7 April 2010
NZX

RESTAURANT BRANDS NEW ZEALAND LIMITED

Directors' Report to Shareholders for the Year ended 28 February 2010

Key Points

- Group Net Profit after Tax (excluding non trading items) was $19.9 million (20.5 cents per share), up 70% or $8.2 million on prior year, as a result of continued strong performance by KFC and a solid turnaround in Pizza Hut.
- Reported Net Profit (including non trading items) was $19.5 million (20.1 cents per share) compared to $8.3 million in the prior year.
- Total revenues for the company were $318.3 million, up $8.8 million (2.8%) on prior year, with same store sales up 6.8%.
- KFC achieved yet another sales record at $223.2 million (up 9.2% on a same store basis). with Pizza Hut at $64.2 million up 3.9% on a same store basis and Starbucks Coffee at $30.5 million (down 2.9% same store).
- Bank debt was reduced by $16.6 million (on top of the $8.2 million reduction in the prior year) as the company continued to reduce borrowings on the back of strong operating cash flows.
- A final full year fully imputed dividend of 8.0 cents per share has been declared making a full year dividend of 12.5 cents, up 5.5 cents or 79% on prior year.

Note: Results for the 2009/10 financial year are on a 52 week basis vs 53 weeks for the previous year. Because the company normally uses a 52 week (364 day) year, a "leap" year is occasionally required; hence the extra week last year.

Group Operating Results

Directors are pleased to announce that the 2009/10 year has seen a significant lift in performance for Restaurant Brands with a Net Profit after Tax (excluding non trading items) of $19.9 million (20.5 cents per share), slightly above previous expectations. This result is $8.2 million or 70% up on last year's profit of $11.7 million (12.1 cents per share).

The bulk of the improvement arose from another very solid performance by KFC, but both the Pizza Hut and Starbucks Coffee businesses recorded improved profitability.

Net Profit after Tax (including non trading items) was $19.5 million (20.1 cps) compared to $8.3 million (8.5 cps) in 2008/9.

Non trading costs (mainly fixed asset write offs on store closures) were only $0.6 million in the current year compared with $5.0 million in 2008/9. Last year's non trading costs were primarily impairment charges against goodwill in the Pizza Hut business.

Total store EBITDA for the year was up $11.2 million to $54.9 million, with KFC contributing $8.3 million of the improvement, Pizza Hut $2.6 million and Starbucks $0.3 million.

G&A (above store overheads) at $12.9 million were up on prior year but these were largely offset by reduced funding costs at $1.4 million (down $2.5 million).

Total store sales of $317.8 million were up $8.7 million (2.8%) on the previous year's sales. Same store sales for the group were up 6.8% (1.6% in 2008/09). Both KFC and Pizza Hut demonstrated continuing same store sales growth, up 9.2% (4.1% in 2008/09) and 3.9% (-6.5% in 2008/09) respectively, but Starbucks Coffee saw annual same store sales drop 2.9% (up 3.6% in 2008/09).

Year end store numbers at 217 were two down on February 2009 following two Pizza Hut and one Starbucks Coffee store closures and one new KFC opening over the year.

KFC

KFC yet again grew both sales and margins with the momentum of the continuing brand transformation. Total sales reached a new record of $223.2 million, up $11.7 million (5.5%) on prior year and 9.2% on a same store basis (on top of 4.1% same store growth in 2008/9 and 7.7% in 2007/8).

During the year, KFC successfully introduced such new products as *Pocketfuls* and the *Popcorn Chicken Roller*, as well as bringing back old favourites such as *Hot n Spicy Chicken* and *KFC Tower Burger*. The brand also completed the rollout to 56 stores of *Krushers*, a new frozen beverage range, which also assisted in growing sales.

A further six KFC stores were rebuilt over the year bringing total rebuilt or refurbished stores to 40, nearly one half of the total network. Store numbers increased to 85 with the opening of a new store at Greenlane in Auckland.

KFC profitability also continued to improve markedly with EBITDA up by $8.3 million (21.8%) to $46.3 million (20.7% of sales). The brand continued to improve its operational controls and benefit from volume leverage with no substantial cost increases incurred over the year.

Pizza Hut

The Pizza Hut business finally began to return to profitability in 2009/10. Whilst sales of $64.2 million for the year were down $0.4 million (0.7%), this was as a result of having two less stores. The brand delivered same store sales growth of 3.9% in the year, the first time Pizza Hut has seen an increase in same store sales since 2002/3.

More importantly, however, the leverage from the sales growth and the closure of unprofitable stores, together with a number of margin improvement initiatives and continued emphasis on improved controls, meant that the brand produced an EBITDA result of $5.4 million for the year, $2.6 million or 95% up on prior year. Pizza Hut's EBITDA margin as a percentage of sales finished at 8.4% compared with 4.3% in the previous year.

Limited time offers such as the *'More-4-All'* and *'Garlic Bites'* pizzas have attracted new customers. Existing successful products such as the *'Jumbo'* size pizza and *'Slab'* have provided further growth. Towards the end of the financial year, Pizza Hut launched the everyday value *'Pizza Mia'* as well as a range of seven new flavours, bringing innovation to the core pizza range with both initiatives assisting in generating repeat business.

Two stores closed over the course of the year: Hamilton North red roof and Mairangi Bay delco. Both closures have been positive for profitability.

Store numbers at year end totalled 91.

Starbucks Coffee

Starbucks Coffee revenues at $30.5 million were down $2.5 million (7.6%) on 2008/9 and down 2.9% on a same store basis. One store in Palmerston North was closed (at lease end) over the year bringing store numbers at year end to 41.

Despite the sales result, the Starbucks business managed to improve earnings by $0.3 million (9.6%) on prior year to produce an EBITDA of $3.2 million (or 10.6% of sales). A more favourable exchange rate and enhanced in-store controls, together with some product rationalization, all contributed to the improved result.

Corporate and Other Costs

G&A (above store overheads) at $12.9 million were significantly ($2.4 million) above prior year because of higher headcount and increases in variable remuneration due to improved financial performance of the company. G&A costs were 4.1% of sales (2009: 3.4% of sales).

With the delays in KFC transformation and capital expenditure flowing over from the previous year, depreciation charges at $12.0 million for the year were slightly lower than incurred for 2008/09.

Non trading charges of $0.6 million were $4.4 million lower than prior year because the previous year's result included $0.4 million in write offs from Pizza Hut store closures (largely red roofs) and $3.7 million in Pizza Hut goodwill impairment charges following a review of the carrying value of this investment.

Interest and funding costs at $1.4 million were $2.5 million lower than prior year, with the company benefiting from both lower debt levels and the continued fall in interest rates. Bank interest rates for the year averaged 4.3% compared with 8.3% in 2008/9.

Cash Flow and Balance Sheet

Operating cash flows for the year at $38.7 million were up $15.4 million on prior year. This was largely because of the improved profit performance of the company, although a portion thereof ($6.8 million) is attributable to favourable working capital movements.

Investing cash flows of $13.2 million were $5.1 million higher than prior year, reflecting the acceleration in the pace of KFC transformation spend.

The improved free cash flow position has meant that total bank borrowings reduced by $16.6 million over the year (in addition to the $8.2 million reduction in 2008/9) with closing bank debt of $17.7 million, well within current facility limits of $45 million. Bank debt has been reclassified as current in the accounts, reflecting the expiry of the Westpac facility in October 2010. The renewal of the facility was deferred as the company seeks to reduce its exposure to increased funding costs as old interest rates roll off. Directors expect that it will be renewed in the normal course of business on or prior to this date.

Total assets at $103.0 million were up $1.9 million on the $101.1 million as at last year, with small increases in fixed assets, reflecting transformation spend ahead of depreciation and a deferred tax asset. Shareholders' Funds closed at $48.7 million, reflecting the higher profitability of the company.

Franchise Renewals

In June 2009, the company finalised an agreement with Yum! Restaurants International for the re-franchise of the Pizza Hut stores in New Zealand for a ten year period, with a further ten year right of renewal. The agreement also set out a framework for the progressive sell down of Pizza Hut stores to individual operators. Management control of the brand still vests in Restaurant Brands for which the company receives a management fee from Yum!

A marketing process has commenced for a number of stores and the sale of some stores is expected to be completed in the course of the next financial year.

Dividend

Directors believe that the company has produced a very satisfactory performance for the current year, with the business recording improved profitability and the balance sheet in a relatively strong position.

In accordance with the board policy of reflecting the continuing improved performance of the company in an increased return to shareholders, directors have declared a final fully imputed dividend of 8.0 cents per share. This brings the total dividend for the year to 12.5 cents from 7.0 cents last year, an increase of 79%.

The dividend will be paid on 25 June 2010 to all shareholders on the register as at 11 June 2010. A supplementary dividend of 1.41176 cents per share will also be paid to overseas shareholders on that date.

The dividend re-investment plan will remain suspended for this dividend.

Outlook

The company has produced a significant step up in this year's profit performance with all three brands delivering trading results well above the prior year.

In the coming year, the pace of investment in the KFC brand transformation programme will be increased and at least two new stores will be opened. Positive same store sales growth is expected to continue.

Pizza Hut is expected to continue the momentum of same store sales growth seen in the current year. The sale of stores to independent franchisees will be actively pursued as will the programme of unprofitable store closures, particularly of the red roof stores.

Starbucks Coffee is expected to return to same store sales growth and produce further margin improvement on the current year.

The current year's profit performance has demonstrated the resilience of Restaurant Brands during the economic downturn. As the economy improves, these levels of profitability are expected to be maintained and directors are cautiously optimistic of producing a profit slightly in excess of $20 million in the new financial year.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting for the company will be held at the Newmarket Room, Ellerslie Events Centre, Ellerslie Racecourse, 80-100 Ascot Avenue, Greenlane, Auckland on Thursday 1 July 2010, commencing at 11.00am.

For further information please contact:

Russel Creedy
CEO
Phone: 525 8722

Grant Ellis
CFO/Company Secretary
Phone: 525 8722

ENDS

RESTAURANT BRANDS GROUP
Consolidated Income Statement

$NZ000's	28 February 2010 Audited		vs Prior %	28 February 2009 Audited	
Continuing operations:					
Sales					
KFC	223,228		5.5	211,531	
Pizza Hut	64,158		(0.7)	64,595	
Starbucks Coffee	30,463		(7.6)	32,980	
Total sales	**317,849**		2.8	**309,106**	
Other revenue	495		4.9	472	
Total operating revenue	**318,344**		2.8	**309,578**	
Cost of goods sold	(255,136)		0.7	(256,879)	
Gross margin	**63,208**		19.9	**52,699**	
Distribution expenses	(3,781)		10.4	(4,221)	
Marketing expenses	(16,716)		4.1	(17,438)	
General and administration expenses	(12,945)		(22.4)	(10,572)	
EBIT before non-trading	**29,766**		45.4	**20,468**	
Non-trading	(558)		88.8	(4,974)	
EBIT	**29,208**		88.5	**15,494**	
Interest income	32		52.4	21	
Interest expense	(1,474)		62.6	(3,943)	
Net profit before tax	**27,766**		139.9	**11,572**	
Taxation expense	(8,230)		(148.1)	(3,317)	
Net profit after tax (NPAT) from continuing operations	**19,536**		136.7	**8,255**	
Total profit after tax (NPAT)	**19,536**		136.7	**8,255**	
Total NPAT excluding non-trading	**19,926**		69.8	**11,736**	
		% sales			% sales
EBITDA before G&A					
KFC	46,268	20.7	21.8	37,993	18.0
Pizza Hut	5,403	8.4	95.0	2,771	4.3
Starbucks Coffee	3,224	10.6	9.6	2,941	8.9
Total New Zealand	**54,895**	**17.3**	**25.6**	**43,705**	**14.1**
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	25.6c			12.7c	

Cost of goods sold are direct costs of operating stores: food, paper, freight, labour and store overheads
Distribution expenses are costs of distributing product from store
Marketing expenses are call centre, advertising and local store marketing expenses
General & administration expenses (G&A) are non store related overheads