Commitment

Restaurant Brands New Zealand Limited
Interim Report 2017

Deep and lasting relationships

People love our brands and show their commitment to them every day in ordinary and extraordinary ways. In many ways they are a reflection of our own continuous commitment to creating brand experiences that delight and endure.

Contents

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Key points

- **Net Profit after Tax** for the 28 weeks ended 12 September 2016 (1H 2017) was $13.5 million (13.3 cents per share), up $0.1 million or +0.7% on the prior period (1H 2016).

- **Net Profit (excluding non-trading items)** was $15.9 million (15.7 cents per share), up $2.8 million or +21.7% on the prior period.

- **Total Group Sales** were $256.2 million, up 22.0% on the previous half year, with the bulk of the increase following the QSR acquisition in Australia. Same store sales were up 1.4% for the half year (rolling +6.7% in 1H 2016).

- **Combined brand EBITDA** was up $9.3 million to $45.3 million with the New Zealand businesses delivering $2.1 million of the increase and the QSR acquisition the $7.2 million balance.

- Directors have declared an **interim dividend of 9.5 cents** per ordinary share, up 1.0 cent on last year. The dividend is fully imputed and payable on 8 November 2016.

- After balance date, the company entered into a **conditional agreement** to purchase 100% of the shares in Pacific Island Restaurants Inc. (PIR) for a consideration of USD$105 million. PIR is the largest operator of quick service restaurants in Hawaii with 82 Taco Bell and Pizza Hut stores.

Restaurant Brands New Zealand Limited is a corporate franchisee that operates the New Zealand outlets of KFC, Pizza Hut, Starbucks Coffee and Carl's Jr. together with KFC outlets in Australia. These brands – four of the world's most famous – are distinguished for their product, look, style and ambience, service and for the total experience they deliver to their customers in New Zealand and around the world.

Group operating results

	1H 2017	1H 2016	Change ($)	Change (%)
Total Group Sales ($m)	256.2	210.0	+46.2	+22.0
Group NPAT (reported) ($m)	13.5	13.4	+0.1	+0.7
Group NPAT (excluding non-trading) ($m)	15.9	13.1	+2.8	+21.7
Dividend (cps)	9.5	8.5	+1.0	+11.8

Directors are pleased to report that Restaurant Brands New Zealand Limited (RBD) has produced a first half unaudited net profit after tax for the 28 weeks ended 12 September 2016 (1H 2017) of $13.5 million (13.3 cents per share). This compares with a reported NPAT of $13.4 million for the prior half year.

After allowing for the impact of non-trading items the underlying NPAT was $15.9 million (15.7 cents per share), up $2.8 million or +21.7% on prior year.

Total brand sales for the Group were $256.2 million, up $46.2 million or +22.0% on 1H 2016 with the benefit of $43.6 million in sales from the recent KFC acquisition (of QSR Pty Limited) in Australia with effect from 27 April 2016. New Zealand operations saw a strong performance from KFC (up $4.2 million) with newly built Carl's Jr. stores assisting in delivering another $1.0 million in sales for that brand. Total operating revenue was $266.9 million, up $48.5 million on prior year.

Same store sales were up 1.4% (rolling over +6.7% last year) with KFC, Pizza Hut and Starbucks Coffee all showing growth.

Combined brand EBITDA at $45.3 million was $9.3 million (+26.0%) up on prior year, largely because of a $7.2 million contribution from the newly acquired Australian operations.

Restaurant Brands' store numbers now total 215, comprising 173 in New Zealand and a further 42 stores in Australia.

Total Group Sales

+22%

KFC New Zealand

	1H 2017	1H 2016	Change ($)	Change (%)
Network Sales ($m)	167.1	162.7	+4.4	+2.7
Network Store Numbers	97	98	-	-
RBD Sales ($m)	157.4	153.2	+4.2	+2.8
RBD EBITDA ($m)	33.1	30.9	+2.3	+7.3
EBITDA as a % of Sales	*21.0*	*20.1*	-	-
RBD Store Numbers	91	92		

Restaurant Brands' KFC New Zealand sales were $157.4 million, up 2.8% or $4.2 million on prior year with same store sales up 1.9% (rolling +8.8% last year). A continuing positive retail environment, higher levels of advertising activity and some successful product promotions all contributed to a strong first half profit performance.

Margins remained strong, with the benefits of higher sales leverage and new chicken supply agreements largely offsetting labour cost increases. KFC produced a resulting EBITDA margin of 21.0% of sales, slightly ahead of its normal range. In dollar terms EBITDA totalled $33.1 million, up $2.3 million (+7.3%) on last year's result.

Both RBD and total network store numbers reduced by one over the half year to a total of 91 and 97 respectively with the closure of an underperforming store at Kaikohe.

One transformation took place over the period, which brings the 10 year programme of major KFC transformation to an end, with the number of transformed KFC stores now 87 out of the 91 Restaurant Brands stores in the network. However the company is continuing to reinvest in its KFC facilities with 10 stores receiving major refurbishments over the half year.

KFC Australia

	1H 2017	1H 2016	Change ($)	Change (%)
Sales (AUD$m)	41.4	-	+41.4	n/a
Store EBITDA (AUD$m)	6.9	-	+6.9	n/a
EBITDA as a % of Sales	*16.6*	-	-	-
Store Numbers	42	-		

RBD acquired the QSR KFC business in Australia with effect 27 April 2016 and the reported results are from that date. The acquired business is performing well against expectations at the time of purchase and similar to prior year levels.

Total sales to date were AUD$41.4 million, in line with the KFC market in New South Wales which is performing soundly.

Store EBITDA margins of AUD$6.9 million are also running ahead of initial expectations at 16.6% of sales, a satisfactory performance.

As part of the Australian market expansion strategy, RBD has identified the opportunity for further acquisitions of KFC stores in the Australian market. Whilst a number have been identified and some initial discussions held, none have been formally progressed to date. However two new KFC stores have been approved by the board for construction in the New South Wales market.

Pizza Hut New Zealand

	1H 2017	1H 2016	Change ($)	Change (%)
Network Sales ($m)	48.9	45.8	+3.1	+6.8
Network Store Numbers	90	89	-	-
RBD Sales ($m)	22.0	24.5	-2.5	-10.3
RBD EBITDA ($m)	2.4	2.8	-0.4	-14.9
EBITDA as a % of Sales	*11.0*	*11.6*	-	-
RBD Store Numbers	37	44		

Total Pizza Hut network sales climbed to $48.9 million for the half year, up $3.1 million (+6.8%) on prior year. Restaurant Brands' own store sales were down slightly to $22.0 million, largely as a result of sales transfers to independent franchisees with the continuing disposal of Pizza Hut stores. Same store sales across the whole brand continue to be strong with company stores delivering a +4.8% increase over the half year.

Restaurant Brands' Pizza Hut store earnings were also marginally down on prior year, in line with the reduction in the number of stores operated by RBD. The resulting EBITDA was $2.4 million (11.0% of sales) for the half year.

The Pizza Hut network finished the half year with 90 stores, one up on the same period last year as independent franchisees added one new store. Restaurant Brands sold six more stores to independent franchisees, bringing the total number sold to 45 as the company moves over the next two years towards its target holding of about 25 company owned stores.

As part of the move to a significantly lower ownership profile RBD has entered into discussions with the franchisor, Yum! Restaurants International for the establishment of a master franchise arrangement for the New Zealand market.

Starbucks Coffee New Zealand

	1H 2017	1H 2016	Change ($)	Change (%)
Sales ($m)	13.8	13.9	-0.1	-0.9
EBITDA ($m)	2.2	2.2	-	+0.7
EBITDA as a % of Sales	*16.0*	*15.8*	-	-
Store Numbers	25	26		

Note: All Starbucks Coffee stores are RBD owned.

Starbucks Coffee saw yet another half year of sustained sales and earnings, delivering same store sales growth over the period of +3.1%. Total sales were down marginally (following a store closure) by $0.1 million (-0.9%).

Margins improved slightly with continuing sales leverage and store efficiencies. The brand achieved an EBITDA of $2.2 million (16.0% of sales), up slightly on 1H 2016.

Store numbers reduced by one to 25 with the closure of a Wellington store at lease end.

The 20 year Starbucks Coffee franchise expires in 2018 and the company is entering into discussions with the franchisor as to the future for the brand.

Carl's Jr. New Zealand

	1H 2017	1H 2016	Change ($)	Change (%)
Sales ($m)	19.3	18.4	+0.9	+5.2
EBITDA ($m)	0.4	0.1	+0.3	+266.7
EBITDA as a % of Sales	*1.8*	*0.5*	-	-
Store Numbers	20	18		

Note: All Carl's Jr. stores are RBD owned.

Steady progress is being made towards building sales growth and profitability for the Carl's Jr. brand. Most of the additional costs of initial set up and integration and external supply chain issues have now been resolved and this is reflected in an improved operating result.

Sales were up 5.2% (-8.4% on a same store basis) with the opening of two new stores in the Christchurch area, both of which are delivering sales ahead of plan. These stores reflect a new facility design for the brand which is being evaluated for roll-out across the network.

Improved labour controls and stable input prices saw margins improve over the half year by $0.3 million to $0.4 million or 1.8% of sales. Whilst this is still short of longer term targets, it is indicative of sound progress being made with the brand. Most stores are contributing satisfactorily, although the future of some under-performing stores is being evaluated.

With the two Christchurch openings, store numbers now total 20. These stores continue to trade well.

Corporate and Other

General and administration (G&A) costs were $10.9 million, up $2.2 million (+25.2%) on prior year. This included $1.4 million of additional above store overheads following the acquisition of the Australian business on 27 April. G&A as a % of total revenue of 4.1% is similar to last year's ratio.

Depreciation charges of $11.5 million for the half year were $2.5 million higher than the prior year, of which the Australian business accounted for $2.1 million, with KFC New Zealand making up the difference.

Financing costs of $1.4 million were up $0.8 million on prior year reflecting the higher borrowings required to fund the QSR acquisition.

Tax expense was $6.0 million, up $1.0 million on the prior year with higher reported profit levels. The effective tax rate of 30.6% reflects the (one off) impact of non-trading items, with the rate on earnings excluding non-trading items at 27.3%.

Non-Trading Items

Non-trading expenditure for the half was $2.4 million compared with a gain of $0.3 million last year. This year's amount included: $2.3 million relating to non-recurring stamp duty and transaction costs on the QSR acquisition, costs of $0.5 million incurred in due diligence on the Hawaiian acquisition, and gains of $0.7 million from the disposal of Pizza Hut stores and the sale and leaseback of a KFC store.

Cash Flow and Balance Sheet

The company's balance sheet has seen some fundamental changes following the Australian acquisition on 27 April. This transaction, which was for a total consideration of NZD$89.4 million (after settlement adjustments), was funded by the issue of five million shares (with a value of $25.5 million) to interests associated with the vendor, Stephen Copulos and the balance by $63.9 million in debt.

Bank debt at the end of the half year was consequently up to $72.7 million compared to $12.7 million at the previous year end. The company has a facility with Westpac for NZD$125 million for a three year term.

Operating cash flows were up $0.4 million to $30.7 million, assisted by improved profitability. Whilst not a significant increase on 1H 2016, the previous year had enjoyed a working capital movement benefit $2.6 million higher than the current year. Furthermore the cash impact of QSR acquisition costs adversely impacted this year's operating cash flows by a further $2.3 million.

Net investing cash outflows at $72.5 million (versus $5.5 million last year) primarily reflect the impact of the QSR acquisition with a cash impact of $63.9 million. Cash inflows for the period saw $2.5 million received as part of the KFC sale and leaseback of one store and two Pizza Hut store sales.

Dividend

Directors have declared a fully imputed interim dividend of 9.5 cents per ordinary share, payable on 8 November to all shareholders on the register on 3 November 2016. A supplementary dividend of 1.6765 cents per share will be paid to all overseas shareholders at the same time.

The record and payment dates for the dividend reflect the desire to pay it to existing shareholders only (prior to the capital raising) and are subject to an NZX waiver as to shorter timeframe.

Hawaiian Acquisition

RBD has announced its intention to acquire 100% of the shares in Pacific Island Restaurants Inc. (PIR) in Hawaii. PIR is the largest quick service restaurant operator in that state with 82 stores. This company operates all of the Taco Bell and Pizza Hut restaurants in Hawaii, Guam and Saipan. PIR has an annual turnover in excess of USD$120 million and a store level EBITDA in excess of USD$19 million.

The transaction is for a purchase price of USD$105 million and will be funded by a combination of 40% debt and 60% equity, the latter through a renounceable entitlement offer.

PIR is a well-run and profitable company and represents an excellent opportunity for RBD to further diversify its earnings, whilst providing access to the profitable Taco Bell brand. There are also further expansion opportunities in that market.

Outlook

The New Zealand business is on track with increased earnings from its four existing brands (up $2.1 million to date). Margins are expected to continue at similar levels (with continuing improvement in Carl's Jr.). Current strategies across these brands are delivering positive results.

The KFC (QSR Pty Limited) acquisition in Australia has made a solid contribution in its first period of ownership. Further growth in this market will occur by acquisition as realistically priced opportunities present themselves. In the meantime QSR is proceeding with its own new store builds.

The potential Hawaiian acquisition will be settled late in the year and is expected to deliver earnings for the last two months of FY17.

Directors believe that, absent any major changes to economic or market conditions, the existing New Zealand businesses, together with the two offshore acquisitions are expected to deliver a Net Profit after Tax (excluding non-trading items) for the FY17 year in the vicinity of $30-32 million.

Potential major acquisition to settle late 2016.

Consolidated income statement

For the 28 week period ended 12 September 2016 (2017 Half Year)

Group $NZ000's	1st Half 2017 28 weeks 12 September 2016 Unaudited	vs Prior %	1st Half 2016 28 weeks 14 September 2015 Unaudited
Sales			
KFC	157,417	*2.8*	153,171
Pizza Hut	22,023	*(10.3)*	24,543
Starbucks Coffee	13,784	*(0.9)*	13,910
Carl's Jr.	19,338	*5.2*	18,388
Total New Zealand sales	**212,562**	*1.2*	**210,012**
KFC Australia	43,596	*100.0*	-
Total sales	**256,158**	*22.0*	**210,012**
Other revenue	10,703	*27.5*	8,392
Total operating revenue	**266,861**	*22.2*	**218,404**
Cost of goods sold	(216,559)	*(21.1)*	(178,862)
Gross margin	**50,302**	*27.2*	**39,542**
Distribution expenses	(1,510)	*(17.3)*	(1,287)
Marketing expenses	(14,678)	*(35.5)*	(10,830)
General and administration expenses	(10,885)	*(25.2)*	(8,696)
EBIT before non-trading	**23,229**	*24.0*	**18,729**
Non-trading	(2,379)	*(1,051.6)*	250
EBIT	**20,850**	*9.9*	**18,979**
Net financing expenses	(1,376)	*(123.4)*	(616)
Net profit before taxation	**19,474**	*6.1*	**18,363**
Taxation expense	(5,967)	*(20.5)*	(4,953)
Total profit after taxation (NPAT)	**13,507**	*0.7*	**13,410**
Total NPAT excluding non-trading	**15,935**	*21.7*	**13,093**

EBITDA before G&A		**% sales**			**% sales**
KFC	33,117	21.0	*7.3*	30,855	20.1
Pizza Hut	2,413	11.0	*(14.9)*	2,836	11.6
Starbucks Coffee	2,209	16.0	*0.7*	2,193	15.8
Carl's Jr.	352	1.8	*266.7*	96	0.5
Total New Zealand	**38,091**	17.9	*5.9*	**35,980**	17.1
KFC Australia	7,230	16.6	*100.0*	-	-
Total	**45,321**	17.7	*26.0*	**35,980**	17.1

Ratios		
Net tangible assets per security (net tangible assets divided by number of shares) in cents	14.1c	54.0c

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 advertising and local store marketing expenses.

General and administration expenses (G&A) are non-store related overheads.

Non-GAAP financial measures

For the 28 week period ended 12 September 2016 (2017 Half Year)

The Group results are prepared in accordance with New Zealand Generally Accepted Accounting Practice ("GAAP") and comply with International Financial Reporting Standards ("IFRS"). These financial statements include non-GAAP financial measures that are not prepared in accordance with IFRS. The non-GAAP financial measures used in this presentation are as follows:

1. **EBITDA before G&A**. The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A (general and administration expenses) by taking net profit before taxation and adding back (or deducting) net financing expenses, non-trading items, depreciation, amortisation and G&A. The Group also refers to this measure as **Concept EBITDA before G&A**.

   The term **Concept** refers to the Group's five operating segments comprising the New Zealand segments (KFC, Pizza Hut, Starbucks Coffee and Carl's Jr.) and KFC Australia. The term **G&A** represents non-store related overheads.

2. **EBIT before non-trading**. Earnings before interest and taxation ("EBIT") before non-trading is calculated by taking net profit before taxation and adding back (or deducting) net financing expenses and non-trading items.
3. **Non-trading items**. Non-trading items represent amounts the Group considers unrelated to the day to day operational performance of the Group. Excluding non-trading items enables the Group to measure underlying trends of the business and monitor performance on a consistent basis.
4. **EBIT after non-trading items**. The Group calculates EBIT after non-trading items by taking net profit before taxation and adding back net financing expenses.
5. **Total NPAT excluding non-trading**. Total Net Profit After Taxation ("NPAT") excluding non-trading items is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) non-trading items whilst also allowing for any tax impact of those items.

The Group believes that these non-GAAP measures provide useful information to readers to assist in the understanding of the financial performance and position of the Group but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

Non-GAAP financial measures (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

The following is a reconciliation between these non-GAAP measures and net profit after taxation:

Group $NZ000's	Note*	2017 Half Year	2016 Half Year
EBITDA before G&A	1	**45,321**	**35,980**
Depreciation		(11,470)	(8,984)
Loss on sale of property, plant and equipment (included in depreciation)		(38)	-
Amortisation (included in cost of sales)		(1,392)	(932)
General and administration – area managers, general managers and support centres		(9,192)	(7,335)
EBIT before non-trading	2	**23,229**	**18,729**
Non-trading items **	3	**(2,379)**	**250**
EBIT after non-trading items	4	**20,850**	**18,979**
Net financing costs		(1,376)	(616)
Net profit before taxation		**19,474**	**18,363**
Income tax expense		(5,967)	(4,953)
Net profit after taxation		**13,507**	**13,410**
Add back / (deduct) non-trading items		2,379	(250)
Income tax on non-trading items		49	(67)
Net profit after taxation excluding non-trading items	5	**15,935**	**13,093**

* Refers to the list of non-GAAP measures as listed on page 9.

** Refer to note 3 of the interim financial statements for an analysis of non-trading items.

Statement of comprehensive income

For the 28 week period ended 12 September 2016 (2017 Half Year)

Group $NZ000's	Note	2017 Half Year 28 weeks Unaudited	2016 Half Year 28 weeks Unaudited	2016 Full Year 52 weeks Audited
Store sales revenue		256,158	210,012	387,564
Other revenue		10,703	8,392	16,531
Total operating revenue		**266,861**	**218,404**	**404,095**
Cost of goods sold		(216,559)	(178,862)	(329,983)
Gross profit		**50,302**	**39,542**	**74,112**
Distribution expenses		(1,510)	(1,287)	(2,505)
Marketing expenses		(14,678)	(10,830)	(20,654)
General and administration expenses		(10,885)	(8,696)	(16,434)
EBIT before non-trading		**23,229**	**18,729**	**34,519**
Non-trading	3	(2,379)	250	(452)
Earnings before interest and taxation (EBIT)		**20,850**	**18,979**	**34,067**
Net financing expenses		(1,376)	(616)	(991)
Profit before taxation		**19,474**	**18,363**	**33,076**
Taxation expense		(5,967)	(4,953)	(9,006)
Total profit after taxation attributable to shareholders		**13,507**	**13,410**	**24,070**
Items that may be reclassified subsequently to the Statement of Comprehensive Income				
Exchange differences on translating foreign operations		(4,252)	-	-
Derivative hedging reserve		5	(97)	(124)
Income tax relating to components of other comprehensive income		(2)	27	35
Other comprehensive loss for the half year, net of tax		**(4,249)**	**(70)**	**(89)**
Total comprehensive income for the half year attributable to shareholders		**9,258**	**13,340**	**23,981**
Basic and diluted earnings per share from total operations (cents)	4	**13.32**	**13.70**	**24.59**

For and on behalf of the Board:

E K van Arkel

Chairman

H W Stevens

Director

Statement of changes in equity

For the 28 week period ended 12 September 2016 (2017 Half Year)

Group $NZ000's	Share Capital	Foreign Currency Translation Reserve	Derivative Hedging Reserve	Retained Earnings	Total
For the 52 week period ended 29 February 2016					
Balance at the beginning of the period	**26,756**	**53**	**(149)**	**44,550**	**71,210**
Comprehensive income					
Profit after taxation attributable to shareholders	-	-	-	13,410	13,410
Other comprehensive income					
Movement in derivative hedging reserve	-	-	(70)	-	(70)
Total other comprehensive income	**-**	**-**	**(70)**	**-**	**(70)**
Total comprehensive income	**-**	**-**	**(70)**	**13,410**	**13,340**
Transactions with owners					
Net dividends distributed	-	-	-	(11,255)	(11,255)
Total transactions with owners	**-**	**-**	**-**	**(11,255)**	**(11,255)**
Unaudited balance as at 14 September 2015	**26,756**	**53**	**(219)**	**46,705**	**73,295**
Comprehensive income					
Profit after taxation attributable to shareholders	-	-	-	10,660	10,660
Other comprehensive income					
Movement in derivative hedging reserve	-	-	(19)	-	(19)
Total other comprehensive income	**-**	**-**	**(19)**	**-**	**(19)**
Total comprehensive income	**-**	**-**	**(19)**	**10,660**	**10,641**
Transactions with owners					
Net dividends distributed	-	-	-	(8,319)	(8,319)
Total transactions with owners	**-**	**-**	**-**	**(8,319)**	**(8,319)**
Audited balance at the end of the period	**26,756**	**53**	**(238)**	**49,046**	**75,617**
For the 28 week period ended 12 September 2016					
Balance at the beginning of the period	**26,756**	**53**	**(238)**	**49,046**	**75,617**
Comprehensive income					
Profit after taxation attributable to shareholders	-	-	-	13,507	13,507
Other comprehensive income					
Movement in foreign currency translation reserve	-	(4,252)	-	-	(4,252)
Movement in derivative hedging reserve	-	-	3	-	3
Total other comprehensive income	**-**	**(4,252)**	**3**	**-**	**(4,249)**
Total comprehensive income	**-**	**(4,252)**	**3**	**13,507**	**9,258**
Transactions with owners					
Issue of ordinary shares	25,500	-	-	-	25,500
Share issue costs	(24)	-	-	-	(24)
Net dividends distributed	-	-	-	(12,859)	(12,859)
Total transactions with owners	**25,476**	**-**	**-**	**(12,859)**	**12,617**
Unaudited balance at the end of the period	**52,232**	**(4,199)**	**(235)**	**49,694**	**97,492**

Statement of financial position

As at 12 September 2016 (2017 Half Year)

Group $NZ000's	Note	2017 Half Year Unaudited	2016 Half Year Unaudited	2016 Full Year Audited
Non-current assets				
Property, plant and equipment		128,811	98,772	100,641
Intangible assets		82,968	20,446	20,549
Deferred tax asset		8,363	5,455	5,994
Total non-current assets		**220,142**	**124,673**	**127,184**
Current assets				
Inventories		8,565	9,493	8,565
Trade and other receivables		4,849	3,980	2,955
Cash and cash equivalents		5,321	1,132	1,093
Total current assets		**18,735**	**14,605**	**12,613**
Total assets		**238,877**	**139,278**	**139,797**
Equity attributable to shareholders				
Share capital		52,232	26,756	26,756
Reserves		(4,434)	(166)	(185)
Retained earnings		49,694	46,705	49,046
Total equity attributable to shareholders		**97,492**	**73,295**	**75,617**
Non-current liabilities				
Provision for employee entitlements		603	435	470
Deferred income		5,570	5,522	5,267
Loans	8	72,740	8,535	12,675
Total non-current liabilities		**78,913**	**14,492**	**18,412**
Current liabilities				
Income tax payable		2,648	1,729	2,836
Creditors and accruals		57,151	48,085	41,285
Provision for employee entitlements		1,294	312	317
Deferred income		1,053	1,060	999
Derivative financial instruments		326	305	331
Total current liabilities		**62,472**	**51,491**	**45,768**
Total liabilities		**141,385**	**65,983**	**64,180**
Total equity and liabilities		**238,877**	**139,278**	**139,797**

Statement of cash flows

For the 28 week period ended 12 September 2016 (2017 Half Year)

Group $NZ000's	2017 Half Year Unaudited	2016 Half Year Unaudited	2016 Full Year Audited
Cash flows from operating activities			
Receipts from customers	266,231	218,336	403,960
Payments to suppliers and employees	(226,339)	(180,405)	(348,044)
Interest paid (net)	(1,304)	(503)	(986)
Payment of income tax	(7,935)	(7,140)	(10,618)
Net cash flows from operating activities	**30,653**	**30,288**	**44,312**
Cash flows from investing activities			
Acquisition of business	(63,905)	-	-
Payment for intangibles	(2,791)	(481)	(1,663)
Purchase of property, plant and equipment	(9,344)	(8,588)	(19,157)
Proceeds from disposal of property, plant and equipment	2,540	800	2,667
Landlord contributions received	961	2,808	2,808
Net cash flows from investing activities	**(72,539)**	**(5,461)**	**(15,345)**
Cash flows from financing activities			
Proceeds from non-current loans	230,668	151,665	286,650
Repayment of non-current loans	(172,685)	(165,680)	(296,525)
Dividends paid to shareholders	(12,859)	(11,255)	(19,574)
Share issue costs	(24)	-	-
Net cash flows from financing activities	**45,100**	**(25,270)**	**(29,449)**
Net increase / (decrease) in cash and cash equivalents	**3,214**	**(443)**	**(482)**
Cash and cash equivalents at beginning of the period	1,093	1,575	1,575
Opening cash balances acquired on acquisition of QSR Pty Limited	1,457	-	-
Foreign exchange movements	(443)	-	-
Cash and cash equivalents at the end of the period	**5,321**	**1,132**	**1,093**
Cash and cash equivalents comprise:			
Cash on hand	307	221	218
Cash at bank	5,014	911	875
	5,321	**1,132**	**1,093**

Statement of cash flows (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

The following is a reconciliation between profit after taxation for the period shown in the statement of comprehensive income and net cash flows from operating activities.

Group **$NZ000's**	**2017 Half Year** **Unaudited**	**2016 Half Year** **Unaudited**	**2016 Full Year** **Audited**
Total profit after taxation attributable to shareholders	**13,507**	**13,410**	**24,070**
Less items classified as investing / financing activities:			
Gain on disposal of property, plant and equipment	(921)	(715)	(1,718)
	(921)	**(715)**	**(1,718)**
Add / (less) non-cash items:			
Depreciation	11,470	8,984	16,512
Disposal of goodwill	75	137	489
Decrease in provisions	(59)	(272)	(213)
Amortisation of intangible assets	1,653	932	1,797
Write-off of franchise fees	-	26	39
Impairment on property, plant and equipment	(39)	2	(101)
Net increase in deferred tax asset	(662)	(494)	(1,026)
	12,438	**9,315**	**17,497**
Add / (less) movement in working capital:			
Decrease / (increase) in inventories	413	(18)	910
(Increase) / decrease in trade and other receivables	(1,679)	982	2,007
Increase in trade creditors and other payables	8,199	9,007	2,132
Decrease in income tax payable	(1,304)	(1,693)	(586)
	5,629	**8,278**	**4,463**
Net cash flows from operating activities	**30,653**	**30,288**	**44,312**

Notes to the financial statements

For the 28 week period ended 12 September 2016 (2017 Half Year)

1. General information

Restaurant Brands New Zealand Limited ("Company" or "Parent"), together with its subsidiaries (the "Group") operate quick service and takeaway restaurant concepts.

The Company is a limited liability company incorporated and domiciled in New Zealand.

Statutory base

The Company is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

Reporting framework

The unaudited interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("IFRS") and other applicable New Zealand Reporting Standards as appropriate for profit oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS"). These policies have been consistently applied to all the periods presented, unless otherwise noted.

The Group has a negative capital working balance as the nature of the business results in most sales being conducted on a cash basis. The Group has a banking facility of $125 million (refer Note 8) and has the ability to fully pay debts as they fall due. At balance date the amount undrawn was $52 million.

These interim financial statements for the 28 week period ended 12 September 2016 have been prepared in accordance with NZ IAS 34, Interim Financial Reporting and should be read in conjunction with the financial statements published in the Annual Report for the 52 week period ended 29 February 2016 (referred to in these statements as "2016 Full Year"). They also comply with International Accounting Standard 34 Interim Financial Reporting (IAS 34).

The Group divides its financial year into thirteen 4-week periods. These interim financial statements are for the first 7 periods (28 weeks) of the year ended on 12 September 2016 (2016: 28 weeks ended on 14 September 2015). The second half will be for 6 periods (24 weeks). The prior full year comparative represents the 52 week period ended 29 February 2016 (2016 Full Year).

To ensure consistency with current period, comparative figures have been restated where appropriate. In addition, there has been a rationalisation of disclosures. Disclosures have been removed where they are considered duplicated or immaterial.

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

New standards and amendments

- *NZ IFRS 16 Leases* (effective date: periods beginning on or after 1 January 2019) replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group intends to adopt NZ IFRS 16 on its effective date and has yet to assess its full impact.
- *NZ IFRS 15 Revenue from contracts with customers* (effective for periods beginning on or after 1 January 2018) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The Group intends to adopt NZ IFRS 15 on its effective date and is not expected to significantly impact the Group.

There are various other standards, amendments and interpretations which were assessed as having an immaterial impact on the Group.

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

2. Business segments

2017 Group $NZ000's	KFC	Pizza Hut	Starbucks Coffee	Carl's Jr.	KFC Australia	All Other segments	Consolidated Half Year Unaudited
Store sales revenue	157,417	22,023	13,784	19,338	43,596	-	256,158
Other revenue	-	-	-	-	-	10,703	10,703
Total operating revenue	**157,417**	**22,023**	**13,784**	**19,338**	**43,596**	**10,703**	**266,861**
Concept EBITDA before general and administration expenses	**33,117**	**2,413**	**2,209**	**352**	**7,230**	**-**	**45,321**
Depreciation	(6,542)	(416)	(394)	(1,708)	(1,998)	(412)	(11,470)
Loss on sale of property, plant and equipment (included in depreciation)	(22)	(8)	(6)	(2)	-	-	(38)
Amortisation (included in cost of sales)	(500)	(229)	(109)	(152)	(76)	(326)	(1,392)
G&A – area managers, general managers and support centres	(816)	(359)	(208)	(507)	(446)	(6,856)	(9,192)
EBIT before non-trading	**25,237**	**1,401**	**1,492**	**(2,017)**	**4,710**	**(7,594)**	**23,229**
Impairment on property, plant and equipment							39
Other non-trading							(2,418)
EBIT after non-trading							**20,850**
Segment assets	76,351	15,306	4,146	26,963	91,808	5,770	220,344
Unallocated assets							18,533
Total assets							**238,877**

2017 Group $NZ000's	New Zealand Half Year Unaudited	Australia Half Year Unaudited	Consolidated Half Year Unaudited
Geographical areas			
Total operating revenue	223,265	43,596	266,861
Non-current assets (excluding deferred tax asset)	119,380	92,399	211,779

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

2016 Group $NZ000's	KFC	Pizza Hut	Starbucks Coffee	Carl's Jr.	All Other segments	Consolidated Half Year Unaudited	Consolidated Full Year Audited
Store sales revenue	153,171	24,543	13,910	18,388	-	210,012	387,564
Other revenue	-	-	-	-	8,392	8,392	16,531
Total operating revenue	**153,171**	**24,543**	**13,910**	**18,388**	**8,392**	**218,404**	**404,095**
Concept EBITDA before general and administration expenses	**30,855**	**2,836**	**2,193**	**96**	**-**	**35,980**	**66,900**
Depreciation	(6,036)	(566)	(451)	(1,596)	(335)	(8,984)	(16,512)
Loss on sale of property, plant and equipment (included in depreciation)	-	-	-	-	-	-	(243)
Amortisation (included in cost of sales)	(395)	(148)	(56)	(101)	(232)	(932)	(1,797)
G&A – area managers, general managers and support centres	(867)	(394)	(198)	(290)	(5,586)	(7,335)	(13,829)
EBIT before non-trading	**23,557**	**1,728**	**1,488**	**(1,891)**	**(6,153)**	**18,729**	**34,519**
Impairment on property, plant and equipment						(2)	101
Other non-trading						252	(553)
EBIT after non-trading						**18,979**	**34,067**
Segment assets	74,799	15,744	4,796	27,888	5,484	128,711	129,755
Unallocated assets						10,567	10,042
Total assets						**139,278**	**139,797**

2016 Group $NZ000's	New Zealand Half Year Unaudited	Australia Half Year Unaudited	Consolidated Half Year Unaudited	Consolidated Full Year Audited
Geographical areas				
Total operating revenue	218,404	-	218,404	404,095
Non-current assets (excluding deferred tax asset)	119,218	-	119,218	121,190

All other segments represents general and administration support centre expenses (G&A) and other revenue. All operating revenue is from external customers.

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

2.1 Reconciliation between EBIT after non-trading and net profit after taxation

Group $NZ000's	2017 Half Year Unaudited	2016 Half Year Unaudited	2016 Full Year Audited
EBIT after non-trading	**20,850**	**18,979**	**34,067**
Net financing costs	(1,376)	(616)	(991)
Net profit before taxation	**19,474**	**18,363**	**33,076**
Income tax expense	(5,967)	(4,953)	(9,006)
Net profit after taxation	**13,507**	**13,410**	**24,070**
Add back / (deduct) non-trading items	2,379	(250)	452
Income tax on non-trading items	49	(67)	(315)
Net profit after taxation excluding non-trading	**15,935**	**13,093**	**24,207**

3. Profit before taxation

Group $NZ000's	2017 Half Year Unaudited	2016 Half Year Unaudited	2016 Full Year Audited
Profit before taxation			
The profit before taxation is calculated after charging / (crediting) the following items:			
Royalties paid	15,010	12,292	22,676
Operating rental expenses	14,040	11,202	20,549
Net gain on disposal of property, plant and equipment	(921)	(715)	(1,718)
Non-trading items			
Gain on sale of stores			
Net sale proceeds	(402)	(442)	(1,649)
Property, plant and equipment disposed of	97	70	251
Goodwill disposed of	-	137	439
	(305)	**(235)**	**(959)**
Acquisition costs	2,994	-	1,007
Store closure costs	65	31	445
Store relocation and refurbishment costs (including insurance proceeds)	63	(46)	(44)
(Gain) / loss on sale and leaseback of stores	(438)	-	3
Total non-trading items	**2,379**	**(250)**	**452**

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

4. Earnings per share

Group	2017 Half Year Unaudited	2016 Half Year Unaudited	2016 Full Year Audited
Basic and diluted earnings per share			
Profit after taxation attributable to shareholders ($NZ000's)	13,507	13,410	24,070
Weighted average number of shares on issue (000's)	101,410	97,871	97,871
Basic and diluted earnings per share (cents)	13.32	13.70	24.59

Shares on issue

As at 12 September 2016, the total number of ordinary shares on issue was 102,871,090 (2016: 97,871,090).

5. Property, plant and equipment

Acquisitions and disposals

During the half year ended 12 September 2016, the Group acquired assets with a total cost of $8.9 million (2016: $7.5 million) and disposed of assets with a total cost of $6.0 million (2016: $3.2 million). This excludes the assets acquired following the acquisition of QSR Pty Limited (refer to Note 7).

6. Related party transactions

Transactions with entities with key management or entities related to them

During the period the Group made the following:

- Citywest Corp Pty Ltd, of which Company director Stephen Copulos is a director, received rental payments of $205,000 from the Group, under an agreement to lease premises in Alexandria and Tamworth South, New South Wales, Australia to QSR Pty Limited.
- Acquired services totalling $15,000 (2016: $10,000) from AsureQuality Limited, a company of which Company director Hamish William Stevens is a director. There was $3,100 owing at balance date (2016: $3,400 owing).

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

7. Business combinations

On 27 April 2016 the Group acquired 100% of the shares of QSR Pty Limited ("QSR") for a net consideration of AUD$80 million. QSR is the largest KFC franchisee in New South Wales, Australia. It operates 42 stores in Sydney and rural New South Wales.

The acquisition is a strategic move into the Australian market, buying a well run profitable company which will provide a sound base for future expansion opportunities.

The transaction was partially settled by the issue of five million Restaurant Brands shares (at a set price of NZD$4.16) with the balance in bank debt.

The following summarises the consideration paid for the company and the fair value of assets acquired and liabilities assumed at the acquisition date.

$NZ000's	
Net consideration	**89,405**
Net consideration made up as follows:	
Issue of shares	25,500
Cash paid	63,905
Total net consideration	**89,405**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	35,254
Intangibles	3,382
Deferred tax asset	2,019
Stock	450
Cash	6,248
Other receivables	1,052
Bank loans	(5,838)
Current liabilities	(16,457)
Term liabilities	(193)
Total identifiable assets and liabilities	**25,917**
Goodwill	**63,488**

Acquisition related costs of $2.5 million (the majority comprising stamp duty) have been classified as non-trading items in the statement of comprehensive income.

QSR contributed $43.6 million in sales revenue and $3.2 million in profit after taxation attributable to shareholders.

Had QSR's results been consolidated for the 28 week period ended 12 September 2016, QSR would have contributed $61.0 million in sales revenue and profit after taxation attributable to shareholders of $4.5 million.

Notes to the financial statements (continued)

For the 28 week period ended 12 September 2016 (2017 Half Year)

8. Loans

On 14 April 2016 the Company amended its existing secured bank facility. As part of that renewal the facility limit was increased from $35 million to $125 million and on similar terms.

9. Capital commitments

The Group has capital commitments totalling $3.4 million (2016: $6.7 million) which are not provided for in these financial statements.

10. Contingent liabilities

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (2016: nil).

11. Subsequent events

Business acquisitions

On 26 October 2016 the Group entered into a conditional agreement to purchase 100% of the shares in Pacific Island Restaurants Inc. ("PIR") for USD$105 million. PIR is the largest operator of quick service restaurants across Hawaii and also operates in Guam and Saipan. The business has 82 stores and operates under the Taco Bell and Pizza Hut brands. The transaction is subject to a number of conditions, including the approval from the franchisor, Yum! Restaurants International. The transaction is expected to settle in the fourth quarter of the 2017 financial year.

The USD$105 million purchase price will be partly funded through the issue of shares by a renounceable entitlement offer for approximately 60% of the purchase price with the remainder to be funded through debt.

The Group has entered into forward foreign exchange contracts to fix the exchange rate on USD$60 million.

Total group debt is expected to be NZD$135 million after the transaction.

Following the acquisition the Group expects to generate annual turnover in excess of NZD$680 million with an EBITDA in excess of NZD$90 million (at USD 0.70 and AUD 0.93). One-off transaction costs of NZD$0.5 million have been incurred to date and have been classified as non-trading items in the statement of comprehensive income. Further transaction costs will be incurred in the second half of the financial year.

Dividends

The directors have declared an interim dividend of 9.5 cents per share (2016: 8.5 cents) or $9.8 million (2016: $8.3 million). A supplementary dividend of 1.7 cents per share will be paid to overseas shareholders when the dividend is paid.

Independent review report

To the directors of Restaurant Brands New Zealand Limited

Report on the Interim Financial Statements

We have reviewed the accompanying financial statements of Restaurant Brands New Zealand Limited ("the Company") on pages 11 to 23, which comprise the statement of financial position as at 12 September 2016, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the period ended on that date, and a summary of significant accounting policies and selected explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors are responsible on behalf of the Company for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditors perform procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the area of other assurance services. The provision of these other services has not impaired our independence.

Independent review report (continued)

To the directors of Restaurant Brands New Zealand Limited

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Company are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Distribution or Use

This report is made solely to the Company's Directors, as a body. Our review work has been undertaken so that we might state to the Company's Directors those matters which we are required to state to them in our review 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 Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

26 October 2016

Corporate directory

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Sue Helen Suckling
Hamish William Stevens
Stephen Copulos
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Financial calendar

Interim dividend paid
8 November 2016

Financial year end
27 February 2017

Annual profit announcement
April 2017

KFC Super Rugby Fanzone
#ForTheFans

All social media references in this document are based on real posts by our customers. However, some posts have been recreated and names have been changed to preserve anonymity.

Notes


Eternal...
www.restaurantbrands.co.nz
13 February 2016
10,597
5,240
1,128