to the increasingly selective consumer dollar.

We see the economy in the next 12 months as being challenging but not dire and have been taking the appropriate steps by the “work in progress” I have referred to. This will assist us greatly for the balance of 2008/09.

THANK YOU
In closing I wish to publicly thank my fellow directors and Restaurant Brands’ staff. Team members at all levels, and in particular senior management, have worked hard this year to achieve these results and I acknowledge their efforts.

Thank you, also my fellow shareholders for your continued support of and loyalty to Restaurant Brands.