



Tim Hortons Inc. Announces 2008 Second Quarter Results

Strengthened performance leads to operating income increase of 10.1% to \$117.1 million; earnings per share up 14.5% to \$0.41

Financial & Sales Highlights

Second Quarter Ended	June 29, 2008	July 1, 2007	% Change
Revenues	\$ 510.7	\$ 465.3	9.8%
Operating Income	\$ 117.1	\$ 106.3	10.1%
Adjusted Operating Income ⁽¹⁾	\$ 120.2	\$ 106.3	13.0%
Effective Tax Rate	33.2%	33.8%	
Net Income	\$ 75.0	\$ 67.2	11.5%
Diluted Earnings Per Share	\$ 0.41	\$ 0.36	14.5%
Fully Diluted Shares	184.3	189.3	(2.6)%

(\$ in millions except EPS. Fully diluted shares in millions. All numbers rounded.)

⁽¹⁾ Adjusted operating income is a non-GAAP measure. For information regarding this measure and a reconciliation to U.S. GAAP operating income, please refer to "Disclosure on Non-GAAP Financial Measure" and Table 1 in this release.

Same-Store Sales	Q2 2008	Q2 2007
Canada	5.7%	6.6%
United States	3.1%	3.8%

Same-store sales calculation methodology includes restaurants beginning the 13th month after opening.

As of June 29, 2008, 99.3% of system restaurants in Canada and 91.9% of U.S. restaurants were franchised.

Highlights

- Second quarter systemwide sales⁽²⁾ increased 9.8%
- Operating income increased to \$117.1 million, up 10.1%
- Adjusted operating income⁽¹⁾, excluding restructuring charge, up 13.0%
- 31 restaurants opened
- Board declares quarterly dividend of \$0.09 per share
- 1.5 million shares purchased as part of the share repurchase program

OAKVILLE, ONTARIO, (August 7, 2008): Tim Hortons Inc. (NYSE:THI, TSX: THI) today announced strong operating results for the second quarter ended June 29, 2008.

Systemwide sales⁽²⁾, which include sales from Company-operated and Franchise restaurants, grew 9.8% in the second quarter compared to the same period last year. Canadian same-store sales increased 5.7% and U.S. same-store sales increased 3.1%. Total revenues were \$510.7 million, rising 9.8% compared to \$465.3 million in the same period last year. Net income was \$75.0 million, an increase of 11.5% compared to \$67.2 million in the second quarter last year. Earnings per diluted share were \$0.41, an increase of 14.5% compared to \$0.36 in the second quarter of 2007.

"The strength of our model and customer offering resulted in strong sales and earnings growth in a challenging environment. We were pleased with our store owners' ability to meet the needs of our customers and reinforce our differentiated positioning as a destination for people looking for quality products at a reasonable price. We continue to be on track to meet our operating income growth target of 10% excluding the impact of the \$3.1 million restructuring charge," said Don Schroeder, president and CEO.

Schroeder added: "Our brand and consumer loyalty and value-oriented menu offering positions us well within the sector, particularly during more difficult economic times. The state of the macro environment and resulting sales climate continues to be challenging, and we will be diligent and actively monitor the situation."

Consolidated Performance

The Company opened 31 restaurants during the quarter, compared to 18 in the second quarter of 2007.

An active promotional program during the quarter included Whole Grain Raspberry Muffins and Green Tea, the Chocolate Brownie Iced Capp Supreme, Homestyle Hash Browns, Strawberry Blossom Donuts and French Vanilla Iced Coffee (US only). The Company also introduced and promoted a Slow Roast Beef sandwich, along with Maple-themed products, including the Maple Crunch donut, Maple Pecan danish and Maple shortbread cookie. During the quarter Tim Hortons also held its annual Camp Day, and through leadership of the store owners, more than 3,000 restaurants in North America participated. Camp Day raised approximately \$9 million which will be used to provide an opportunity for thousands of economically disadvantaged children to attend the Tim Horton Children's Foundation Camps in Canada and the United States.

Total revenues were \$510.7 million in the second quarter, up 9.8% compared to \$465.3 million in the same period of 2007. Sales, the largest component of revenues, consisting primarily of distribution sales, grew by 9.1% to \$335.9 million compared to \$308.0 million during the same period last year.

The transition from Company-operated restaurants to the owner-operator model continued in the second quarter, with the number of Company-operated restaurants reduced by 22 year-over-year. The impact of the fewer number of Company-operated restaurants was more than offset by a higher number of restaurants consolidated under FIN 46R.

In the second quarter, revenues from rents and royalties grew 9.6% to \$153.5 million compared to \$140.1 million in the comparable period of 2007, consistent with systemwide sales growth. Franchise fees increased 24.0% to \$21.3 million compared to \$17.1 million in the same quarter of last year due to a higher number of units sold, and a shift in mix towards standard restaurant openings versus the comparable period of 2007. This impact was offset in part by lower deferred revenues recognized in 2008 from our U.S. franchise incentive program.

Franchise fee costs rose 16.6% in the second quarter compared to last year. Higher franchise fee costs were due primarily to a larger number of units sold compared to last year and a higher number of renovations and replacements. Increased franchise support costs and expenses associated with establishing franchisees' businesses also led to higher overall franchise fee costs.

Cost of sales was up 8.6% in the second quarter compared to the same period last year, reflecting the effect of completion of refrigerated and frozen product delivery from the Guelph distribution center and increased systemwide sales growth. Increased cost of sales was also due to an increase in the number of restaurants consolidated under FIN 46R, largely offset by the fewer number of Company-operated restaurants. Operating expenses grew 9.1% in the quarter compared to the second quarter of 2007, primarily due to the increased number of restaurant openings and higher variable rent on existing properties.

General and administrative costs for the quarter were \$36.1 million, up 17.2% versus the prior year comparable costs of \$30.8 million. The year-over-year increase includes a previously announced restructuring charge. Excluding the \$3.1 million charge, general and administrative costs were up 7.3% as a result of continued growth of the business. Equity income was \$10.0 million, an increase of 8.3% over the comparable period of \$9.2 million in the second quarter of 2007.

Second quarter operating income was \$117.1 million, up 10.1% compared to \$106.3 million for the same period in 2007. Excluding the restructuring charge announced previously, adjusted operating income was \$120.2 million, an increase of 13.0% (see “Disclosure on Non-GAAP Financial Measure” below). Systemwide sales growth was the largest contributing factor to higher operating income, supported by higher franchise fee income and equity income, along with increased contributions from distribution.

Net interest expense was slightly higher in the second quarter, increasing to \$4.9 million compared to \$4.8 million in the second quarter of 2007.

Second quarter net income increased 11.5% to \$75.0 million compared to \$67.2 million in the same quarter of 2007. The effective tax rate during the quarter was 33.2% compared to 33.8% in the comparable period of 2007.

Diluted earnings per share (EPS) rose 14.5% to \$0.41 compared to \$0.36 last year in the second quarter. EPS growth was due primarily to higher net income and lower weighted average shares outstanding in the quarter, which decreased 2.6% to 184.3 million shares due to the Company's share repurchase program.

Disclosure on Non-GAAP Financial Measure

Adjusted operating income is a non-GAAP measure. The presentation of this non-GAAP measure is made with operating income, the most directly comparable U.S. GAAP measure. Management believes that pro forma adjusted operating income information is important for comparison purposes to prior periods and for purposes of evaluating management's operating income target for 2008 which excludes restructuring charges. The Company evaluates its business performance and trends excluding amounts related to the restructuring. Therefore, this measure provides a more consistent view of management's perspectives on performance than the closest equivalent U.S. GAAP measure.

Table 1 Pro forma: Adjusted operating income to U.S. GAAP reconciliation

Second Quarter Ended	June 29, 2008	July 1, 2007	% Change
Reported Operating Income	\$ 117.1	\$ 106.3	10.1%
Add: Restructuring Charge	<u>3.1</u>	<u>-</u>	N/M
Adjusted Operating Income	\$ 120.2	\$ 106.3	13.0%

(\$ in millions)

Segmented Performance

Same-store sales in the second quarter for the Canadian segment were up 5.7%. Pricing contributed approximately 4.4% to same-store sales in Canada during the quarter. The Canadian segment lapped significant same-store sales growth of 6.6% in the comparable period of 2007.

Segment margins in Canada were up due primarily to better leverage of top-line growth including the benefit of completed roll-out of refrigerated and frozen distribution from the Guelph distribution center, and from increased franchise fee income. Operating income increased 12.5% in the Canadian business to \$130.4 million compared to \$116.0 million last year in the same quarter. A total of 23 restaurants were opened in Canada during the second quarter, bringing the total to 45 restaurants on a year-to-date basis.

In the U.S. segment, same-store sales increased 3.1% during the quarter, of which approximately 2.5% was attributable to pricing. The U.S. business had a loss of \$0.2 million in the second quarter. Higher systemwide sales benefited rents and royalties, offset by higher franchisee relief. U.S. segment margins were also impacted by the timing of gains from the sale of restaurants and higher support costs, which offset the positive impact of a slightly higher number of openings year-over-year. A total of 8 restaurants were opened in the U.S. this quarter, and 11 year-to-date. As part of its planned 2008 expansion plan, the Company intends to open several new restaurants in the community of Syracuse, New York during the third and fourth quarter, expanding its presence in central New York.

The shift of timing of the Easter holidays in the quarter compared to last year had an estimated positive impact of approximately 0.5% on same-store sales in Canada and less than 0.4% in the U.S.

Internationally, the number of Tim Hortons sites in Ireland and the UK has expanded to 213 licensed locations, comprised primarily of self-serve kiosks, demonstrating the continued success of the platform. While not a material contributor to earnings or revenue at this time, the international business is part of a developing international strategy and potential platform for future growth.

\$200 million Share Repurchase Program Activities

The Company spent \$48.9 million to repurchase a total of approximately 1.5 million shares as part of its 2007-2008 share repurchase program to return value to shareholders.

Capital Expenditures

The Company invested \$33.6 million in capital expenditures in the second quarter, and \$66.1 million year-to-date, primarily on its restaurant expansion program and renovations. As part of its vertical integration strategy, the Company has also approved the construction of a new coffee roasting facility, which will be located in southern Ontario. The Company will invest approximately \$30 million in this facility, primarily in 2009, and when fully operational the facility will bring total internal coffee production to approximately three-quarters of the system's needs.

"Protecting the quality, integrity and supply of our proprietary coffee blend from tree to cup is essential to our long-term success. Consistent with our vertical integration investment strategy, the new coffee roasting facility will provide significant system benefits important to the collective success of our store owners and the Company. It will also help ensure we continue to consistently serve great tasting coffee to our customers every day," said Cynthia Devine, Chief Financial Officer.

Board Declares Dividend Payment of \$0.09 Per Share

The Board of Directors has declared a quarterly dividend of \$0.09 per share payable on September 2nd, 2008 to shareholders of record as of August 18th, 2008. The Company's current dividend policy is to pay a total of 20-25% of prior year, normalized annual net earnings in dividends each year.

Dividends are paid in Canadian dollars to all shareholders with Canadian resident addresses whose shares are registered with Computershare (the Company's transfer agent). For all other shareholders, including all shareholders who hold their shares indirectly (i.e., through their broker) and regardless of country of residence, the dividend will be converted to U.S. dollars on August 25th, 2008 at the daily noon rate established by the Bank of Canada and paid in U.S. dollars on September 2nd, 2008.

Tim Hortons to Host Conference Call at 2:30 p.m. on Thursday, August 7th, 2008

Tim Hortons will host a conference call to discuss its second quarter results beginning at 2:30 p.m. Eastern Daylight Time (EDT) on Thursday, August 7th, 2008. Investors and the public may listen to the conference call by calling 416-641-6712 or 1-800-354-6885 (no access code required), or through simultaneous webcast by visiting the investor relations section at www.timhortons.com, and clicking on the "Events and Presentations" tab. A slide presentation will be available to coincide with the conference call on this site. The conference call will be available for replay on the web-site for a period of one-year.

Safe Harbor Statement

Certain information in this news release, particularly information regarding future economic performance and finances, and plans, expectations and objectives of management, is forward-looking. Factors set forth in the Company's Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995, including by reference the "risk factors" outlined in the Company's most recent Form 10-K filed February 26, 2008 in addition to other possible factors not listed or described in the Safe Harbor Statement, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. As such, readers are cautioned not to place undue reliance on forward-looking statements contained in this news release, which speak only as of the date hereof. Except as required by federal or provincial securities laws, the Company undertakes no obligation to publicly release any revisions to the forward looking statements contained in this release, or to update them to reflect events or circumstances occurring after the date of this release, or to reflect the occurrence of unanticipated events, even if new information, future events or other circumstances have made the forward-looking statements incorrect or misleading. Please review the Company's Safe Harbor Statement at <http://www.timhortons.com/safeharbor.html>.

⁽²⁾ Total systemwide sales growth includes restaurant level sales at both Company and Franchise restaurants. Approximately 98.3% of our system is franchised as at June 29, 2008. Systemwide sales growth is determined using a constant exchange rate to exclude the effects of foreign currency translation. U.S. dollar sales are converted to Canadian dollar amounts using the average exchange rate of the base year for the period covered. For the second quarter of 2008, systemwide sales growth was up 9.8% compared to the second quarter of 2007. Systemwide sales impact our franchise royalties and rental income, as well as our distribution sales. Changes in systemwide sales are driven by changes in average same-store sales and changes in the number of systemwide restaurants. Management believes systemwide sales data is useful and important in assessing the overall health and financial performance of the brand and the Company's Franchisee base, and ultimately, the financial performance of the Company on a consolidated and segmented basis.

Tim Hortons Inc. Overview

Tim Hortons is the fourth largest publicly-traded quick service restaurant chain in North America based on market capitalization, and the largest in Canada. Tim Hortons appeals to a broad range of consumer tastes, with a menu that includes premium coffee and donuts, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches and fresh baked goods. As of June 29, 2008, Tim Hortons had 3,257 systemwide restaurants, including 2,851 in Canada and 406 in the United States. More information about the Company is available at www.timhortons.com.

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