**CEO's Address to the 2012 Annual Shareholders' Meeting**
**29 June 2012**

Ladies and Gentlemen and fellow shareholders.

## Introduction

As the Chairman has indicated, the $18 million net profit after tax earned in 2012 was a very solid achievement, coming as it did on the back of the stellar 2011 year. I will provide you with a little more insight into the individual brand's results and how they are performing operationally this year.

## Staff

However before I do so, I would like to first acknowledge the efforts of our people at all levels of the organisation and in particular introduce to you the members of our senior management team.

- Grant Ellis – Chief Financial Officer
- Brent Kitto – General Manager KFC
- Arif Khan – General Manager Pizza Hut
- Craig Neal – General Manager Starbucks Coffee
- Deidre Gourlay – General Manager Property
- Leonie Reyneke – General Manager Supply & QA
- Jennifer Blight – Human Resources Manager
- Geraldine Oldham – Marketing Manager

## 2011/12 Results – KFC

KFC continues to be the primary driver of the company's financial performance and last year contributed 77% of group sales and 90% of EBITDA.

Despite very difficult trading conditions, aggressive competitor activity and the impact of the Christchurch earthquake, KFC managed to grow sales to a new high of $236 million. This was a small increase over the prior year, despite the earthquake costing the brand in lost sales following temporary closures of a number of stores and the permanent closure of one store.

Although total sales in KFC increased over the year (despite the earthquake), on a same store basis sales fell by about 2% compared with +4% same store growth in the 2011 year.

KFC also accounted for the bulk of the $7 million fall in group net profit after tax. Input costs - such as chicken and utilities - increased markedly over the year but the highly competitive nature of the market limited KFC's ability to recover these costs together with all the October 2010 GST increase. As Ted mentioned, margin pressures were most pronounced in the first half but showed some recovery in the second half through cost reductions and changes in the sales mix.

Innovation such as KFC Grilled and Sparklers – a flavoured carbonated beverage range - continued this year and provided sales growth in key market segments.

The KFC *Double Down* promotion in the first quarter was for a strong sales driver but it was substituted for other products on the menu which had higher gross margins. However, the customer mania around this innovative burger (fuelled by social media and word of mouth), outstripped even the most optimistic forecasts and set new world records for KFC.

Total store numbers reduced by one to 88 with the permanent closure of the Christchurch CBD store following the earthquake.

Five KFC stores were refurbished during the 2012 year, bringing total transformed stores to 2/3 of the total network. The transformed stores retained the sales increases generated on original transformation, however as one would expect, there is inevitably some tapering off in the rate of growth. With virtually every store that has been revamped we have seen a return on the investment well in excess of the cost of capital, demonstrating the effectiveness of the upgrade programme. Eight stores are scheduled for upgrades this year.

In addition, as Ted mentioned there is considerable work being done on the next generation of KFC transformations under *Project Fusion*, the initial results of which will be seen with the opening of our new Lower Hutt store later this year.  This is an entirely new design concept and incorporates significant improvements in operational flow as well as a considerably enhanced customer experience in the restaurant, together with some major technological changes.
There still remains the opportunity for more store growth with two new stores planned for the current financial year.

Despite the increased emphasis on value for money, input costs remain steady and this is behind our expectation of an overall margin improvement on the prior year.

**2011/12 Results – Pizza Hut**

Last year our Pizza Hut business continued to struggle in a competitive and tough retail environment.  A very soft start to the year began to improve as the year progressed. Total sales revenue was down 23%, however same-store sales (which excludes sales attributable to franchisees and store closures) was down 10%.

During the year we closed three stores and eight were sold to independent franchisees, leaving a total of 71 stores in our network, 11 less than at the end of the 2011 year.

The combined effect of lower sales and higher input costs, notably higher cheese costs, resulted in a significant fall in EBITDA. Pizza Hut tried (with mixed success) a number of new product promotions such as the *Mediterranean Mia, The Footy Feast Meal* and *Big Box Pizza Deal* during the year. However in the current environment there is strong demand for value in this market segment as evidenced by the successful $4.90 promotion Pizza Hut has been running over the past couple of months.

Ted has mentioned the sale of smaller regional stores which can be run by independent franchisees who have flexibility in their cost structure to operate at lower sales levels than those under a corporate-ownership model. By the end of this year up to 20 stores will be operating under this model. We will continue to support the new franchisees from both a marketing and operations perspective whilst consolidating our own Pizza Hut business around the main urban centres.

Pizza Hut will continue to face an intensively competitive marketplace. Whilst same store sales were down year on year last year, the improvement in the second half has continued and we have recently announced a better first quarter result for 2012/13. Despite the strong “value offer” in Pizza Hut pricing, a continued focus on operating controls, some supply chain improvements and the continued sale of smaller stores is expected to produce better margins.

**2011/12 Results – Starbucks Coffee**

Starbucks Coffee suffered from the Christchurch earthquake, in relative terms, more than the other two brands. Three of the four Christchurch stores were closed and look unlikely to re-open. These store closures accounted for most of the $3 million drop in total sales. Two more store closures took place over the year with Newmarket and Botany Kiosk stores closing at their respective lease ends.

On the financial side, Starbucks’ EBITDA was marginally down on last year’s excellent result of $4 million. Cost increases were largely offset by the benefit of a favourable exchange rate, a factor for Starbucks because of the import of coffee in US dollars from Starbucks International.

Of the 35 stores at year end only 32 have been trading. The three earthquake affected stores in Cashel Mall, Cathedral Square and Colombo Street remain closed and we continue to look for replacement sites in the Christchurch area.

The Starbucks Coffee business is expected to maintain a steady same store sales growth trend this year with similar levels of profitability. There will be some capital invested in store refurbishment and some work will be undertaken on network optimisation.

## Staffing

Restaurant Brands continues to be well-served by its competent and willing staff members. Evidence of the dedication and commitment of our people was made very evident in the weeks following the Christchurch earthquake with many of the people continuing to work in our stores despite their often difficult personal circumstances.

Staff safety continues to be very important to us as our accident rates continue to improve with lost time injuries down 27% on prior year to an all time low.

Some of our 3,500 employees are here today and will be assisting in your sampling of some of the company's fine products a little later on.

## Current Trading

We released our first quarter sales results at the end of last month. These continued to reflect the tightness of the current retail market.

KFC saw a decline in same store sales of 6%, although in this case it was mainly because of the rolling over of the exceptionally successful *Double Down* promotion in the first quarter last year. Underlying sales remain flat when this promotion is backed out and there has been some commensurate margin improvement.

Pizza Hut on the other hand enjoyed a solid turnaround in same store sales to +10%, driven by the value-oriented $4.90 pizza promotion. In the current environment, the consumer is increasingly looking for value and nowhere more so than the intensely competitive pizza market. This promotion, has demonstrated the opportunity to drive sales through some variable margin sacrifice with an overall positive profit outcome.
The Starbucks business saw a very small decline in same store sales for the first quarter. Our analysis suggests this was at least partly caused by the rolling over of the Christchurch store sales transfers following the closure of three stores after the earthquake last year.

## Carl's Jr

Whilst continuing to build momentum and improve efficiencies on our existing businesses, we have been aware for some time of the opportunity to widen our portfolio of brands. The Carl's Jr acquisition has presented just that opportunity.

Carl's Jr gives us an entry into hamburgers - the largest sector of the quick service restaurants market, with a growing, exciting and edgy brand. While Grant, and I were completing due diligence and legalities in the US in December last year we couldn't fail to be impressed with the quality of the product and the passion and professionalism of the franchisor - Carl Karcher Restaurants Inc. We have a great deal of enthusiasm for this brand and believe it has the potential to be our second biggest business within the next five years.

We are planning on building at least five stores a year over that time frame and expect to have our first store opening by October this year. The managers of the first four stores are in the US for training right now and their feedback is showing how passionate and enthusiastic they are too for Carl's Jr.

**Conclusion**

In conclusion, we outlined in the annual report the range and depth of expertise that Restaurant Brands brings to bear in making our existing brands (or indeed any more brands we may acquire) operate in an efficient and structured manner to drive shareholder wealth creation.

Whilst this year has not produced the results at quite the level seen in the 2010/11 year, the disruption to the business from the earthquake and the harsh trading environment have been factors we have had to cope with. Nonetheless, the fundamental strengths of the three brands remain and we continue to actively address the opportunities to drive more from them for shareholders. The addition of the Carl's Jr opportunity will provide yet another dimension to our food offerings and we look forward to a successful new year, building again on this year's result.

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