

COMPANY REGISTRATION NUMBER 01072921

PIZZA HUT (UK) LTD
FINANCIAL STATEMENTS
4 DECEMBER 2011



PIZZA HUT (UK) LTD

FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

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PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

The directors present their report and the financial statements of the company for the period from 29 November 2010 to 4 December 2011

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the company during the period was trading as a restaurant and delivery operator

ENHANCED BUSINESS REVIEW

Overview

Trading conditions on the high street have continued to be tough which has been compounded by intense levels of discounting from a number of competitors. In recognition of this Pizza Hut has continued to invest in new products, value, advertising and restaurant refurbishments.

System sales have decreased by 0.7% this year to £437,685,000 (2010: £440,858,000)

Cost of sales (raw materials and consumables) has increased by 1% to 25% (2010: 24%) and investment in staff has increased labour cost by 1.3% to 37.5% (2010: 36.2%)

In terms of total system stores 16 stores were opened and 30 stores were closed during the year. These closures led to the exceptional item in the accounts. At year end, total stores in the system were 690 (2010: 704)

Since May 2011, key changes have been made through improved products and value offers - introducing Free Salad and extending Kids Eat Free. There has also been a significant investment in service levels in the restaurants and these improvements led to increased sales in the third and fourth quarter of 2011.

In addition to monitoring the financial performance of the business, Pizza Hut uses a balanced scorecard to measure performance in two key areas: employee and customer satisfaction.

The issue of £35,000,000 of new share capital in July 2011 has strengthened the balance sheet so as to enable the company to face the current difficult trading conditions.

Outlook

In light of the difficult trading conditions Pizza Hut remains cautious about the retail environment for 2012. However, the changes implemented in May 2011 continue and are delivering like for like sales growth.

Yum! Brands, the current owners of Pizza Hut (UK), announced in October 2011 that they have started a search for a single, third-party franchisee to purchase the business to partner with Yum!, to focus on the long term success and growth of the business by building on the momentum of the recent brand re-launch and continue executing the turnaround in the market. Post sale, Pizza Hut (UK) will continue to operate as a franchisee of Yum!.

PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT *(continued)*

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

RESULTS AND DIVIDENDS

The loss for the period amounted to £17,301,000. The directors have not recommended a dividend.

DIRECTORS

The directors who served the company during the period were as follows:

Mr J Hofma

Mr H Birts

Ms K Austin (Appointed 8 February 2011)

Mrs J Little (Resigned 31 January 2011)

None of the directors who held office at the end of the period had any disclosable interest in the shares of the company.

GOING CONCERN

The company incurred a net loss for the period of £17,301,000 (2010: £18,246,000 loss). Restaurant Holdings Limited, an intermediate holding company, will continue to provide the company with financial support to enable the company to realise its assets and liabilities in the normal course of business.

Accordingly, the Financial Statements are prepared on a going concern basis.

DONATIONS

During the period the group made various charitable contributions totalling £5,030 (2010: £5,470). The group made no political contributions during the period (2010: nil).

DISABLED EMPLOYEES

The company gives full consideration to applications for employment from disabled persons where the requirements of the job can be adequately fulfilled by a handicapped or disabled person. Where existing employees become disabled, it is the company's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development and promotion to disabled employees wherever appropriate.

EMPLOYEE INVOLVEMENT

The policy of providing team members with information has continued during the period by means of leaflets and the implementation of a company wide website, through which they are encouraged to give their views and suggestions relating to the performance of the company. In addition, all team members' views are canvassed via annual employee satisfaction surveys.

Frequent meetings and focus groups between management and team members are held at which such views and suggestions may be considered. More formally, team members are represented at the European Employee Forum.

PIZZA HUT (UK) LTD

THE DIRECTORS' REPORT *(continued)*

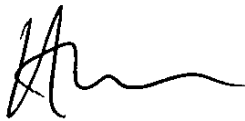
PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

AUDITOR

KPMG LLP are deemed to be re-appointed under section 487(2) of the Companies Act 2006

Registered office
One Imperial Place
Elstree Way
Borehamwood
Hertfordshire
WD6 1JN

Signed by order of the directors



MR H BIRTS
Director

Approved by the directors on 3/4/12

PIZZA HUT (UK) LTD

STATEMENT OF DIRECTORS' RESPONSIBILITIES

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as the directors are aware

- there is no relevant audit information of which the company's auditor is unaware, and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditor is aware of that information

PIZZA HUT (UK) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PIZZA HUT (UK) LTD

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

We have audited the financial statements of Pizza Hut (UK) Ltd for the period from 29 November 2010 to 4 December 2011. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's shareholder, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's shareholder those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITOR

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

SCOPE OF THE AUDIT OF THE FINANCIAL STATEMENTS

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

OPINION ON FINANCIAL STATEMENTS

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 4 December 2011 and of its loss for the period then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

In our opinion the information given in the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

PIZZA HUT (UK) LTD

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDER OF PIZZA HUT (UK) LTD *(continued)*

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



ROBERT BRENT (Senior Statutory Auditor)

For and on behalf of

KPMG LLP

Chartered Accountants

& Statutory Auditor

3 APRIL 2012

15 Canada Square
London
E14 5GL

PIZZA HUT (UK) LTD**PROFIT AND LOSS ACCOUNT****PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011**

	Note	2011 £000	2010* £000
TURNOVER	2	330,959	346,174
Other operating income	3	9,716	3,645
		340,675	349,819
Raw materials and consumables		(82,847)	(83,173)
Other external charges		(129,510)	(138,096)
Staff costs	4	(124,146)	(125,470)
Depreciation and other amounts written off tangible and intangible assets	5	(18,100)	(20,488)
OPERATING LOSS	5	(13,928)	(17,408)
Exceptional Items	7	(10,031)	(2,498)
		(23,959)	(19,906)
Interest receivable		250	71
Interest payable and similar charges	8	(469)	(753)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		(24,178)	(20,588)
Tax on loss on ordinary activities	9	6,877	2,342
LOSS FOR THE FINANCIAL PERIOD		(17,301)	(18,246)

All of the activities of the company are classed as continuing

The notes on pages 10 to 26 form part of these financial statements.

* Re-presented following the adoption of UITF44 – see note 1

PIZZA HUT (UK) LTD

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

	2011	2010
	£000	£000
Loss for the financial period attributable to the shareholder	(17,301)	(18,246)
Actuarial gain/(loss) in respect of defined benefit pension scheme	7,412	(687)
Deferred Tax (charge)/credit arising on other gains/(losses) recognised in this statement	<u>(1,778)</u>	<u>185</u>
Total gains and losses recognised since the last annual report	<u>(11,667)</u>	<u>(18,748)</u>

The notes on pages 10 to 26 form part of these financial statements.


PIZZA HUT (UK) LTD

BALANCE SHEET

4 DECEMBER 2011

	Note	2011 £000	2010* £000
FIXED ASSETS			
Intangible assets	10	1,581	1,802
Tangible assets	11	67,036	89,275
Investments	12	2,263	2,263
		<u>70,880</u>	<u>93,340</u>
CURRENT ASSETS			
Stocks	13	1,471	1,651
Debtors	14	22,682	15,703
Cash at bank		1,080	1,524
		<u>25,233</u>	<u>18,878</u>
CREDITORS: Amounts falling due within one year	15	<u>(66,136)</u>	<u>(96,255)</u>
NET CURRENT LIABILITIES		<u>(40,903)</u>	<u>(77,377)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>29,977</u>	<u>15,963</u>
PROVISIONS FOR LIABILITIES			
Deferred taxation	16	<u>(2,291)</u>	<u>(3,329)</u>
NET ASSETS EXCLUDING PENSION ASSET/(LIABILITY)		<u>27,686</u>	<u>12,634</u>
Defined benefit pension scheme asset/(liability)	18	<u>5,302</u>	<u>(2,220)</u>
NET ASSETS INCLUDING PENSION ASSET/(LIABILITY)		<u>32,988</u>	<u>10,414</u>
CAPITAL AND RESERVES			
Called-up equity share capital	20	71,505	36,505
Profit and loss account	21	(38,517)	(26,091)
SHAREHOLDER'S FUNDS	22	<u>32,988</u>	<u>10,414</u>

These financial statements were approved by the directors and authorised for issue on 3/4/12, and are signed on their behalf by


MR H BIRTS

Company Registration Number 01072921

The notes on pages 10 to 26 form part of these financial statements.

* Re-presented following the adoption of UITF44 – see note 1

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards

In these financial statements UITF 44 "FRS 20 – Group and Treasury Share transactions" has been adopted for the first time. The adoption resulted in the following reclassifications in 2010: a reduction of opening reserves and increase in creditors of £1,100,000 to record a liability for the shares outstanding that will be settled by the Company on behalf of the parent company, a reduction of other external expenses and creditors of £1,597,000, and a reduction of reserves and an increase in creditors of £3,527,000. Previously payments relating to options exercised were recorded as an expense, where now under UITF44 the liability will be recorded within reserves reflecting the arrangement with the parent company.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its parent publishes a consolidated cash flow statement.

Turnover

Turnover represents the amount of sales in the United Kingdom, stated net of value added tax. The company operates in only one geographical area and business and therefore a segmental report has not been prepared.

Fixed assets

Tangible fixed assets are stated at their purchase cost, together with any incidental cost of acquisition, less accumulated depreciation and when appropriate, provision for impairment.

Depreciation

Depreciation is calculated so as to write off the cost of an asset, less its estimated residual value, over the useful economic life of that asset as follows:

Freehold buildings – 40 years

Leasehold land and buildings, acquisition premium – effective life of the lease

Fixtures, fittings, tools and equipment – 3 years to 10 years

Motor vehicles – 3 years

Stocks

Stocks are stated at the lower of cost and net realisable value on a first in, first out basis.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

1. ACCOUNTING POLICIES *(continued)*

Operating lease agreements

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

Pension costs and other post-retirement benefits

For the company's defined benefit pension scheme the amounts charged to operating profit are the current service costs and gains and losses on settlements and curtailments. They are included as part of staff costs. Past service costs are recognised immediately in the profit and loss account if the benefits have vested. If the benefits have not vested immediately, the costs are recognised over the period until vesting occurs. The interest cost and the expected return on assets are shown as a net pension funding cost in interest receivable and payable. Actuarial gains and losses are recognised immediately in the statement of total recognised gains and losses.

The defined benefit scheme is funded, with the assets of the scheme held separately from those of the company, in separate administered funds. Pension scheme assets are measured at fair value and liabilities are measured on an actuarial basis using the projected unit method and discounted at a rate equivalent to the current rate of return on high quality corporate bonds of equivalent currency and term to the scheme liabilities. The actuarial valuations are obtained on a triennial basis and are updated at each balance sheet date. The resulting defined benefit scheme assets or liabilities, net of the related deferred tax, are represented separately after other net assets on the face of the balance sheet.

The company also participates in a multi employer scheme run by Kentucky Fried Chicken (Great Britain) Limited. Because the company is unable to identify its share of the scheme assets and liabilities on a consistent and reasonable basis, as permitted by FRS 17 "Retirement benefits", the scheme has been accounted for in these financial statements as if it was a defined contribution scheme.

The Company also operates a number of defined contribution pension schemes. The assets of the schemes are held separately from those of the Company in independently administered funds. The amount charged to the profit and loss account represents the contributions payable to the schemes in respect of the accounting period.

Deferred taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

1. ACCOUNTING POLICIES *(continued)*

Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold.

Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Foreign currencies

Assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. Exchange differences are taken into account in arriving at the operating profit.

Share-based payments

The ultimate parent company, Yum! Brands Inc, operates a number of share-based incentive schemes (awards of shares and options). These share option programmes allow employees to acquire shares of the ultimate parent company, Yum! Brands Inc.

The fair value of the options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted.

The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company accounts for these share-based payments as equity-settled.

Rent free periods

Where a rent free period is granted to the company, the accounting policy adopted is to charge the profit and loss account with a constant periodic rental over the period to the date of the next rent review.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

1. ACCOUNTING POLICIES *(continued)*

Going concern

The financial statements have been prepared on the going concern basis which the directors believe to be appropriate. The company is dependent for its working capital on funds provided to it by fellow group companies. Yum! Brands Inc the ultimate parent of the company and of Restaurant Holdings Limited, an intermediate holding company, has announced its intention to rebrand the entire business of Pizza Hut (UK) Ltd. This is likely to lead to the disposal of the company on terms under which the new parent undertaking will assume responsibility for the ongoing support of the company. Until the completion of its disposal Restaurant Holdings Limited has provided the company with an undertaking that from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company. This should enable the company to continue in operational existence for the foreseeable future by meeting its liabilities as they fall due for payment. As with any company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue, although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

Based on this undertaking, the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Consolidation

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group accounts.

As 100% of the company's voting rights are controlled within the group headed by Yum! Brands Inc, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group. The consolidated financial statements of Yum! Brands Inc within which this company is included, can be obtained from the address in note 23.

Operating rights

Operating rights, representing initial franchise fees payable for new restaurants, are amortised over a fixed period of 20 years. Initial fees receivable on franchise restaurants are recognised in the period of opening.

Restaurants in course of construction

Capital costs are included in tangible fixed assets, and depreciated from the time that they are recognised as an asset on the fixed asset register. Revenue costs are expensed as incurred.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

2. TURNOVER

The turnover and loss before tax are attributable to the one principal activity of the company

An analysis of turnover is given below

	2011 £000	2010 £000
United Kingdom	<u>330,959</u>	<u>346,174</u>

3. OTHER OPERATING INCOME

	2011 £000	2010 £000
Rent receivable	803	1,063
Franchise Income	2,964	2,582
Refranchising income	<u>5,949</u>	<u>—</u>
	<u>9,716</u>	<u>3,645</u>

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial period amounted to

	2011 No	2010 No
Office and Management	1,010	1,086
Restaurants	<u>12,660</u>	<u>15,161</u>
	<u>13,670</u>	<u>16,247</u>

The aggregate payroll costs of the above were

	2011 £000	2010 £000
Wages and salaries	114,498	116,060
Social security costs	7,433	7,205
Other pension costs	1,866	1,880
Share-based payments	<u>349</u>	<u>325</u>
	<u>124,146</u>	<u>125,470</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

5. OPERATING LOSS

Operating loss is stated after charging

	2011 £000	2010 £000
Depreciation of owned fixed assets	17,931	20,316
Amortisation of intangible fixed assets	169	172
Operating lease costs		
- Land and Buildings	35,109	36,565
Net loss on foreign currency translation	5	1
Auditor's remuneration – audit of the financial statements	40	40
Auditor's remuneration – other fees		
- Taxation services	29	10
- Other attestation services	39	31
	<u>68</u>	<u>41</u>

6. DIRECTORS' REMUNERATION

The directors' aggregate remuneration and other payments in respect of qualifying services were

	2011 £000	2010 £000
Aggregate remuneration	742	662
Value of company pension contributions to money purchase schemes	63	69
Compensation for loss of directorship	211	-
	<u>1,016</u>	<u>731</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

6. DIRECTORS' REMUNERATION *(continued)*

The number of directors who accrued benefits under company pension schemes was as follows

	2011	2010
Money purchase schemes	3	-
Defined benefit schemes	-	2

The number of directors who received benefits under company share option schemes was as follows

	2011	2010
Exercised Share Options	2	3
Received shares under incentive schemes	3	3

The emoluments, excluding pension contributions, of the highest paid director were £378,410 (2010 £289,068) and company paid pension contributions of £32,000 (2010 £32,000)

Figures for Directors emoluments do not include amounts related to gains on the exercise of share options, when in 2010 these amounts were included. Comparative figures have been adjusted accordingly

7. EXCEPTIONAL ITEMS

	2011 £000	2010 £000
Exceptional Loss on Disposal of Fixed Assets	2,072	2,338
Impairments	7,959	160
Total	<u>10,031</u>	<u>2,498</u>

8. INTEREST PAYABLE AND SIMILAR CHARGES

	2011 £000	2010 £000
Other Finance/Income Costs	(239)	(382)
Bank Overdraft	9	34
Intercompany Loan	699	1,101
	<u>469</u>	<u>753</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

9. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the period

	2011 £000	2010 £000
Current tax		
In respect of the period		
UK Corporation tax based on the results for the period at 26 67% (2010 28%)	(3,987)	(4,151)
(Over)/under provision in prior year	(74)	(333)
Total current tax	(4,061)	(4,484)
Deferred tax		
Origination and reversal of timing differences	(2,816)	2,142
Tax on loss on ordinary activities	(6,877)	(2,342)

(b) Tax included in statement of total recognised gains and losses

£1,778,000 credit of tax in respect of deferred pension scheme, see note 16 for reconciliation of movement on deferred tax

(c) Factors affecting current tax charge

The effective tax rate for 2011 is 16% (2010 19%)

The differences are explained below

	2011 £000	2010* £000
Current Tax at 26 67% (2010 28%)	(6,448)	(5,765)
Expenses not deductible for tax purposes (primarily depreciation of Ineligible assets)	750	745
Differences between capital allowances and depreciation of eligible assets	1,711	869
Corporation tax based on results for the period	(3,987)	(4,151)
(Over)/under provision in prior year	(74)	(333)
Total current tax credit (see above)	(4,061)	(4,484)

* Re-presented following the adoption of UITF44 – see note 1

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

9. TAXATION ON ORDINARY ACTIVITIES *(continued)*

(d) Factors that may affect future tax charges

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26 per cent with effect from 1 April 2011 and a further reduction to 25 per cent with effect from 1 April 2012. These changes became substantively enacted on 29 March 2011 and 5 July 2011 respectively and therefore the effect of these rate reductions creates a reduction in the deferred tax asset which has been included in the figures above.

The Chancellor proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 23 per cent by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. It has not yet been possible to quantify the full anticipated effect of the announced further 2% rate reduction, although this will further reduce the company's current tax charge and reduce the company's deferred tax asset accordingly.

10. INTANGIBLE FIXED ASSETS

	Operating Rights £000
COST	
At 29 November 2010	4,960
Disposals	(203)
At 4 December 2011	<u>4,757</u>
AMORTISATION	
At 29 November 2010	3,158
Charge for the period	169
On disposals	(151)
At 4 December 2011	<u>3,176</u>
NET BOOK VALUE	
At 4 December 2011	<u>1,581</u>
At 28 November 2010	<u>1,802</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

11. TANGIBLE FIXED ASSETS

	Land and Buildings £000	Assets in Course of Construction £000	Fixtures & Fittings £000	Total £000
COST OR VALUATION				
At 29 November 2010	166,721	1,639	106,354	274,714
Additions	1,641	3,204	3,083	7,928
Disposals	(14,261)	–	(13,157)	(27,418)
Transfers	1,207	(3,473)	2,266	–
At 4 December 2011	155,308	1,370	98,546	255,224
DEPRECIATION				
At 29 November 2010	102,569	–	82,870	185,439
Charge for the period	8,592	–	9,339	17,931
On disposals	(11,445)	–	(11,696)	(23,141)
Impairment charge	4,776	–	3,183	7,959
At 4 December 2011	104,492	–	83,696	188,188
NET BOOK VALUE				
At 4 December 2011	50,816	1,370	14,850	67,036
At 28 November 2010	64,152	1,639	23,484	89,275

12. INVESTMENTS

	£000
COST	
At 29 November 2010 and 4 December 2011	2,453
AMOUNTS PROVIDED	
At 29 November 2010 and 4 December 2011	190
NET BOOK VALUE	
At 4 December 2011	2,263
At 28 November 2010	2,263

The company owns 100% of the issued share capital of the companies listed below

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

12. INVESTMENTS *(continued)*

Name Of Company	Holding	Nature of Business
Pizza Hut HSR Advertising Limited	Ordinary Shares	Advertising Co-operative
Pizza Hut FSR Advertising Limited	Ordinary Shares	Advertising Co-operative
West End Restaurants (Holdings) Limited	Ordinary Shares	Holding Company
West End Restaurants (Investments) Limited	Ordinary Shares	Holding Company
West End Restaurants Limited	Ordinary Shares	Dormant Company
Pizza Hut (UK) Pension Trust Limited	Ordinary Shares	Dormant Company

13. STOCKS

	2011 £000	2010 £000
Merchandising	43	88
Ingredients	1,428	1,563
	<u>1,471</u>	<u>1,651</u>

14. DEBTORS

	2011 £000	2010 £000
Trade debtors	7,939	4,533
Amounts owed by group undertakings	8,453	5,687
Corporation tax repayable	—	74
Prepayments and accrued income	6,290	5,409
	<u>22,682</u>	<u>15,703</u>

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

15. CREDITORS: Amounts falling due within one year

	2011 £000	2010* £000
Trade creditors	10,064	8,053
Amounts owed to group undertakings	17,229	57,295
Other creditors including taxation and social security		
Other taxation and social security	13,694	8,390
Other creditors	3,458	1,321
	<u>44,445</u>	<u>75,059</u>
Accruals and deferred income	21,691	21,196
	<u>66,136</u>	<u>96,255</u>

16. DEFERRED TAXATION

The movement in the deferred taxation provision during the period was

	2011 £000	2010 £000
Provision brought forward	3,329	1,372
Profit and loss account movement arising during the period	(2,816)	2,142
Statement of total recognised gains and losses movement arising during the period	1,778	(185)
Provision carried forward	<u>2,291</u>	<u>3,329</u>

The provision for deferred taxation consists of the tax effect of timing differences in respect of

	2011 £000	2010 £000
Excess of taxation allowances over depreciation on fixed assets	2,304	4,071
Other timing differences	(13)	(742)
	<u>2,291</u>	<u>3,329</u>

17. SHARE-BASED PAYMENTS

Equity-settled share-based payments

Share options in the ultimate holding company Yum! Brands Inc are granted to certain senior employees on a discretionary basis. The exercise price of the granted options is equal to the market price of the shares on the date of the grant. Awards have a four year vesting period, expire ten years after the grant date and are equity settled.

Details of the number of share options and the weighted average exercise price (WAEP) outstanding during the year are as follows

* Re-presented following the adoption of UITF44 – see note 1

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

17. SHARE-BASED PAYMENTS *(continued)*

	2011		2010	
	No	WAEP \$	No	WAEP \$
Outstanding at the beginning of the year	346,519.00	31.17	345,204 00	26 74
Granted during the year	54,895.00	49.30	161,594 00	29 89
Forfeited during the year	(44,862.00)	33.84	(48,419 00)	32 55
Exercised during the year	(80,713.00)	50.59	(111,860 00)	42 18
Outstanding at the end of the year	<u>275,839.00</u>	<u>34.58</u>	<u>346,519 00</u>	<u>31 17</u>
Exercisable at the end of the year	<u>102,102.00</u>	<u>29.79</u>	<u>103,247 00</u>	<u>28 49</u>

In the year ended 4 December 2011, options were granted on 4 February 2011. The estimated fair value of the options granted was \$15.59. In the year ended 28 November 2010, options were granted on 5 February 2010. The estimated fair value of the options granted was \$19.11.

The inputs into the model were as follows:

	2011	2010
Weighted average share price - \$	34.58	31.17
Weighted average exercise price - \$	49.30	32.98
Expected volatility - %	28.78	29.47
Expected life - years	6.00	6.00
Risk free rate - %	<u>0.43</u>	<u>1.69</u>

The expected volatility is wholly based on the historic volatility (calculated based on the weighted average remaining life of the share options), adjusted for any expected changes to future volatility due to publicly available information.

At year ended 4 December 2011 the company recorded liabilities of £3,130,000 (2010 - £3,030,000) in respect of equity share based payments.

The company recorded total expenses of £349,000 during the year ended 4 December 2011 (2010 - £325,000) in respect of equity share based payments.

18. PENSIONS AND OTHER POST RETIREMENT BENEFITS

The group operates a defined benefit pension scheme in the UK, closed to new entrants. A full actuarial valuation was carried out at 31 March 2008 and updated to 4 December 2011 by a qualified independent actuary.

To develop the expected long-term rate of return on assets assumption, the company considers the current level of expected return on risk free investments (primarily government bonds), the historical level of risk premium associated with the other asset classes in which the portfolio is invested and the expectations for future returns of each asset class. The expected return on asset for each asset class is then weighted by the target asset allocation to develop the expected long term rate of return on assets assumption for the portfolio. This resulted in the selection of a 5.3% assumption as at 4 December 2011.

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

18. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

The amounts recognised in the profit and loss account are as follows

	2011 £000	2010 £000
<i>Amounts charged to operating loss</i>		
Current service cost	1,343	1,442
Total operating charge	<u>1,343</u>	<u>1,442</u>
<i>Amounts included in other finance income</i>		
Expected return on scheme assets	(3,221)	(3,153)
Interest on scheme liabilities	2,982	2,771
Other finance income	(239)	(382)
Total charge to the profit and loss account	<u>1,104</u>	<u>1,060</u>

Other finance income is included in the profit and loss account within interest payable and similar charges

Actuarial gains of £7,412,000 (2010 £687,000 loss) have been recognised in the statement of total recognised gains and losses

The amounts recognised in the balance sheet are as follows

	2011 £000	2010 £000
Present value of funded obligations	(56,138)	(55,474)
Fair value of scheme assets	<u>61,440</u>	<u>53,254</u>
	5,302	(2,220)
Related deferred tax (liability)/asset	(754)	1,870
Net pension asset/(liability)	<u>4,548</u>	<u>(350)</u>

Changes in the present value of the defined benefit obligation scheme are as follows

	2011 £000	2010 £000
Opening defined benefit obligation	55,474	49,877
Current service cost	1,343	1,442
Interest on scheme liabilities	2,982	2,771
Actuarial (gain)/loss	(3,298)	1,723
Contributions by scheme participants	461	550
Benefits paid	(824)	(889)
Closing defined benefit obligation	<u>56,138</u>	<u>55,474</u>

The fair value of the major categories of scheme assets as a percentage of total scheme assets are as follows

	2011 %	2010 %
Growth assets	58.00	57.00
Matching assets	42.00	43.00

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

18. PENSIONS AND OTHER POST RETIREMENT BENEFITS *(continued)*

Changes in the fair value of scheme assets are as follows

	2011 £000	2010 £000
Opening fair value of scheme assets	53,254	42,954
Expected return on scheme assets	3,221	3,153
Contributions by employer	1,214	6,450
Contributions by scheme participants	461	550
Actuarial gain	4,114	1,036
Benefits paid	(824)	(889)
Closing fair value of scheme assets	<u>61,440</u>	<u>53,254</u>

The principal actuarial assumptions as at the balance sheet date were

	2011 %	2010 %
Discount rate	4.75	5.40
Rate of increase in salaries	3.85	4.15
Rate of increase in pensions in payment	3.10	3.40
Rate of increase in deferred pensions	2.30	3.40
Inflation	3.10	3.40

Amounts for the current and previous four periods are as follows

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Defined benefit obligation	(56,138)	(55,474)	(49,877)	(42,365)	(38,760)
Fair value of scheme assets	<u>61,440</u>	<u>53,254</u>	<u>42,954</u>	<u>23,135</u>	<u>25,856</u>
Surplus/(deficit) in the scheme	<u>5,302</u>	<u>(2,220)</u>	<u>(6,923)</u>	<u>(19,230)</u>	<u>(12,904)</u>
Experience adjustments on scheme liabilities (£)	<u>(4,357)</u>	<u>—</u>	<u>(206)</u>	<u>—</u>	<u>5,129</u>
Experience adjustments on scheme liabilities (%)	<u>(8)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>13</u>
Experience adjustments on scheme assets (£)	<u>4,114</u>	<u>1,036</u>	<u>5,159</u>	<u>(9,451)</u>	<u>75</u>
Experience adjustments on scheme assets (%)	<u>7</u>	<u>2</u>	<u>12</u>	<u>(41)</u>	<u>—</u>

The Company operates a number of defined contribution pension schemes. The pension cost charge for the period represents contributions payable by the Company to the schemes and amounted to £508,000 (2010 £ 459,000).

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

19. COMMITMENTS UNDER OPERATING LEASES

At 4 December 2011 the company had annual commitments under non-cancellable operating leases as set out below

	Land and buildings	
	2011	2010
	£000	£000
Operating leases which expire		
Within 1 year	1,348	1,906
Within 2 to 5 years	8,753	8,880
After more than 5 years	25,543	26,115
	<u>35,644</u>	<u>36,901</u>

Rentals paid under operating leases are charged to income on a straight line basis over the lease term

20. SHARE CAPITAL

Authorised share capital:

	2011	2010
	£000	£000
100,000,000 Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>

Allotted, called up and fully paid:

	2011		2010	
	No	£000	No	£000
71,505,000 Ordinary shares of £1 each	<u>71,505,000</u>	<u>71,505</u>	<u>36,505,000</u>	<u>36,505</u>

On 15 July 2011, the company issued 35,000,000 ordinary shares of £1 each, at par, to the immediate holding company, Yum! Restaurant Holdings

21. PROFIT AND LOSS ACCOUNT

	2011	2010*
	£000	£000
Balance brought forward	(26,091)	(4,141)
Loss for the financial period	(17,301)	(18,246)
Defined pension benefit scheme	5,634	(502)
Re-charge for share based payment	(1,108)	(3,527)
Credit in relation to share based payments	349	325
Balance carried forward	<u>(38,517)</u>	<u>(26,091)</u>

The adoption of UITF 44 resulted in a reclassification of £1,100,000 between 2010 opening reserves and creditors. This, accompanied by the amalgamation of the share option reserve, reduced the 2010 opening reserves to a debit of £4,141,000

* Re-presented following the adoption of UITF44 – see note 1

PIZZA HUT (UK) LTD

NOTES TO THE FINANCIAL STATEMENTS

PERIOD FROM 29 NOVEMBER 2010 TO 4 DECEMBER 2011

22. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER'S FUNDS

	2011 £000	2010* £000
Loss for the financial period	(17,301)	(18,246)
New ordinary share capital subscribed	35,000	—
Actuarial gain/(loss) in respect of defined benefit pension scheme	5,634	(502)
Re-charge for share based payment	(1,108)	(3,527)
Credit in relation to share based payments	349	325
Net addition/(reduction) to shareholder's funds	22,574	(21,950)
Opening shareholder's funds	10,414	32,364
Closing shareholder's funds	32,988	10,414

23. ULTIMATE PARENT COMPANY

The company is a subsidiary undertaking of Yum! Restaurant Holdings, a company registered in England and Wales

The smallest and largest group in which the results of the company are consolidated is that headed by Yum! Brands Inc, a company incorporated in the United States of America. The consolidated accounts of this group are available to the public and may be obtained from

YUM! Brands, Inc
1441 Gardiner Lane
Louisville
KY 40213
USA

* Re-presented following the adoption of UITF44 – see note 1