RESTAURANT BRANDS NEW ZEALAND LTD
ANNUAL MEETING, ELLERSLIE EVENTS CENTRE, 19 June 2008

ADDRESS BY CEO Russel Creedy

Fellow shareholders, Ladies and Gentlemen

This is my first annual meeting as chief executive officer and I would like to thank the Board, my fellow managers and staff for their support during a period of considerable change in the company.

Change is necessary if we do not want to be at the mercy of the weakening New Zealand economy. The Reserve Bank this month warned of little or no economic growth in the next six months and a "modest recovery" thereafter with annual inflation peaking at 4.7% in the September 2008 quarter.

With rising food ingredients, labour and energy costs, we have no choice but to work smarter if we are to retain our market position. This means lifting store productivity and eliminating waste.

The good news is that Restaurant Brands is a strong company with solid cash flows. It has a proven capability in making profits for shareholders even in more subdued economic times.

For Restaurant Brands to perform to full potential we have made a number of changes to our senior management structure.

One such change is the reinstatement of the position of chief operating officer with responsibility for KFC and Pizza Hut operations and marketing. We have also appointed a new general manager for Starbucks Coffee, Paul Wood, and new human resources manager, Scott Munday, all of whom have previously been introduced to you. Overall, the senior leadership team is leaner and focused on the task ahead.

Head office staff numbers are down 20% on prior year, ensuring a leaner and more productive team supports the field. Although recruitment and retention of staff continues to be a challenge, especially in a tight labour market, every effort is being made to build our team's strength.

We have already spent $35 million on rebuilding the KFC store network and the programme will continue at a measured pace. Our vision is to continue transforming the KFC experience across all customer touch points.

Our fresh and innovative new design led the world and we continue to make changes that improve the overall customer experience.

A total of 32 stores have been rebuilt of the 87-store network. There is no doubt the programme has contributed greatly to KFC's splendid performance.

We have completed the second tranche of our franchise renewals with the franchisor, Yum Restaurants International, and now have 77 stores with renewed franchises and a further 20 with 10 plus 10-year franchise term options following their refurbishments.

We remain the best-performing KFC franchise in the world with consistent sales growth over the past 12 quarters. KFC continues to be a huge success across a wide demographic of New Zealanders.

KFC sales accelerated after the first store was transformed in Hamilton three years ago, and over the 2007/08 year, KFC enjoyed another year of sound sales and profit growth. The KFC business delivered another quarter of positive sales growth in the first quarter of 2008/09 and remains Restaurant Brands' biggest brand, contributing two-thirds of total sales for the quarter.

This result is 3.4% up on the previous year (2.1% on a same-store basis) and rolls over 10.6% growth for the first quarter last year, confirming the continuing momentum of sales growth for the brand.

The success of our KFC marketing campaigns continues to build brand momentum and awareness, and the marketing team is constantly looking for innovation and improvement.

As the chairman noted in his speech, Pizza Hut New Zealand continues to be a challenge. It operates in a competitive market with the growth in the number of competing outlets chasing the pizza dollar having increased significantly over the past five years.

The growth in the number of competing branded pizza chain outlets since 2004 has been 250%.

In 2005 alone, year-on-year growth in the total number of pizza outlets was 30%. We forecast flat to negative growth in the current year with a contraction in the number of outlets over the coming year already evident.

Following several years of strong sales growth up to 2006, the past two years have been tough with significant change occurring in the "eating out of home" category.

The number of options available for people to "re-fuel" has grown significantly in recent years. Unfortunately, the head winds of the current economic slowdown will put pressure on the top and bottom lines of many operators.

For Pizza Hut, adjusting to declining sales has been a challenge and we have responded on several fronts. Changes to operational priorities have been implemented and we are running a much tighter ship.

We do have great-looking and successful delivery and pickup stores. Pizza Hut Royal Oak is a fine example of great store design, location and visibility.

We will also continue to steadily phase out the remaining red roof restaurants as leases expire and opportunities arise to exit the premises. Currently there are nine red roof restaurants trading and we plan to close a further three this year.

We are working to re-engineer Pizza Hut's model to lower per-store costs, simplify the pricing structure, make the menu more relevant and make a profit at a lower level of average store sales.

We have taken a hard look at the Pizza Hut marketing campaigns and support available from Yum, and although some progress has been made, it is still work in progress. Finding the "sweet spot" for marketing has been a challenge and we continue to work with Yum and our marketing partners to improve our approach within budget constraints. Notwithstanding the difficulties, Pizza Hut remains the market leader.

The long-term success of Pizza Hut, as the chairman has stated, depends on our making changes to our franchise agreements with Yum Restaurants International. Work on this is well underway, not least because the franchise on 49 of our Pizza Hut stores is up for renewal in 2010.

Starbucks Coffee is a relatively small contributor to company profits but the brand is profitable and popular in New Zealand. Sales growth has been consistent over the previous four years and we see this trend continuing.

Starbucks delivered the eighteenth consecutive quarter of sales growth in the first quarter of 2008/09, increasing 1.4% on the prior year to $7.7 million, despite a reduced number of stores. Same-store growth was 6.7%.

Successful retail promotions such as the "Good Coffee Day" reinforced the continued positive underlying growth in the beverage business. Innovative marketing ideas aimed at connecting emotionally with our customers and increasing awareness of Starbucks have been developed locally.

One new store was opened in Victoria Street, Auckland, and store numbers are 44, two down on the previous year with last year's closures the result of lease expiry. We are not ruling out building more stores if the right opportunity arises.

It was essential for Restaurant Brands, as the largest restaurant operator in the country, to reach an early collective agreement with the service workers' union, Unite, over pay increases.

This agreement was concluded in March this year and, covers more than 220 KFC, Pizza Hut and Starbucks Coffee stores as well as the 0800 call centre. It involved removing youth rates and provides for a minimum rate increase of 6.7%. The collective agreement will run for two years for the stores and one year for the contact centre.

Overall, the collective agreement increased the annual labour cost of the business by an additional $3.3 million dollars. Mitigating this increased cost by reducing labour hours is not a wise strategy and increasing menu prices is also fraught with challenges as retail spending declines. Recovering the increased cost at this time is going to be difficult.

What was encouraging was that we were able to work constructively with the union to overcome the disruption that had occurred with the previous collective agreement negotiations two years ago.

Despite a continuing capital expenditure commitment with the KFC transformation programme and the fees paid on the KFC franchise renewals, the company managed to reduce borrowings over the year by $6.1 million or 13% to a total level of bank debt of $42.5 million at year end.

Operating cash flows of $31.3 million, up $10.5 million on prior year were driven by the strong KFC performance and cessation of cash losses in Victoria. Investing cash flows of $18.5 million comprised 75% KFC transformation costs and franchise renewal fees.

Whilst the pace of capital expenditure on KFC transformations will not remain at the same intensity as it has seen over the past 3 years, we will continue to reinvest in this business while it continues to deliver the same cash returns.

Given that there is little room to trim supplier costs, the focus on improving our internal processes to remove any slack from the system becomes all the more important. We anticipate food input costs to increase by $5.3million year on year as a consequence of higher international commodity prices, especially dairy, edible oils, wheat, soya and fuel. Despite better operational controls, especially those that cut out wastage, menu price increases are an inevitable reality under the current supply conditions. Limiting the extent of price increases is a priority and in this regard we have appointed a loss-prevention officer for Pizza Hut who is working closely with our internal auditor and chief operating officer.

We continue to look for opportunities to reduce the company's carbon footprint, by installing power saving devices in stores, utilising better design and construction methods, and more recently investing in hybrid fuel-efficient company cars.

Recycling opportunities are grasped wherever possible and our total landfill waste is reducing. The business uses recycled food-grade paper and cardboards wherever possible and has a low usage of plastic bags per dollar sales when compared to other retailers.

For the eighth year in a row Restaurant Brands has been ACC accredited as a self-insured workplace and, as a consequence, has made significant premium savings each year. The current year savings are in the vicinity of more than $400,000.

Workplace safety is a core activity as far as we are concerned and we work hard to make our stores and work environment safe and pleasant places in which to work.

Restaurant Brands is still one of the country's biggest tertiary training institutions. Many of our staff would have no formal qualifications in their selected career if it was not for our Hospitality Standards Institute accredited training programme. We are proud of our ongoing commitment to develop the capability of our staff and provide them with the opportunity to grow within the industry. Currently we have 730 staff in training at level 2, 400 in training at level 3, 150 in level 4 and 27 staff working towards their NZQA accredited Diploma in Hospitality Management.

We see well-trained, safety-conscious staff as our most important asset. The company is fortunate to have a large number of long serving staff members.
Over 25 years - 11
Over 15 years - 67
Over 5 years - 417
They are the public face of Restaurant Brands and I would like to personally thank them, some of whom are here today, for their commitment to the company. Helping out with lunch today we have Anna Keshwan, manager of KFC Panmure who has been with KFC for 17.5 years.

We expect the next few months will be tough for the hospitality industry but Restaurant Brands is in a better position than most to perform well. It did so in 2007/08. I expect nothing less in the current year.

Thank you for your support of Restaurant Brands and I look forward to the challenges ahead.