CEO’s Address to the 2010 Annual Shareholders’ Meeting

Fellow shareholders,

Trading results

As the chairman has said the 2009/10 year was a very good one for Restaurant Brands. Led by the continued improvement in KFC, but assisted by the other two brands, we delivered a net profit after tax (and excluding non trading items) of $19.9 million, 70% up on the prior year.

KFC

Our KFC business, driven by the brand transformation process continues to build on a solid foundation and go from strength to strength.

With sales at $223.2 million, up $11.7 million on prior year (9.2% on a same store sales basis) and EBITDA up $8.3 million (21.8%) to $46.3 million the KFC momentum continues.

People ask what has driven this “virtuous circle” of sustained growth of sales profit and reinvestment? The brand transformation process has been pivotal. We have in the past five years reinvented the KFC brand in all aspects of its operation.

Firstly there has been the store capital reinvestment.

From the first Frankton Hamilton store costing $1.3 million in 2005 we now have substantially altered the appearance and customer experience in 43 stores of our 86 to date with another 10 targeted for upgrades in the next 12 months. The cost has been substantial with $46 million in capital expenditure to year end and another $11 million pending. But the results have been impressive.

The facilities are something to be proud of and have undoubtedly driven higher levels of customer trial.

Secondly we have actively addressed all aspects of store operation with the view of enhancing the customer experience. A strong emphasis on mystery shopper outcomes, in-store operations excellence through our unannounced operational auditing programme, reinforcement of food and people safety in store, speed of service monitoring and the introduction of aggressive loss control programmes have markedly increased both the degree of efficiency in our stores and more importantly the customer’s view on their KFC experience.

Thirdly we have looked closely at our product offerings and marketing programmes.

We have moved away from our previous philosophy of "reinventing the wheel" from a marketing and new product development viewpoint. We are now actively engaged with Yum! in adopting new product releases and marketing programmes from the international markets. Identifying the best opportunities, putting a "kiwi spin" on the new product and implementing across our market is what we do best under our franchising arrangements. This has not only meant that we are now rolling out well tried and tested new product releases but we are reducing our marketing expenditure by accessing advertising material offshore rather than developing it from scratch over here.

Finally and most importantly we have worked on improving our people. Effective brand transformation is about enhancing our training and changing the attitudes of our partners in store, especially those that interface with our customers. For every store transformation all partners in the transformed stores were given extensive retraining in their given areas of expertise. This has been followed up by post re-opening audits of both the customer experience (through the mystery shopper programme) and operational competence in the back of the store through operational auditing programmes.

All of this cost and effort has meant we can deliver the kind of experience our customers want and deserve with the consequent improvement in trading results we are reporting to you today. As you would have seen in our annual report, the KFC brand has re-invented itself from that very first trial store transformation in Frankton 5 years ago. Given that we have only transformed half of our stores, we think there is more growth to come.

Pizza Hut

The history of our Pizza Hut business in this country is well documented. Lower barriers to entry, explosive growth in competitor numbers, a move to commoditisation of pizzas and (to be blunt) some operational and marketing shortfalls in our management of the business all contributed to where Pizza Hut was seen as the "problem child" in our stable.

Over the past 12 months, however, we have proactively addressed both the top and bottom lines for this business and we believe that we are now seeing some light at the end of the tunnel.

In the 2009/10 year our Pizza Hut business delivered positive same store sales growth of 3.9%, the first time same-store sales have increased since the 2002/03 year. Sales of $64.2 million included such innovative new product releases such as *More-4-All* and *Garlic Bites* pizzas. The every day value *Pizza Mia* range helped cement Pizza Hut into a much more competitive position with respect to its product offerings.

The margin improvement was much more spectacular. The EBITDA margin nearly doubled over prior year from $2.8 million to $5.4 million. This was driven by not only the leverage from sales growth and closure of some unprofitable stores, but also extensive menu changes which focused on what our customers wanted. These made Pizza Hut more competitive with greater choice in, the type of pizza base, multiple pizza sizes available to suite the occasion, a greater range of toppings and an emphasis on product quality. Like KFC, operational auditing programmes were implemented across all stores.

We continue to monitor competitor activity closely and there is ample evidence that both our major competitors are hurting. A quick review of the Trade Me businesses for sale will show about 15% of Hell Pizza stores are actively on the market and the average asking price for these stores has dropped by more than 30% over the past two years. Dominos Pizza has been buying back stores in difficulty and their aggressive roll out programme appears to have ceased.

Whilst the first quarter of the new financial year has seen Pizza Hut drop back into negative territory in terms of same-store sales, some of this is rolling over the significant first-quarter sales recovery last year. We remain confident that Pizza Hut is now well embarked on its recovery programme and we will generate higher margins in the coming year.

Pizza Hut Franchise Sales

Despite the strong turnaround in the Pizza Hut brand performance, we are persisting with our strategy of selling off some of our Pizza Hut stores to independent franchisees. This process, as endorsed by our franchisor Yum!, is around exiting stores which are more suited to be owned and operated by an individual.

Most of the initial stores for sale are in the regional areas, which reduces the above-store management time required and provides the opportunity for a member of the local community to run the store within his or her own community.

After a slow start to the process with finalising legal arrangements with Yum! and generating buyer interest we have recruited a full time franchisee sales manager. We are pleased to announce we now have agreements for the sale of two stores in place for settlement in the next couple of months.

Starbucks Coffee

The smallest brand in our stable, with $30.5 million in revenues, has seen a number of substantial changes over the past 18 months and has emerged as a slimmer, more tightly run operation. While same store sales for the year were a slightly negative 2.9%, earnings were up 9.6% on the previous year to an EBITDA of $3.2 million.

We are confident of a return to positive same store sales growth out of this business in the coming year and margins will definitely continue to improve, significant exchange rate variations notwithstanding.

Health and Safety

We take the health and safety of our staff and customers very seriously and over the years have built a strong organisational safety programme involving all our partners from the CEO to those on the shop floor. Restaurant Brands continues to achieve the highest rating level by ACC and therefore maintains its self insurance status. We have been involved with the Business Leaders' Health and Safety Forum, a joint initiative between Government and business, to make a difference in what is a socially important opportunity to drive the national workplace harm toll down. I have pledged to sign the Forum's 'Zero Harm Workplace' initiative later this month.

Training

Restaurant Brands continues to be recognised as the market leader in hospitality training through the involvement and delivery of world class training programmes, designed to take youngsters from a low skill base to tertiary level qualifications. Our primary focus continues to be training at store level across all areas of food safety, operating procedures, compliance management to running a business. For many kids this may be their first job and many of them stay on to develop their careers and become middle and senior level managers.

Environment

Like lots of New Zealanders, we are concerned that some palm oil producers seem to be causing long-term environmental and social problems – so we're taking action in two ways. In the short term we are sourcing all our palm oil from Wilmar International – one of the first companies to achieve RSPO certification (a certification which has been described as among "the world's toughest standards for sustainable agriculture production"). Secondly, we are working through food safety and product trials to find the best alternative oil to enable us to stop using palm oil.

Dallas visit

I have only last week returned from a two week planning conference for Yum! Restaurants International in Dallas where we have been exposed to a comprehensive selection of new products and exciting new marketing programmes available to our market. I returned to New Zealand confident that our KFC and Pizza Hut businesses will be well supported into the future and that there are opportunities for new concepts to be added to this market.

Looking forward

The chairman has tabled management and the board's current best estimates on the financial outcomes for the current year.

As always we will work hard to deliver these results and remain conscious that the current year's results have truly "lifted the bar" and we need to continue on our path to deliver a better level of profit for 2010/11.

Ends