# APPETITE

Restaurant Brands New Zealand Ltd

2014 Annual Report

# OUR APPETITE FOR GROWTH CONTINUES THROUGH DESIRE, DESIGN & DRIVE

Restaurant Brands' capability in running and supporting franchise restaurant operations underpins a multi-faceted structure that keeps the business constantly growing and improving.

## Contents



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. 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.

# FINANCIAL HIGHLIGHTS

## HISTORICAL SUMMARY

| All figures in $NZm unless stated | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|
| Financial performance | | | | | | |
| Sales* | | | | | | |
| KFC | 211.5 | 223.2 | 235.8 | 236.3 | 237.0 | 241.5 |
| Pizza Hut | 64.6 | 64.2 | 59.3 | 45.5 | 47.9 | 48.4 |
| Starbucks Coffee | 33.0 | 30.5 | 29.3 | 26.5 | 25.1 | 25.0 |
| Carl's Jr. | – | – | – | – | 1.9 | 14.3 |
| Pizza Hut Victoria | 0.3 | – | – | – | – | – |
| **Total** | **309.4** | **317.8** | **324.4** | **308.2** | **311.9** | **329.3** |
| EBITDA before G&A* | | | | | | |
| KFC | 38.0 | 46.3 | 52.1 | 45.6 | 45.3 | 44.5 |
| Pizza Hut | 2.8 | 5.4 | 5.6 | 2.1 | 3.8 | 5.5 |
| Starbucks Coffee | 2.9 | 3.2 | 4.1 | 3.7 | 2.9 | 3.5 |
| Carl's Jr. | – | – | – | – | (0.5) | – |
| Pizza Hut Victoria | – | – | – | – | – | – |
| **Total** | **43.7** | **54.9** | **61.9** | **51.4** | **51.5** | **53.5** |
| EBIT | 15.6 | 29.2 | 35.0 | 24.4 | 22.7 | 28.2 |
| NPAT (reported) | 8.3 | 19.5 | 24.3 | 16.9 | 16.2 | 20.0 |
| NPAT (excluding non-trading) | 11.7 | 19.9 | 25.1 | 18.4 | 17.7 | 18.9 |
| Financial position/cash flow | | | | | | |
| Share capital | 25.6 | 25.8 | 26.6 | 26.6 | 26.7 | 26.8 |
| Total equity | 37.1 | 48.7 | 58.9 | 59.8 | 60.3 | 64.7 |
| Total assets | 101.1 | 103.0 | 111.4 | 104.9 | 111.8 | 108.3 |
| Operating cash flows | 23.3 | 38.7 | 40.6 | 29.8 | 34.8 | 32.7 |
| Shares | | | | | | |
| Shares on issue (year end) | 97,128,956 | 97,280,005 | 97,762,866 | 97,809,001 | 97,850,110 | 97,871,090 |
| Number of shareholders (year end) | 6,095 | 5,668 | 5,527 | 5,675 | 6,015 | 6,112 |
| Earnings per share (full year reported) | 8.5c | 20.1c | 24.9c | 17.3c | 16.5c | 20.4c |
| Ordinary dividend per share | 7.0c | 12.5c | 17.0c | 16.0c | 16.0c | 16.5c |
| Other | | | | | | |
| Number of stores (year end) | | | | | | |
| KFC | 84 | 85 | 89 | 88 | 89 | 90 |
| Pizza Hut | 93 | 91 | 82 | 71 | 57 | 51 |
| Starbucks Coffee | 42 | 41 | 37 | 35 | 29 | 27 |
| Carl's Jr. | – | – | – | – | 2 | 8 |
| **Total** | **219** | **217** | **208** | **194** | **177** | **176** |
| Employees (partners) paid (year end) | 4,526 | 4,735 | 4,374 | 3,909 | 3,725 | 3,691 |

* Sales and store EBITDA for each of the concepts may not aggregate to the total due to rounding.

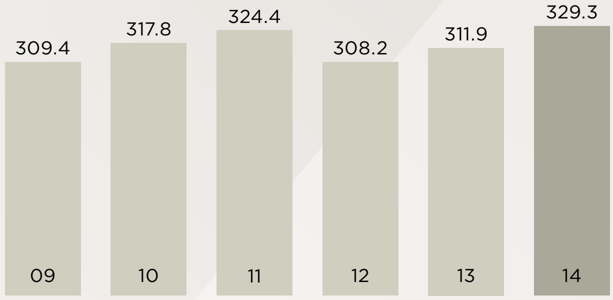
**CARL'S JR. CONTRIBUTING INCREMENTAL REVENUE OF**

**$12.4m**

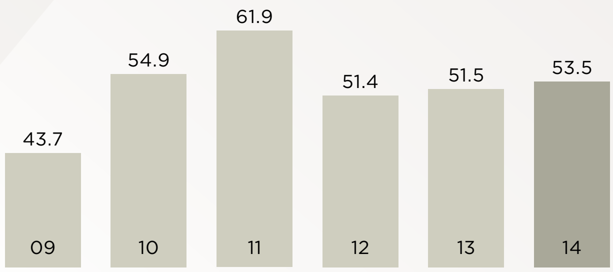
# YEAR IN REVIEW

- **Group Net Profit after Tax was $20.0 million (20.4 cents per share), up 23.5% on prior year.**
- **Group Net Profit after Tax (excluding non-trading items) was $18.9 million (19.3 cents per share), up 6.8% on prior year.**
- **Total Group Revenue of $330.4 million was up $17.6 million (+5.6%) with growth from KFC and the roll out of the Carl's Jr. brand.**
- **KFC sales continued to grow to a new high of $241.5 million despite competitive market conditions.**
- **Pizza Hut and Starbucks Coffee continued to deliver solid same store sales growth, up 15.3% and 5.7% respectively.**
- **The roll out of the new Carl's Jr. brand commenced in earnest with six new stores opened over the year, contributing $12.4 million in incremental revenue and bringing store numbers to eight.**
- **Total store EBITDA of $53.5 million was up $2.0 million (+3.9%) on the prior year with a continued strong performance by Pizza Hut and Starbucks Coffee, together with improved earnings from Carl's Jr. offsetting slightly reduced margins in KFC.**
- **Operating cash flows were $32.7 million, marginally down on prior year. Investing cash flows were $9.8 million favourable to the prior year with the impact of property sale and leasebacks and continued sell down of Pizza Hut stores. As a result bank debt fell to $8.1 million at year end.**
- **A final fully imputed dividend of 10.0 cents per share will be paid on 27 June, making a full year dividend of 16.5 cents (up 3.1% on the previous year).**

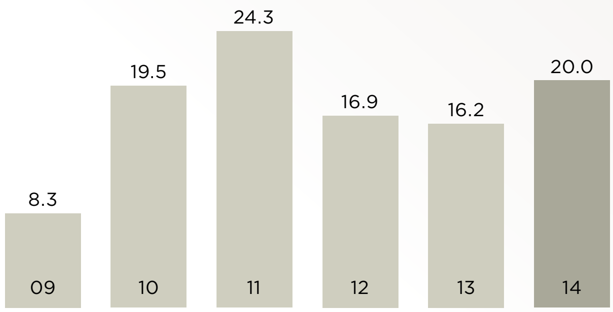
**TOTAL SALES**
**($NZ MILLIONS)**



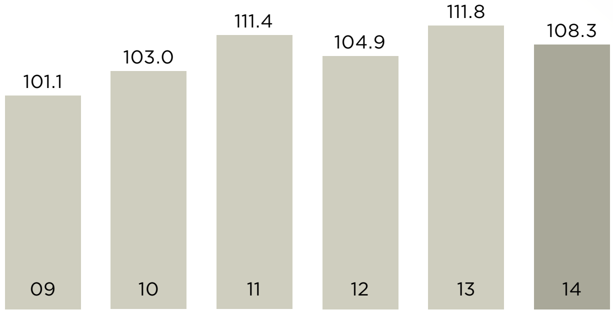

**TOTAL STORE EBITDA**
**($NZ MILLIONS)**




**TOTAL NPAT**
**($NZ MILLIONS)**



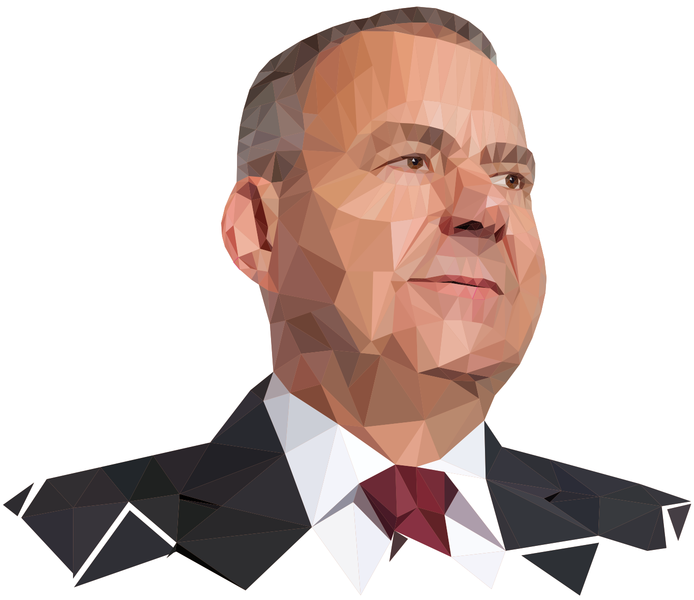

**TOTAL ASSETS**
**($NZ MILLIONS)**



# CHAIRMAN'S AND CHIEF EXECUTIVE'S REPORT TO SHAREHOLDERS

| | 2014 $m | 2013 $m | Change % |
|---|---|---|---|
| Total Group Revenue | 330.4 | 312.8 | +5.6 |
| Group Net Profit after Tax | 20.0 | 16.2 | +23.5 |
| Dividend (cps) | 16.5 | 16.0 | +3.1 |

**Ted van Arkel**
Chairman



We are pleased to report on the results for Restaurant Brands for the 2013/14 financial year (FY14); another challenging trading year, through which the company persevered to deliver the second best profit result in its 17 year history.

Over the FY14 year, Restaurant Brands faced two significant challenges. The first was preserving sales growth and margin retention in a very competitive marketplace and soft retail environment. The second was in establishing and building a new brand.

## Group Operating Results

Restaurant Brands Net Profit after Tax for the 52 weeks to 24 February 2014 (FY14) was $20.0 million (20.4 cents per share) up 23.5% on last year's profit of $16.2 million (16.5 cents per share).

Net Profit after Tax (excluding non-trading items) was $18.9 million (19.3 cents per share), up 6.8% on the $17.7 million (18.0 cents per share) result in FY13.

Non-trading items primarily comprised gains on sale and leaseback of stores and totalled $1.5 million (pre-tax) compared with non-trading losses of $2.4 million in the prior year.

**Russel Creedy**
Chief Executive Officer

Total store sales of $329.3 million were up $17.4 million (+5.6%) on the previous year's sales. Same store sales for the group were up 2.4% (up 1.9% in FY13).

Store EBITDA (before G&A costs) was up by $2.0 million (+3.9%) to $53.5 million, driven mainly by the continuing strong turnaround in Pizza Hut's results. Pizza Hut continued to be the standout performer for the year increasing EBITDA by $1.7 million (on top of $1.7 million in FY13) to $5.5 million. Starbucks Coffee also delivered a strong improvement in earnings, up 19.4% to $3.5 million for the year with Carl's Jr. breaking even (up $0.5 million on FY13). KFC saw profit slip slightly by $0.7 million to $44.5 million.

Year end store numbers at 176 were one down on February 2013 with continuing sales of regional Pizza Hut stores to independent franchisees, largely offset by new builds for Carl's Jr.

We review our individual brand performance below, but from an overall perspective, given their varying stages of development, we were pleased with the contribution of each brand to the performance of the group.

## KFC

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| Sales | 241.5 | 237.0 | +4.5 | +1.9 |
| EBITDA | 44.5 | 45.3 | -0.7 | -1.6 |
| EBITDA as % of Sales | 18.4 | 19.1 | - | - |

KFC sales continued to climb to yet another high at $241.5 million, up $4.5 million on the prior year. The soft retail environment and aggressive competitor activity put some pressure on sales during the first half, but the brand finished strongly with +4.1% same store sales growth in the last quarter and +0.2% for the full year (versus -1.0% in FY13).

Meeting competitor discounting activity put some pressure on margins with KFC producing an EBITDA of $44.5 million, 1.6% ($0.7 million) down on prior year. As a % of sales, brand EBITDA declined from 19.1% to 18.4%, but improved over the year from 17.7% in the first half to 19.3% in the second.

KFC promotional activity focussed on responding to competitor activity with the launch of the Value Menu. In addition KFC customers enjoyed the launch of new burger variants, including the *Kentucky,* the *Mexican* and the *Real Kahuna* burgers and the new Family Meals menu.

The store transformation programme continued at a steady pace and will pick up again in the new year as the brand moves to fully complete the upgrade of its entire KFC network by FY16. As at balance date KFC had 71 of its 90 stores new or fully refurbished. Whilst only two stores (Otahuhu and Upper Hutt) received major upgrades, a further 21 stores saw minor (five-year) upgrades. Total store numbers increased to 90 with the opening of a new store at Auckland airport.

## Pizza Hut

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| Sales | 48.4 | 47.9 | +0.5 | +1.1 |
| EBITDA | 5.5 | 3.8 | +1.7 | +44.8 |
| EBITDA as % of Sales | 11.4 | 7.9 | - | - |

Pizza Hut had another very strong year, continuing to deliver both sales and margin growth in a very competitive pizza market. The brand continues to build momentum on its underlying premise of selling quality pizzas at an everyday competitive price and maintaining high levels of customer service.

The transition of ownership programme continued with six stores being sold during the year. With six stores fewer than prior year, Pizza Hut still managed to increase total sales by $0.5 million (+1.1%) and grew same store sales by 15.3% (on top of 21.2% growth in the FY13 year).

Continuing improvements in sales volumes and better operational efficiencies, together with the sale of lower margin stores meant another excellent improvement in earnings. EBITDA was up a further $1.7 million (44.8%) on prior year, which was itself up $1.7 million (80.8%) on the year before. Resulting EBITDA was $5.5 million or 11.4% of sales (7.9% in FY13).

The sale of regional and lower volume stores to independent franchisees proceeded at a slower pace with only six sold over the year, leaving Restaurant Brands with a total of 51 stores out of a total of 84 in the market. Demand for the remaining stores continues to be strong.

## Starbucks Coffee

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| Sales | 25.0 | 25.1 | -0.1 | -0.3 |
| EBITDA | 3.5 | 2.9 | +0.6 | +19.4 |
| EBITDA as % of Sales | 14.0 | 11.7 | - | - |

The Starbucks Coffee brand continued to steadily improve its sales and profit performance with network rationalisation now largely complete and in-store efficiencies well established.

Whilst total Starbucks Coffee sales at $25.0 million were flat to prior year with two less stores, same store sales grew strongly to +5.7% (–1.7% in FY13).

Sales leverage and continuing operating efficiencies (with some assistance from a stronger exchange rate) saw Starbucks Coffee EBITDA increase to $3.5 million, up 19.4% on the prior year.

There are now 27 Starbucks Coffee stores operating following the closure of all non-performing stores and the brand is now well positioned for consolidation and future steady growth.

## Carl's Jr.

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| Sales | 14.3 | 1.9 | +12.4 | +662.2 |
| EBITDA | 0.0 | -0.5 | +0.5 | - |
| EBITDA as % of Sales | 0.0 | -26.4 | - | - |

This year saw the continuation of the roll out of the Carl's Jr. brand with a further six stores opening to add to the two opened at the end of the previous financial year.

New store openings produced significant sales surges, which have now settled back to more stable levels. Total sales for the year were $14.3 million as Carl's Jr. begins to build a presence in the Restaurant Brands' stable.

Bringing a new brand to market in a competitive environment has been a challenge in its first full year of operation. New store openings meant significant set up costs, particularly in recruiting and staff training. Moving to local sourcing of raw ingredients is taking longer than anticipated, but some benefits began to flow in the second half of the year. As a consequence, Carl's Jr. produced an EBITDA loss of $0.2 million in the first half, but turned this around to an equivalent profit in the second half, resulting in a breakeven position for the full year. The brand has also seen improved labour efficiencies and lower wastage as stores have begun to establish stable trading patterns.

Carl's Jr. is seen as a significant driver of potential growth for Restaurant Brands and it is intended to aggressively pursue both sales growth and margin improvements, overlaid with a continuing store roll out programme.

## Corporate and Other Costs

G&A (above store overheads) at $13.1 million were well controlled. They were $0.1 million down on prior year and on the targeted 4.0% of sales (4.2% in FY13).

Group non-trading gains of $1.5 million arose primarily from gains on sale following the successful sale and leaseback of two KFC stores and one Carl's Jr. store during the year. This compares with a $2.4 million non-trading loss in FY13.

Depreciation charges of $14.1 million were up $0.5 million on the prior year largely as a result of the Carl's Jr. new store roll out (an additional $0.8 million). Reduced depreciation charges in Pizza Hut and Starbucks Coffee with store disposals and closures were offset by an incremental $0.4 million in KFC with a new store and transformation expenditure.

Interest and funding costs at $0.8 million were flat to prior year with continuing lower debt levels and a benign interest rate environment. Bank interest rates (inclusive of margins) for the year averaged 4.9% compared with 5.0% in FY13.

## Cash Flow and Balance Sheet

Operating cash flows at $32.7 million were similar to the prior year, reflecting higher profitability but without the same benefit of favourable working capital movements.

Investing cash outflows were $22.5 million, similar to the prior year's $24.2 million, reflecting the increased capital expenditure in KFC and the cost associated with building an additional six Carl's Jr. stores. Investing receipts from the sale and leaseback of three new stores and Pizza Hut store sales, together with the last of the Christchurch insurance proceeds contributed positive investing cash inflows of $12.4 million (up $8.0 million on prior year) resulting in a net cash outflow of $10.1 million ($19.8 million in FY13).

The resulting free cash flows enabled a net reduction in borrowings of $6.5 million over the year and dividend payments of $16.1 million. Bank debt was down to $8.1 million at year end. Borrowings are expected to increase over the new year as the KFC transformation programme and Carl's Jr. new store build programme continues.

Our current banking facility with Westpac expires at the end of October; hence the debt is now classified as current on our balance sheet. It is our intention to roll this $35 million facility over for another three years.

**WE KEEP MOVING FORWARD BECAUSE WE HAVE PROVEN COMPETENCIES IN RESTAURANT OPERATIONS**

Total assets at year end were $108.3 million, $3.4 million down on the prior year end. The bulk of the change was in non-current assets, with three significant properties on the balance sheet in FY13 sold during the year as sale and leasebacks.

Total liabilities were down by $7.7 million to $43.7 million largely as a result of the reduction in borrowings.

Year end shareholders' funds of $64.7 million were $4.3 million up on prior year because of increases in retained earnings.

The balance sheet remains very conservative with a gearing ratio of 11% (FY13: 19%).

## Dividend

Directors have declared a final fully imputed dividend of 10.0 cents per share. The continuing strong cash flows and low levels of debt mean that dividend levels have been able to be increased slightly on last year's with the resultant full-year dividend of 16.5 cents per share (16.0 cents in FY13).

The 10.0 cents final dividend will be paid on 27 June 2014 to all shareholders on the register as at 13 June 2014. A supplementary dividend of 1.7647 cents per share will also be paid to overseas shareholders on that date.

The dividend re-investment plan remains suspended for this dividend.

## Staff

Restaurant Brands continues to aspire to be an employer of choice, having competent and well-motivated people to deliver on our brand promises. We have instituted continuing improvements in our people hiring, training and development processes including continuing enhancements of our centralised recruitment function and developing an online training capability to deliver a consistent training experience across and within our brands.

We acknowledge the staff at all levels of the organisation for their contribution, commitment and continuing hard work.

**OPERATING CASH FLOWS**

**$32.7m**

**WE KEEP MOVING FORWARD BECAUSE WE HAVE EXCELLENT SYSTEMS AND SUPPORT**

## Board

The Restaurant Brands board is small (only four members) and has been very stable. The board has worked well together and with management over the past four years. Directors are however conscious of the need to refresh board membership and to that end have undertaken a comprehensive search and selection process for a new director. As a result they are recommending to shareholders that Hamish Stevens be elected to the board at the forthcoming shareholders' meeting. Hamish's details are contained in the notice of meeting. Directors believe that this new appointment will provide more depth to the board and allow for subsequent rotation of members.

## Our Community

Elsewhere in this report we talk about Restaurant Brands' sense of corporate social responsibility and values. We remain committed to doing business on a sustainable basis and supporting our people and the communities we serve.

Workplace safety and diversity of our workforce are two areas of constant focus which, together with our staff turnover, give us and our shareholders real measures of inherent staff satisfaction.

Our contributions to the community are also seen as an important part of our social responsibility outputs and to that end we are particularly proud of our partnership with Surf Lifesaving New Zealand. That worthwhile community cause benefitted from our donations and fundraising activities by in excess of $160,000 over the past twelve months with World Hunger relief benefitting by a further $60,000.

We are also pro-actively seeking to reduce our impact on the environment with recycling and energy conservation activities.

## Outlook

Directors believe that the $18.9 million NPAT (excluding non-trading) was a solid result for the company given the current economic and competitive environment.

The retail sector was not particularly robust in the first half of the year and competitive activity was aggressive.

The company met the dual challenges of both maintaining market share and margin in a competitive environment whilst building a new brand and Restaurant Brands will be in a strong position to benefit from the general economic recovery in the coming year.

KFC will see significant capital investment over the new financial year as the brand focuses on bringing the remainder of its network up to new store standard. With some management changes and a renewed focus on operational performance, the brand is expected to deliver both sales and margin growth in the FY15 year.

Pizza Hut will continue to maintain its sales and margin momentum with another year of solid same store sales and earnings growth anticipated. The ownership transition process to independent franchisees will continue, albeit at a slower pace.

Starbucks Coffee, like Pizza Hut, continues to perform well and is expected to also benefit from the economic recovery with continued sales growth and (assisted by sales leverage and a strong exchange rate) higher profit.

The investment in the Carl's Jr. brand will continue over the new year with four to five new stores anticipated over the next 12 months. As with any new brand there will be challenges in both maintaining sales momentum following new opening peaks and building margins as new store set up costs are incurred and the benefits of localising supply chain and store efficiencies are realised.

With a strong start to the new financial year and improving economic situation, we are cautiously optimistic that the company will produce a NPAT (before non-trading items) in excess of $20 million for the new year.

## Conclusion

This is the first time we have jointly reported to shareholders on the company's performance, demonstrating the closeness with which board and management work together. We jointly acknowledge the contribution made by both the board of directors and the management team to the positive outcome for the FY14 year and thank them for their continuing support as we move into a new financial year.

**FULL YEAR DIVIDEND UP 3.1% TO**

# 16.5 CENTS PER SHARE

# THE DRIVE TO WIN COMES FROM WITHIN

It's what you can't see – the support structures, the systems and the behind-the-scenes capability performed by highly competent and motivated staff – that constitutes the engine of our growing business. Each function in our operation is interdependent in a uniquely effective 'eco-system' that is fundamental to our continued success. Here, we spotlight nine of those critical functions.

## PROCUREMENT

Take Procurement. A traditional view might be that this role is all about negotiating with suppliers to keep costs down. But that's far from the whole story. As Procurement Manager Sean McRae puts it, "the role is about adding value to the business and to customers."

So let's say Marketing comes up with a great idea for a new, temporary menu item (called an LTO or limited time offer). And let's also say that unknown to Marketing, one of the ingredients would make the item too expensive to be competitive. Is that the end of Marketing's great idea?

No way! says Sean. "We have lots of ways to bring the cost down without compromising quality. We might negotiate specific business deals with certain suppliers, say. Or we might suggest a variation on the item using a different ingredient. However we do it, our work allows our marketers to present attractive, innovative offers to our customers."

It also allows the Operations department to keep the business running. Every day, Restaurant Brands stores go through thousands of items of ingredients, packaging and other supplies, many of them perishable. "In this business, even the best laid plans can go awry, and we have to be able to respond quickly," says Sean. "That means we need to negotiate enough flexibility in our supplier deals so we can speed up or slow down any part of the supply chain as needed."

## QUALITY ASSURANCE

As you can imagine, keeping food at its best is critical to Restaurant Brands' success. That complex task falls mainly to our Quality Assurance team.

"There are many aspects of Quality Assurance," says Quality Assurance Manager Zane Marshall. "First, we have to make sure that the products our suppliers deliver to us actually meet our specifications. That includes temperature control and ingredient purity, but also covers things like the dimensions of buns. Customers expect a consistent experience every time they order a product from us."

Compliance is another big part of the job. Because some of our ingredients are imported, Restaurant Brands must meet stringent import requirements as well as council

**Procurement**

**Our work allows our marketers to present attractive, innovative offers to our customers.**

**Sean McRae**
Procurement Manager

**Quality Assurance**

**I have thousands of photos of products and ingredients on my smart phone. We're always looking for the best possible product from our suppliers.**

**Zane Marshall**
Quality Assurance Manager

gradings for each store. Our suppliers, too, must be regularly audited and, in some cases, be independently accredited.

Quality Assurance is about both health – making sure every mouthful of our food is safe to eat – and also pleasure. "I have thousands of photos of products and ingredients on my smart phone," says Zane, "because we're always looking for the best possible product from our suppliers."

But what about once the product reaches the store? How it's subsequently handled and cooked has a massive impact on its quality by the time it reaches the customer.

## HEALTH, SAFETY & ENVIRONMENT

Coupled with Restaurant Brands' stringent Food Control Plan, the result is "a lot of quality control," says Heather Carnegie, Health, Safety & Environment (HS&E) Manager.

"One of our strengths," says Heather, "is the orientation and induction programme that every new staff member completes, covering general safety, hazard management, injury prevention, team work, customer service and food safety."

The HS&E team is also responsible, of course, for "making sure we send people home in the same condition that they arrived at work in." We achieve that by a combination of team work and training to ensure a safe work environment.

For example, "when we reviewed the standard educational videos and brochures that showed lifting, we concluded the material was not appropriate for our environment," says Heather. "So we worked with experts to design our own material, and have trained 400 staff in the correct techniques. In the six months since, not one has suffered a lifting injury."

At Restaurant Brands we regularly develop our own bespoke equipment to minimise risk, like the long-handled lifting tool that allows staff to remove items from the oven safely.

Thanks to such initiatives, Restaurant Brands has been steadily reducing ACC claims and severity for the last ten years, and the current lost time injury rate continues to fall.

Of course that wouldn't happen if we didn't have people who value safety. Ensuring we choose the right people, and do so fairly, is the job of the Recruitment Centre team.

"Our business is all about people," says Recruitment Centre Manager Kristy Evans. "Profits will come if they're taken care of."

## RECRUITMENT

In 2012, recruitment was centralised after many years of being handled separately by each store. "We want to ensure Restaurant Brands follows international best practice recruitment and selection processes and that we attract the best quality candidates," says Kristy. "Stores tell us they're noticing that they're getting better people."

One result is a better customer experience. "We want to make sure every customer is a returning customer," says Kristy. "That means we need the right people who care about the brand. We want to bring life and energy to each customer experience."

**Health, Safety & Environment**

**We recently trained 400 staff in correct lifting techniques. In the six months since then, not one of them has suffered a lifting injury.**

**Heather Carnegie**
HS&E Manager

**Recruitment**

**Our business is all about people. Profits will come if they're taken care of.**

**Kristy Evans**
Recruitment Centre Manager

While customers always notice good service, one aspect of our business we hope they don't notice is the systems that run in the background.

## INFORMATION SYSTEMS

Ensuring they run smoothly and seamlessly is the Information Systems Service Delivery team. "One of our most important measures is speed of customer service," says team leader Dean Boock. "You'd be surprised at some of the issues that can arise. For example, if our Internet Service Provider suffers a data outage, that can interrupt our EFTPOS, even though our own systems are not directly affected."

One key to success is constantly updating the software that runs everything. Another is improved monitoring – an area Dean's team has focused on in the last 12 months.

"We used to solve a lot of problems after the fact," he says. "Now we anticipate them much more and resolve them before they occur or, if they happen overnight, before the stores open."

Another team member whose job includes anticipating the unexpected is Project Manager Mark Erceg. Every time a new Restaurant Brands store goes up, or one is refurbished, the Project Manager's signature is all over it.

"This role is all about the design and build of our stores," says Mark. "One of the challenges is anticipating changes that lie years ahead, and that might call for a radically different store layout."

For that reason, modern stores are built from materials that are easily dismantled or reworked. "Not concrete slabs," says Mark. "You can't cut a hole in that!"

## PROPERTY

The launch of Carl's Jr. has kept the Project Management crew especially busy. "We had to learn the brand and its design criteria," says Mark. "Then we negotiated with the American franchise owners to put our own New Zealand 'tag' on the design, so the stores would appeal to the local market.

"Ultimately, our job is to hand over a store on time and on budget – and one that Operations can successfully run."

Once a store is opened, we can't assume people will automatically flock to it. Marketing plays a critical role in encouraging hungry people to think of Restaurant Brands first, and the role of digital marketing, in particular, is increasing by the day.

"People automatically think Facebook when you say 'digital marketing', but it's much more than that," says Digital Marketing Manager Luke Smith. "Website maintenance, digital advertising, gathering brand and product insights and tracking industry trends are all key. Digital is ever changing and demands constant attention in order to keep your finger on the pulse.

## MARKETING

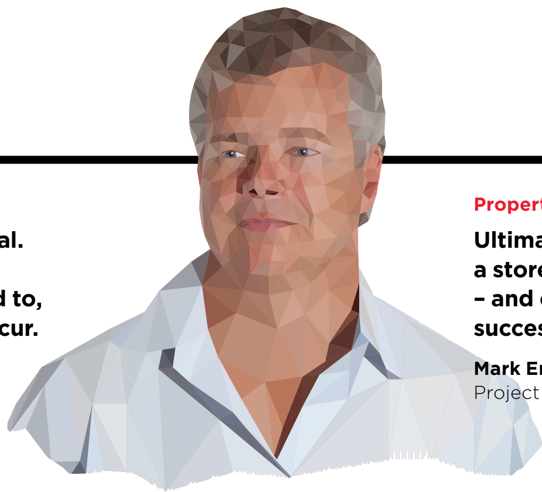
"Marketing has changed dramatically in the last few years. Now we can spot problems and opportunities quickly – we can launch a new menu item, say, and see that people want more sauce on it. In terms of online presence in New Zealand all four of our brands are in the top 50 by number of fans, with KFC in particular sitting in third place and we're committed to using digital marketing to keep customers returning."

The final two pieces of the business, Loss Prevention and Finance, are critical to Restaurant Brands' profitability. Doug Rawson, our Loss Prevention Officer, uses an analogy: "Every time money passes from one hand to another, it's like passing sand – some's going to get lost. Our job is to minimise that loss."

**Information Systems**

**Speed of customer service is critical. For that reason, we're anticipating problems much more than we used to, and resolving them before they occur.**

**Dean Boock**
Service Delivery Manager



**Property**

**Ultimately, our job is to hand over a store on time and on budget – and one that Operations can successfully run.**

**Mark Erceg**
Project Manager

# WE KEEP MOVING FORWARD BECAUSE OUR PEOPLE ARE MOTIVATED AND CAPABLE

**Finance**

**Ultimately, our job is to help the stores do their job well – deliver great products and great service.**

**Deb Aston**
Assistant Accountant

## LOSS PREVENTION

Loss Prevention and Finance serve both the Restaurant Brands' board and the stores. "We're seen as a support role," says Doug, "not as the police. We coach our store partners on how to implement and operate systems that prevent loss or fraud. A common comment from store managers after we've coached them is 'I can now see what's happening in the store'."

One of the most useful tools to Loss Prevention is each store's Profit & Loss statement. "Whenever there's a significant variation in the trading results for any store, that's a sign that something's amiss: it could be the cost of labour, excess wastage, too many refunds or, in rare cases, fraud," says Doug.

## FINANCE

To get that information, Loss Prevention relies on Finance. Deb Aston, who prepares the Profit & Loss statements and Balance Sheets for the stores and company, says the role reaches further than people might think. "Ultimately, our job is to help the stores do their job well – deliver great products and great service."

That's a complex task. It includes reviewing contracts, budgets and internal processes, as well as regularly reviewing financial data. "We look at those things from a store, brand and group level," says Deb, "so that management has the information they need to make sound financial decisions.

"How you present that information is important. My main 'customers' are the senior leadership team and the store managers. They count on us to not only provide historical information and manage financial risk but also highlight cost saving opportunities so our stores can perform at their best – it's all about continuous improvement."

So there you have it. Next time you walk up to the counter at a KFC, Starbucks Coffee, Carl's Jr. or Pizza Hut store and are greeted by one of our efficient, friendly crew, imagine if you will a long line of support crew stretched out behind her. Picture each one performing a specific task, and see those tasks combining in such a way that they result in her handing you a hot, tasty beverage, or a delicious meal, as though it's the simplest and easiest thing in the world.

That's the power of teamwork. And it's what will ensure the continued growth and success of our company.

**Marketing**

**People automatically think Facebook when you say 'digital marketing', but it's much more than that.**

**Luke Smith**
Digital Marketing Manager

**Loss Prevention**

**Every time money passes from one hand to another, it's like passing sand – some's going to get lost. Our job is to minimise that loss.**

**Doug Rawson**
Loss Prevention Officer

# KFC

## SALES NEW HIGH
**$241.5m**

For KFC the FY14 financial year was a challenging one. A persistently soft retail environment and continued aggressive price driven competitor activity meant that same store sales were flat to negative for much of the year. Same store sales by quarter were Q1 –0.9%, Q2 +0.4%, Q3 –2.7% and it wasn't until the fourth quarter that the brand saw a solid turnaround with sales up +4.1%. Nonetheless, KFC finished the year with overall positive same store sales of +0.2% (FY13 –1.0%) and total sales climbed to a new high for the brand at $241.5 million, up 1.9% on prior year.

**STAFF**
# 2,249

**STORES**
# 90 (+8 INDEPENDENT FRANCHISES)

Total sales growth was assisted by the opening of a new store at Auckland airport bringing total store numbers to 90 for the brand.

Brand EBITDA at $44.5 million was slightly down on prior year mainly because of the competitive discounting activity required to meet the market. Earnings improved however, as the year progressed. EBITDA as a % of sales was 17.7% in the first half, climbing to 19.3% in the second, to give a total of 18.4% for the full year.

A number of new burger launches assisted in driving sales with the *Kentucky*, the *Mexican* and the *Real Kahuna* burgers all seeing strong customer acceptance. Over the year KFC also launched a new Family Meals menu which assisted in driving bigger ticket sales.

The pace of store transformation steadied over FY14 with two major transformations being undertaken at the Otahuhu and Upper Hutt stores. However a total of 21 five year upgrades were undertaken on existing transformed stores, topping up the standard of facilities on an ongoing basis. Store numbers also increased with the opening of a new store at Auckland airport. Of the brand's 90 stores, at balance date, 71 were new or fully refurbished.

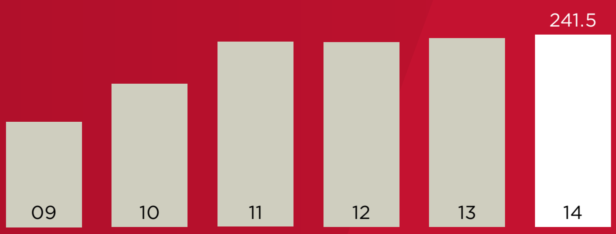
Despite the tighter trading environment KFC continued to build on improving customer experience. CHAMPS mystery shopper programme scores were 90%, similar to the prior year's 91%.

Staff turnover continued to steadily improve with the brand finishing the year at 49%, a solid improvement on last year's 57% as the benefits of the new centralised recruiting function continue to flow through.

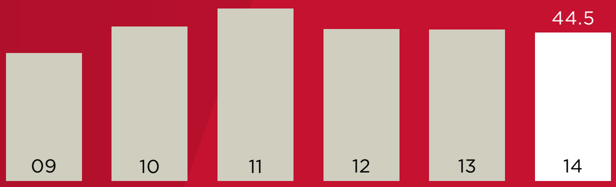
The brand saw a higher level of focus on reducing accidents in stores with total claims down to 147 for the year; however 16 lost time injuries per million hours were much the same as the prior year's 15.

As the FY15 year begins, KFC has seen continued sales momentum, which (as discounting pressures decrease and the retail environment improves) will continue to enhance margins, moving the brand closer to its EBITDA target of 19-20% of sales. KFC will also accelerate its store transformation programme over the current year, targeting up to 10 major transformations, with a view to completing the major transformation programme by the end of the FY16 year.

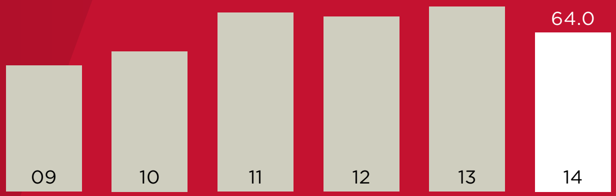
**TOTAL SALES ($NZ MILLIONS)**




**TOTAL EBITDA ($NZ MILLIONS)**




**TOTAL ASSETS ($NZ MILLIONS)**



# PIZZA HUT

**SAME STORE SALES**

# UP 15.3%

The Pizza Hut brand had another very good year, delivering continued strong sales and margin growth in the very competitive pizza sector. The formula of providing quality pizzas at a competitive everyday price and good levels of customer service continues to produce positive results.

**STAFF**

# 790

**STORES**

# 51 (+33 INDEPENDENT FRANCHISES)

Despite having store numbers six (10.5%) less than last year as a result of the sell down programme, Pizza Hut still managed to increase total sales out of the remaining stores by $0.5 million (+1.1%) and grew same store sales by a respectable 15.3% (on top of 21.2% growth in the prior year).

Margin growth followed accordingly with continuing sales leverage and operational efficiencies, together with the benefits of selling off some lower margin stores. Brand EBITDA of $5.5 million was up $1.7 million (44.8%) on prior year, on top of the $1.7 million increase in FY13. As a % of sales Pizza Hut EBITDA finished the year at 11.4%, up from 7.9% in the prior year.

Customer service levels as measured by the CHAMPS mystery shopper scores slipped slightly to 91% (versus 96% in the prior year and 91% the year before). However the trend was positive with scores in the latter part of the year at similar levels to the prior year.

The measure of internal store operational compliance (CER score) was 77% for the year (73% in FY13). This measure, which is significant in determining the operating efficiencies and food quality in our stores, has seen a consistent improvement over recent times.

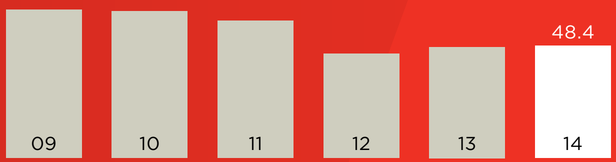
Staff turnover was 55%, slightly up on the prior year's 54%, but was in part a reflection of the continued store sell down process.

Pizza Hut saw a decrease in total accident claims as the brand made a conscious effort to improve staff safety. However lost time injuries per million hours saw a small increase from three to five.

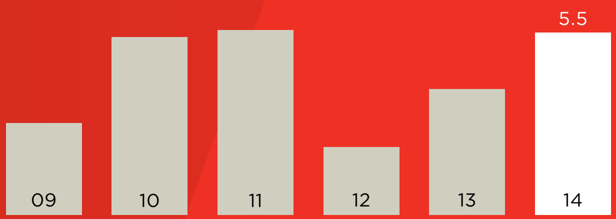
Six more stores were sold to independent franchisees over the year as the brand continued to pursue the strategy of exiting regional and lower volume stores. Whilst interest in buying Pizza Hut stores continues to be very high, the pace of selling has slowed with the improved profitability of the brand meaning higher prices being sought for stores. Company owned stores had dropped to 51 by the end of the year, out of a total of 84 in the market.

Pizza Hut has seen a continuation of the strong sales and margin performance into the FY15 financial year and is expected to deliver another solid result (although not at the incremental levels seen in the past two years). There will be continued sales of stores to independent franchisees as and when opportunities present.

**TOTAL SALES ($NZ MILLIONS)**




**TOTAL EBITDA ($NZ MILLIONS)**

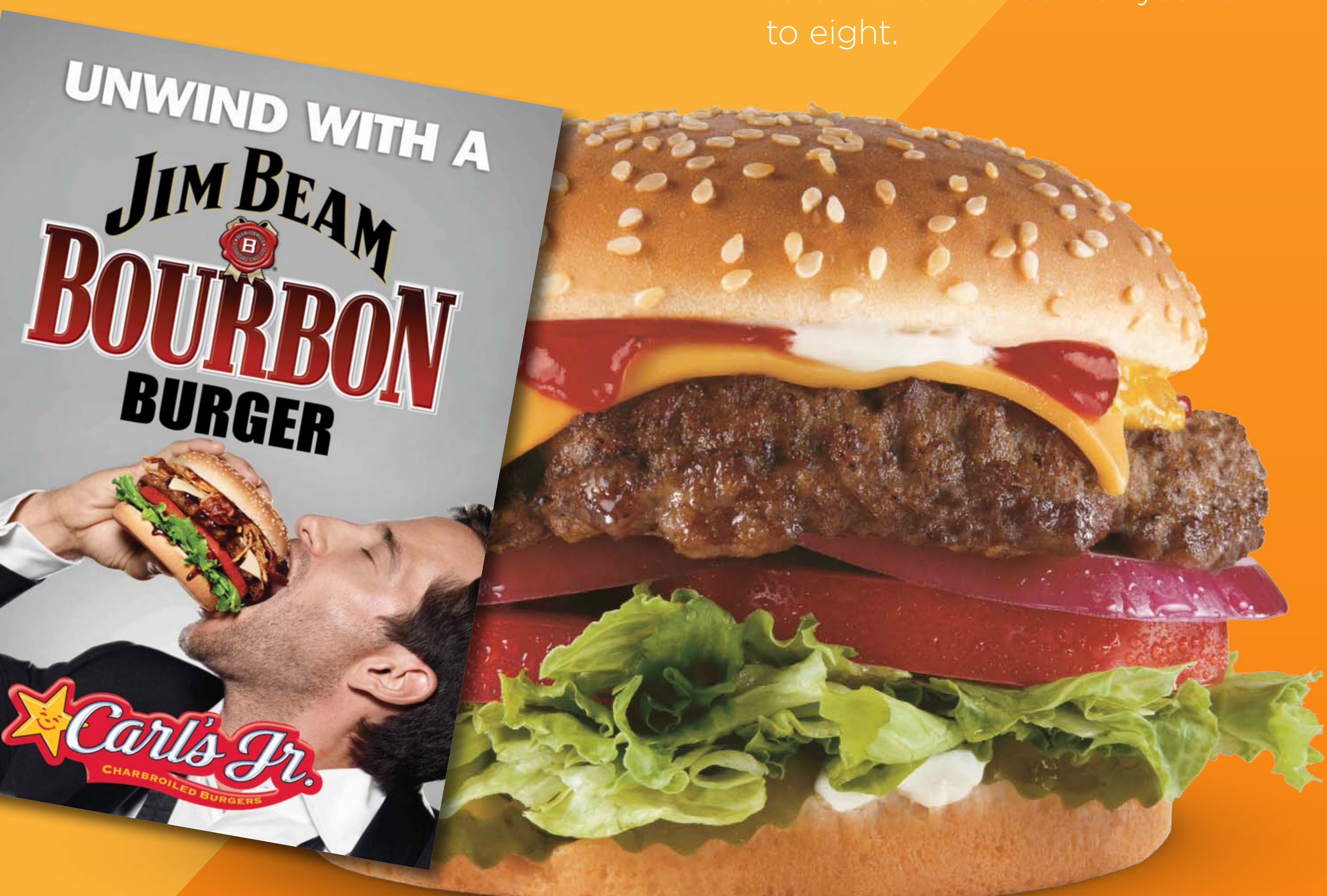



**TOTAL ASSETS ($NZ MILLIONS)**

# CARL'S JR.

OPENED
## 6 NEW STORES

Following the opening of the first two stores at the end of last year, the Carl's Jr. new store roll out began in earnest in the FY14 year with a total of six new stores opening over the period, bringing total store numbers at year end to eight.



**STAFF**

# 271

**STORES**

# 8 (+7 INDEPENDENT FRANCHISES)

The incremental store numbers provided a significant boost to total sales with Carl's Jr. generating $14.3 million in total sales for the year.

New store openings produced significant sales surges, which have now settled back to more stable levels.

Building profitability in this new business has been a challenge in its first full year of operation with new store openings incurring significant set up costs, particularly in recruiting and training staff. Local sourcing of raw ingredients such as beef patties took somewhat longer than anticipated, but some benefits began to flow in the second half of the year. As a consequence, Carl's Jr. produced an EBITDA loss of $0.2 million in the first half, but turned this around to an equivalent profit in the second half.

Margins have continued to improve further with lower ingredient costs. The brand has seen improved labour efficiencies and lower wastage as stores have begun to establish more stable trading patterns.

With the disruption and initial pressure in establishing a new brand, staff turnover was slightly higher than desirable at 60%, but this is expected to settle down as the business gains more stability.

Again as a function of establishment and staff training and learning, accident levels were higher than desirable with 11 claims incurred over the year.

The new financial year will see the Carl's Jr. brand gaining further momentum with another four to five stores targeted for opening, bringing total stores operating in New Zealand to more than 20. This will both provide more critical mass for wider advertising of the brand, together with increasing economies of scale from a supply chain and staff training viewpoint. This together with the progressive move to full local ingredient sourcing is expected to deliver positive EBITDA in the FY15 year.

**TOTAL SALES ($NZ MILLIONS)**


**TOTAL EBITDA ($NZ MILLIONS)**


**TOTAL ASSETS ($NZ MILLIONS)**

# STARBUCKS COFFEE

**SAME STORE SALES**

# UP 5.7%


**STAFF**
# 314

**STORES**
# 27 (+NIL INDEPENDENT FRANCHISES)

The Starbucks Coffee brand had a strong year, following a year of consolidation. Same store sales grew +5.7% (versus –1.7% in FY13) with total sales largely flat at $25.0 million.

The Starbucks Coffee business has now matured and established itself in a niche position among branded chains in the New Zealand coffee marketplace. With increasingly good standards of customer service and a quality coffee and food offering, Starbucks Coffee proved itself by winning the prestigious Roy Morgan Customer Satisfaction Award for the second year in a row. This award which is voted on by consumers throughout the country ranked Starbucks as "Coffee Shop" of the year against the full range of other branded coffee chains.

With the improving same store sales and the completion of rationalisation, earnings were up $0.6 million or 19.4% to produce a $3.5 million EBITDA. The profit was further assisted by continuing operating efficiencies and a stronger exchange rate.

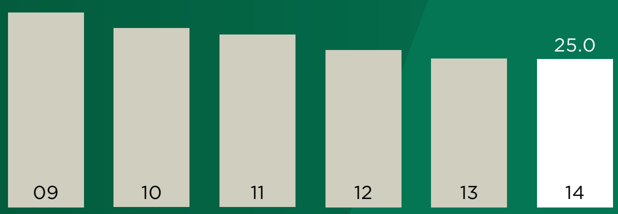
Store numbers at year end totalled 27, two down on last year with two closures over the year. The network rationalisation for the brand is now largely complete with all stores now contributing positive margins.

Staff (or partner) turnover at 66% was down on last year's 70% as a result of the benefits of centralised recruitment.

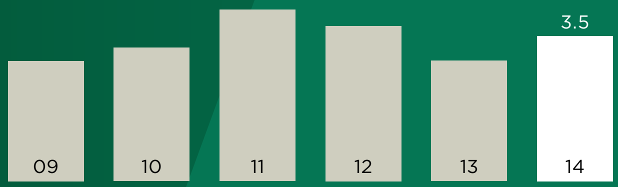
Accident levels improved with a reduction in total claims from 15 to 9, but lost time claims per million hours were three versus two in the previous year.

After a period of some uncertainty and rationalisation, the Starbucks Coffee brand is now in a stable position for steady growth. It is expected to deliver same store sales growth over the coming year whilst holding margin. There will be some capital reinvestment in store refurbishment and a point of sale systems upgrade.

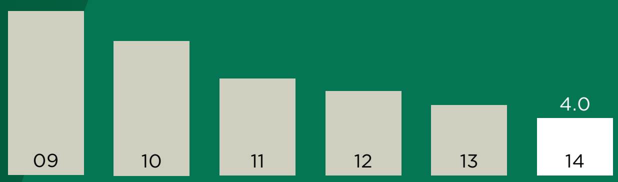
**TOTAL SALES ($NZ MILLIONS)**




**TOTAL EBITDA ($NZ MILLIONS)**




**TOTAL ASSETS ($NZ MILLIONS)**



## WE KEEP MOVING FORWARD BECAUSE WE HAVE STRONG DIRECTION

**Ted van Arkel**
FNZIM
Chairman and Independent Non-Executive Director

**Term of Office:** Appointed Director 24 September 2004 and appointed Chairman 21 July 2006, last re-elected 2011 Annual Meeting

**Board Committees:** Member of the Audit and Risk Committee and Appointments and Remuneration Committee

Mr van Arkel has been a professional director since retiring from the position of Managing Director of Progressive Enterprises Limited in November 2004. Mr van Arkel currently serves as Chairman of Health Benefits Limited and The Warehouse Group Limited. Other NZX listed company directorships are AWF Group Limited and Abano Healthcare Group Limited. He is also a director of the Auckland Regional Chamber of Commerce & Industry Limited. Mr van Arkel also serves as a director of a number of private companies including Philip Yates Securities Limited, Danske Mobler Limited and his family-owned companies Lang Properties Limited and Van Arkel & Co Limited.

**Sue H Suckling**

B.TECH (HONS), M.TECH (HONS), OBE

Independent Non-Executive Director

**Term of Office:** Appointed Director 9 June 2006, last re-elected 2010 Annual Meeting

**Board Committees:** Chairman of the Appointments and Remuneration Committee and Member of Audit and Risk Committee

Ms Suckling is a professional director with over 20 years governance experience with public and private companies. She is currently Chairman of the New Zealand Qualifications Authority, Barker Fruit Processors Limited, ECL Group Limited, Jacobsen Holdings Limited and Callaghan Innovation Research Limited and its subsidiaries. She is a director of Oxford Health Group Limited, Oxford Clinic Hospital Limited, SKYCITY Entertainment Group Limited, New Zealand Health Innovation Hub and Acemark Holdings Limited. She also serves as a member of the Takeovers Panel.

**Danny Diab**

FAICD, DIP CD, DIP CM, FICM

Non-Executive Director

**Term of Office:** Appointed Director 17 October 2002, last re-elected 2012 Annual Meeting

**Board Committees:** Member of the Audit and Risk Committee and Appointments and Remuneration Committee

Mr Diab is based in Australia where he owns and operates a number of Pizza Hut restaurants in Sydney in addition to other business interests. He has more than 27 years' experience in the food industry and is regarded as one of the leading Pizza Hut franchisees in Australia. He has worked as a consultant specialising in the areas of business improvement and restructure, mergers and acquisitions. He is a director of the Pizza Advertising Co-Operative Australia and Vice President of the Australian Pizza Association.

**David A Pilkington**

BSC, BE(CHEM), DIP DAIRY SCI & TECH

Independent Non-Executive Director

**Term of Office:** Appointed Director 15 July 2004, last re-elected 2013 Annual Meeting

**Board Committees:** Chairman of the Audit and Risk Committee and Member of Appointments and Remuneration Committee

The former Managing Director of New Zealand Milk Limited, Mr Pilkington is Chairman of Port of Tauranga Limited, Rangatira Limited and its subsidiaries Hellers Limited and Tuatara Brewing Company Limited. He is also a director of Ballance Agri-Nutrients Limited, Zespri Group Limited, Douglas Pharmaceuticals Limited, Northport Limited and Primeport Timaru Limited. Mr Pilkington is also a shareholder and director of his own consulting company, Excelsa Associates Limited and a trustee for the New Zealand Community Trust.

# COMMUNITY SPIRITED, SUSTAINABLY PRINCIPLED

Our vision is to be the leading operator of enduring and innovative QSR brands in New Zealand. That's why we're committed to doing business guided by principles of sustainability. These principles help form our menus and management practices; our people and the way we contribute to the communities we serve.


Four interdependent elements – People, Food, Planet and Progress – sustain the health and vitality of our company. This section of the Annual Report outlines our Corporate Social Responsibility KPIs for the financial year in relation to each of these elements.

## People

Restaurant Brands depends on the support of Kiwi consumers and partnerships with employees, suppliers, franchisees and investors. We employ 3,691 people aged from 16–70 nationwide and serve over 60,000 customers every day. We:

- **Offer competitive remuneration** to attract and retain skilled employees and maintain our position not to reintroduce youth rates.
- **Invest in our people** through training and education programmes across all our brands and provide a clear career path for talented employees.
- **Are an equal opportunity employer** and embrace the diversity of the communities that we operate in.
- **Continue our involvement** with charitable and community organisations and review our efforts on an ongoing basis to ensure they remain relevant and valuable to the communities we serve.


## Food

Restaurant Brands serves great tasting, safe food with seasonally and locally sourced ingredients. We:

- **Continue to make improvements** to the nutritional composition of our food with a focus on sodium, sugar and saturated fat reduction.
- **Provide detailed nutritional information** about our products in-store and online to enable our customers to make informed choices.
- **Support our trusted local suppliers** as part of our ethical purchasing and procurement.

## Planet

Restaurant Brands is conscious of the impact its operations has on the environment and we are always working to minimise waste, maximise energy efficiency and use resources carefully. We:

- **Source all packaging from sustainable timbers** with the majority grown locally.
- **Continue with initiatives** that see all cardboard and paper collected for recycling and cooking oil reprocessed for bio-diesel and soap.
- **Actively participate in energy saving initiatives** including monitoring live power usage in our stores to reduce peak load and encourage employees to turn off equipment when it's not in use.

**CUSTOMERS SERVED EVERY DAY**

**OVER 60,000**

**WE KEEP MOVING FORWARD BECAUSE WE ALWAYS REMEMBER WE ARE PART OF THE COMMUNITY**

## CSR Performance Measures

| Category | Measure | FY2014 |
|---|---|---|
| Workplace Safety | Number of Workplace Lost Time Incidents in Past 365 days | 51 |
| | Number of Lost Workdays from Injury in Past 365 Days | 167 |
| Staff Satisfaction | Staff Turnover (as a % of Average Total Staff on a Rolling Annual Basis) | 52% |
| Gender Diversity | % of Women Employed at All Levels | 52% |
| Community | Total Funds raised for Charitable and Community Organisations | $240,000 |
| Recycling | % of Cardboard and Paper Waste from Back of House Operations Recycled | 100% |
| | % of Oil from Back of House Operations Recycled | 100% |
| Energy Conservation | Kilowatts of energy used in electricity and gas per $ million of sales (excluding Restaurant Brands Support Centre) | 141,000 KW |

## More Information

A full copy of our CSR Statement can be found on our website **www.restaurantbrands.co.nz**

# CONSOLIDATED INCOME STATEMENT

for the 52 week period ended 24 February 2014

| $NZ000's | 24 February 2014 | vs prior % | 28 February 2013 |
|---|---|---|---|
| Sales | | | |
| KFC | 241,521 | 1.9 | 237,032 |
| Pizza Hut | 48,393 | 1.1 | 47,876 |
| Starbucks Coffee | 25,041 | (0.3) | 25,115 |
| Carl's Jr. | 14,314 | 662.2 | 1,878 |
| **Total sales** | **329,269** | 5.6 | **311,901** |
| Other revenue | 1,130 | 23.9 | 912 |
| **Total operating revenue** | **330,399** | 5.6 | **312,813** |
| Cost of goods sold | (273,493) | (6.0) | (258,081) |
| **Gross margin** | **56,906** | 4.0 | **54,732** |
| Distribution expenses | (2,464) | 7.8 | (2,672) |
| Marketing expenses | (14,656) | (6.9) | (13,716) |
| General and administration expenses | (13,088) | 0.9 | (13,203) |
| **EBIT before non-trading** | **26,698** | 6.2 | **25,141** |
| Non-trading | 1,472 | 161.2 | (2,405) |
| **EBIT** | **28,170** | 23.9 | **22,736** |
| Interest income | 19 | 46.2 | 13 |
| Interest expense | (774) | 9.0 | (851) |
| **Net profit before taxation** | **27,415** | 25.2 | **21,898** |
| Taxation expense | (7,462) | (30.0) | (5,739) |
| **Total profit after taxation (NPAT)** | **19,953** | 23.5 | **16,159** |
| **Total NPAT excluding non-trading** | **18,863** | 6.8 | **17,654** |

| | | % sales | | | % sales |
|---|---|---|---|---|---|
| EBITDA before G&A | | | | | |
| KFC | 44,529 | 18.4 | (1.6) | 45,272 | 19.1 |
| Pizza Hut | 5,496 | 11.4 | 44.8 | 3,796 | 7.9 |
| Starbucks Coffee | 3,498 | 14.0 | 19.4 | 2,929 | 11.7 |
| Carl's Jr. | 4 | – | n/a | (495) | (26.4) |
| **Total** | **53,527** | 16.3 | 3.9 | **51,502** | 16.5 |

| | | |
|---|---|---|
| Ratios | | |
| Net tangible assets per security (net tangible assets divided by number of shares) in cents | 47.2c | 42.5c |

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

# NON-GAAP FINANCIAL MEASURES

for the 52 week period ended 24 February 2014

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 four operating segments comprising KFC, Pizza Hut, Starbucks Coffee and Carl's Jr. 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.
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.
6. Capital expenditure including intangibles. Capital expenditure including intangibles represents additions to property, plant and equipment and intangible assets.

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.

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

| **$NZ000's** | Note* | **24 February 2014** | 28 February 2013 |
|---|---|---|---|
| **EBITDA before G&A** | 1 | **53,527** | **51,502** |
| Depreciation | | (14,114) | (13,573) |
| Loss on sale of property, plant and equipment (included in depreciation) | | (51) | (62) |
| Amortisation (included in cost of sales) | | (1,432) | (1,068) |
| General and administration – area managers, general managers and support centre | | (11,232) | (11,658) |
| **EBIT before non-trading** | 2 | **26,698** | **25,141** |
| **Non-trading items**** | 3 | **1,472** | **(2,405)** |
| **EBIT after non-trading items** | 4 | **28,170** | **22,736** |
| Net financing costs | | (755) | (838) |
| **Net profit before taxation** | | **27,415** | **21,898** |
| Income tax expense | | (7,462) | (5,739) |
| **Net profit after taxation** | | **19,953** | **16,159** |
| (Deduct)/add back non-trading items | | (1,472) | 2,405 |
| Taxation expense/(credit) on non-trading items | | 382 | (910) |
| **Net profit after taxation excluding non-trading items** | 5 | **18,863** | **17,654** |

* Refers to the list of non-GAAP measures as listed above.
** Refer to Note 5 of the financial statements for an analysis of non-trading items.

# THE DIRECTORS ARE PLEASED TO PRESENT THE FINANCIAL STATEMENTS OF RESTAURANT BRANDS NEW ZEALAND LIMITED FOR THE 52 WEEK PERIOD ENDED 24 FEBRUARY 2014 CONTAINED ON PAGES 30 TO 63.

For and on behalf of the Board of Directors:

**E K van Arkel**
Chairman

9 April 2014

**D A Pilkington**
Director

9 April 2014

## Statements of comprehensive income
for the 52 week period ended 24 February 2014

| $NZ000's | Note | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|---|
| Store sales revenue | 3 | **329,269** | 311,901 | **-** | - |
| Other revenue | 3, 4 | **1,130** | 912 | **16,158** | 15,652 |
| **Total operating revenue** | | **330,399** | 312,813 | **16,158** | 15,652 |
| Cost of goods sold | | **(273,493)** | (258,081) | **-** | - |
| **Gross profit** | | **56,906** | 54,732 | **16,158** | 15,652 |
| Distribution expenses | | **(2,464)** | (2,672) | **-** | - |
| Marketing expenses | | **(14,656)** | (13,716) | **-** | - |
| General and administration expenses | | **(13,088)** | (13,203) | **-** | - |
| **EBIT before non-trading** | | **26,698** | 25,141 | **16,158** | 15,652 |
| Non-trading | 5 | **1,472** | (2,405) | **-** | - |
| **Earnings before interest and taxation (EBIT)** | 3 | **28,170** | 22,736 | **16,158** | 15,652 |
| Interest revenue | | **19** | 13 | **-** | - |
| Interest expense | | **(774)** | (851) | **(733)** | (818) |
| Net financing expenses | 5 | **(755)** | (838) | **(733)** | (818) |
| **Profit before taxation** | | **27,415** | 21,898 | **15,425** | 14,834 |
| Taxation (expense)/credit | 6 | **(7,462)** | (5,739) | **205** | 229 |
| **Profit after taxation attributable to shareholders** | | **19,953** | 16,159 | **15,630** | 15,063 |
| Items that may be reclassified subsequently to the statement of comprehensive income | | **-** | - | **-** | - |
| **Total comprehensive income attributable to shareholders** | | **19,953** | 16,159 | **15,630** | 15,063 |
| | | | | | |
| **Basic earnings per share (cents)** | 18 | **20.39** | 16.52 | | |
| **Diluted earnings per share (cents)** | 18 | **20.39** | 16.51 | | |

The accompanying accounting policies and notes form an integral part of the financial statements.

**GROUP NET PROFIT AFTER TAX**

**UP 23.5%**

## Statements of changes in equity
for the 52 week period ended 24 February 2014

| Group $NZ000's | Note | Share capital | Share option reserve | Foreign currency translation reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| For the 52 week period ended 28 February 2013 | | | | | | |
| **Balance at the beginning of the period** | 17 | **26,648** | **28** | **53** | **33,024** | **59,753** |
| Comprehensive income | | | | | | |
| Total profit after taxation attributable to shareholders | | – | – | – | 16,159 | 16,159 |
| Other comprehensive income | | – | – | – | – | – |
| **Total comprehensive income** | | **–** | **–** | **–** | **16,159** | **16,159** |
| Transactions with owners | | | | | | |
| Shares issued on exercise of options | 17 | 75 | (2) | – | – | 73 |
| Net dividends distributed | 16 | – | – | – | (15,653) | (15,653) |
| **Total transactions with owners** | | **75** | **(2)** | **–** | **(15,653)** | **(15,580)** |
| **Balance at the end of the period** | 15, 17 | **26,723** | **26** | **53** | **33,530** | **60,332** |
| For the 52 week period ended 24 February 2014 | | | | | | |
| **Balance at the beginning of the period** | | **26,723** | **26** | **53** | **33,530** | **60,332** |
| Comprehensive income | | | | | | |
| Total profit after taxation attributable to shareholders | | – | – | – | 19,953 | 19,953 |
| Other comprehensive income | | – | – | – | – | – |
| **Total comprehensive income** | | **–** | **–** | **–** | **19,953** | **19,953** |
| Transactions with owners | | | | | | |
| Shares issued on exercise of options | 17 | 33 | (4) | – | – | 29 |
| Transfer for share options lapsed | | – | (22) | – | 22 | – |
| Net dividends distributed | 16 | – | – | – | (15,658) | (15,658) |
| **Total transactions with owners** | | **33** | **(26)** | **–** | **(15,636)** | **(15,629)** |
| **Balance at the end of the period** | 15, 17 | **26,756** | **–** | **53** | **37,847** | **64,656** |

The accompanying accounting policies and notes form an integral part of the financial statements.

## Statements of changes in equity (continued)

for the 52 week period ended 24 February 2014

| Company $NZ000's | Note | Share capital | Share option reserve | Retained deficit | Total |
|---|---|---|---|---|---|
| For the 52 week period ended 28 February 2013 | | | | | |
| **Balance at the beginning of the period** | 17 | **26,648** | **28** | **(24,879)** | **1,797** |
| Comprehensive income | | | | | |
| Profit after taxation attributable to shareholders | | – | – | 15,063 | 15,063 |
| Other comprehensive income | | – | – | – | – |
| **Total comprehensive income** | | **–** | **–** | **15,063** | **15,063** |
| Transactions with owners | | | | | |
| Shares issued on exercise of options | 17 | 75 | (2) | – | 73 |
| Net dividends distributed | 16 | – | – | (15,653) | (15,653) |
| **Total transactions with owners** | | **75** | **(2)** | **(15,653)** | **(15,580)** |
| **Balance at the end of the period** | 15, 17 | **26,723** | **26** | **(25,469)** | **1,280** |
| For the 52 week period ended 24 February 2014 | | | | | |
| **Balance at the beginning of the period** | | **26,723** | **26** | **(25,469)** | **1,280** |
| Comprehensive income | | | | | |
| Profit after taxation attributable to shareholders | | – | – | 15,630 | 15,630 |
| Other comprehensive income | | – | – | – | – |
| **Total comprehensive income** | | **–** | **–** | **15,630** | **15,630** |
| Transactions with owners | | | | | |
| Shares issued on exercise of options | 17 | 33 | (4) | – | 29 |
| Transfer for share options lapsed | | – | (22) | 22 | – |
| Net dividends distributed | 16 | – | – | (15,658) | (15,658) |
| **Total transactions with owners** | | **33** | **(26)** | **(15,636)** | **(15,629)** |
| **Balance at the end of the period** | 15, 17 | **26,756** | **–** | **(25,475)** | **1,281** |

The accompanying accounting policies and notes form an integral part of the financial statements.

## Statements of financial position
as at 24 February 2014

| $NZ000's | Note | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Property, plant and equipment | 7 | **80,231** | 85,651 | **–** | – |
| Investments in subsidiaries | 9 | **–** | – | **150,396** | 150,396 |
| Intangible assets | 8 | **18,424** | 18,785 | **–** | – |
| Deferred tax asset | 10 | **3,223** | 2,570 | **–** | – |
| **Total non-current assets** | | **101,878** | 107,006 | **150,396** | 150,396 |
| Current assets | | | | | |
| Inventories | 11 | **1,587** | 1,776 | **–** | – |
| Other receivables | 12 | **1,750** | 2,180 | **–** | – |
| Cash and cash equivalents | | **770** | 798 | **–** | 10 |
| Assets classified as held for sale | 13 | **2,353** | – | **–** | – |
| **Total current assets** | | **6,460** | 4,754 | **–** | 10 |
| **Total assets** | | **108,338** | 111,760 | **150,396** | 150,406 |
| Equity attributable to shareholders | | | | | |
| Share capital | 17 | **26,756** | 26,723 | **26,756** | 26,723 |
| Reserves | | **53** | 79 | **–** | 26 |
| Retained earnings/(deficit) | | **37,847** | 33,530 | **(25,475)** | (25,469) |
| **Total equity attributable to shareholders** | | **64,656** | 60,332 | **1,281** | 1,280 |
| Non-current liabilities | | | | | |
| Provisions and deferred income | 21 | **4,439** | 5,333 | **–** | – |
| Loans and finance leases | 19 | **131** | 14,783 | **–** | 14,555 |
| **Total non-current liabilities** | | **4,570** | 20,116 | **–** | 14,555 |
| Current liabilities | | | | | |
| Bank overdraft | | **–** | – | **903** | – |
| Income tax payable | | **2,726** | 2,475 | **–** | – |
| Loans and finance leases | 19 | **8,206** | 116 | **8,060** | – |
| Creditors and accruals | 20 | **26,595** | 26,445 | **116** | 116 |
| Provisions and deferred income | 21 | **1,579** | 2,090 | **–** | – |
| Amounts payable to subsidiary companies | 27 | **–** | – | **140,030** | 134,269 |
| Derivative financial instruments | 14 | **6** | 186 | **6** | 186 |
| **Total current liabilities** | | **39,112** | 31,312 | **149,115** | 134,571 |
| **Total liabilities** | | **43,682** | 51,428 | **149,115** | 149,126 |
| **Total equity and liabilities** | | **108,338** | 111,760 | **150,396** | 150,406 |

The accompanying accounting policies and notes form an integral part of the financial statements.

**BANK DEBT DOWN TO**

**$8.1m**

## Statements of cash flows
for the 52 week period ended 24 February 2014

| $NZ000's | Note | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Cash was provided by/(applied to): | | | | | |
| Receipts from customers | | **330,399** | 312,813 | **-** | - |
| Payments to suppliers and employees | | **(289,373)** | (271,923) | **-** | - |
| Dividends received | | **-** | - | **16,158** | 15,652 |
| Interest received | | **19** | 13 | **-** | - |
| Interest paid | | **(955)** | (899) | **(913)** | (868) |
| (Payment)/receipt of income tax | | **(7,438)** | (5,239) | **631** | 545 |
| **Net cash from operating activities** | 24 | **32,652** | 34,765 | **15,876** | 15,329 |
| Cash flows from investing activities | | | | | |
| Cash was provided by/(applied to): | | | | | |
| Payment for intangibles | 8 | **(1,841)** | (1,781) | **-** | - |
| Purchase of property, plant and equipment | | **(20,620)** | (22,406) | **-** | - |
| Proceeds from disposal of property, plant and equipment | | **12,398** | 4,355 | **-** | - |
| Advances from/(to) subsidiary company | | **-** | - | **5,761** | (276) |
| **Net cash (used in)/from investing activities** | | **(10,063)** | (19,832) | **5,761** | (276) |
| Cash flows from financing activities | | | | | |
| Cash was provided by/(applied to): | | | | | |
| Cash received on the exercise of options | | **29** | 73 | **29** | 73 |
| (Decrease)/increase in loans | 19 | **(6,495)** | 975 | **(6,495)** | 975 |
| (Decrease)/increase in finance leases | 19 | **(67)** | 85 | **-** | - |
| Dividends paid to shareholders | 16 | **(15,658)** | (15,653) | **(15,658)** | (15,653) |
| Supplementary dividends paid | | **(426)** | (315) | **(426)** | (315) |
| **Net cash used in financing activities** | | **(22,617)** | (14,835) | **(22,550)** | (14,920) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(28)** | 98 | **(913)** | 133 |
| Reconciliation of cash and cash equivalents | | | | | |
| **Cash and cash equivalents at the beginning of the period:** | | **798** | 700 | **10** | (123) |
| **Cash and cash equivalents at the end of the period:** | | | | | |
| Cash on hand | | **204** | 249 | **-** | - |
| Cash at bank/(bank overdraft) | | **566** | 549 | **(903)** | 10 |
| | 25 | **770** | 798 | **(903)** | 10 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(28)** | 98 | **(913)** | 133 |

The accompanying accounting policies and notes form an integral part of the financial statements.

## 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. The address of its registered office is Level 3, Building 7, Central Park, 666 Great South Road, Penrose, Auckland.

The Group and Company financial statements ("financial statements") were authorised for issue on 9 April 2014 by the Board of Directors who do not have the power to amend after issue.

## 2. Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### Basis of preparation

The financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Reporting Standards, NZ IFRIC interpretations, and other applicable Financial Reporting Standards, as appropriate for profit oriented entities. The financial statements comply with International Financial Reporting Standards ("IFRS") as issued by IASB.

The financial statements are presented in New Zealand dollars, rounded where necessary to the nearest thousand dollars. The Group divides its financial year into 13 four-week periods. The 2014 full year results are for 52 weeks (2013: 52 weeks).

### Entities reporting

The financial statements for the Group are the financial statements comprising the economic entity Restaurant Brands New Zealand Limited and its subsidiaries. The financial statements of the Parent are for the Company as a separate legal entity.

The Parent and the Group are designated as profit oriented entities for financial reporting purposes.

### Statutory base

The Company is listed on the New Zealand Stock Exchange ("NZX"). It is registered under the Companies Act 1993 and is an issuer in terms of the Financial Reporting Act 1993. The financial statements have been prepared in accordance with the requirements of the Financial Reporting Act 1993 and the Companies Act 1993.

### Historical cost convention

The financial statements have been prepared on the historical cost convention, except for financial derivatives which are stated at their fair value and are discussed further below.

### Critical accounting estimates and judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The estimates and assumptions that have a significant risk of causing material adjustment to the carrying value of assets and liabilities within the next financial year are addressed below.

(i) Goodwill impairment

As disclosed in Note 8, the Group undertook impairment testing of its operating divisions. Note 8 sets out the key assumptions used to determine the recoverable amount along with a sensitivity analysis.

## 2. Summary of significant accounting policies (continued)

### (a) Basis of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the statements of comprehensive income.

Intra-group balances and profits resulting from intra-group transactions are eliminated in preparing the financial statements.

### (b) Foreign currency translation

Items included in the financial statements are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in NZD, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit or loss. Amounts qualifying as cash flow hedges and qualifying net investment hedges are also recognised in the statements of comprehensive income.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to New Zealand dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to New Zealand dollars at exchange rates at the dates of the transactions.

Exchange differences arising from the translation of the net investment in foreign operations are recognised in the foreign currency translation reserve and are released to the statements of comprehensive income upon disposal.

### (c) Financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire or when the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled.

#### Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, which are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost, cash and cash equivalents, loans and borrowings (initially recognised at fair value plus transaction costs and subsequently measured at amortised cost), and creditors and accruals which are initially recognised at fair value and subsequently measured at amortised cost.

#### Derivative financial instruments

The Group has various derivative financial instruments to manage the exposures that arise due to movements in foreign currency exchange rates and interest rates arising from operational, financing and investment activities. The Group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value through the profit or loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

## 2. Summary of significant accounting policies (continued)

### (c) Financial instruments (continued)

#### Derivative financial instruments (continued)

Derivatives are recognised initially at fair value and attributable transaction costs are recognised in profit or loss when incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are accounted for as described below.

The fair value of forward exchange contracts is estimated by discounting the difference between the contractual forward price and the current forward price for the residual maturity of the contract using a risk-free interest rate (based on government bonds). The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

#### Fair value hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

#### Cash flow hedges

Changes in the fair value of the derivative hedging instrument designated as a cash flow hedge are recognised directly in equity to the extent that the hedge is effective. To the extent that the hedge is ineffective, changes in fair value are recognised in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated or exercised, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in equity remains there until the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss. When the hedged item is a non-financial asset, the amount recognised in equity is transferred to the carrying amount of the asset when it is recognised. In other cases the amount recognised in equity is transferred to profit or loss in the same period that the hedged item affects profit or loss.

### (d) Revenue recognition

#### Goods sold and services rendered

Revenue from the sale of goods is measured at the fair value of the consideration received or receivable, net of returns and allowances, discounts and volume rebates. Revenue is recognised when the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs of possible return of goods can be estimated reliably and there is no continuing management involvement with the goods. Other revenue represents sales of services and is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

#### Dividend income

Dividend income is recognised when the right to receive payment is established.

#### Interest revenue

Interest revenue is recognised on a time proportion basis using the effective interest method.

#### Grants

A grant is recognised in the statements of financial position initially as deferred income when there is reasonable assurance that it will be received and that the Group will comply with the conditions associated with the grant, and subsequently recognised in the statements of comprehensive income when the requirements under the grant have been met. Grants that compensate the Group for the cost of an asset are recognised in the statements of comprehensive income on a systematic basis over the useful life of the asset.

## 2. Summary of significant accounting policies (continued)

### (e) Net financing costs

Net financing costs comprise: interest payable on borrowings calculated using the effective interest rate method; interest received on funds invested calculated using the effective interest rate method; foreign exchange gains and losses; gains and losses on certain financial instruments that are recognised in the statements of comprehensive income; unwinding of the discount on provisions and impairment losses on financial assets.

### (f) Lease payments

#### Finance leases

Minimum lease payments under finance leases are apportioned between the finance charge and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### Operating leases

Payments made under operating leases are recognised in the statements of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

### (g) Income tax expense

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the statements of comprehensive income. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Additional income taxes that arise from the distribution of dividends are recognised at the same time as the liability to pay the related dividend is recognised.

Deferred tax assets and liabilities are set off only if there is a legal right of set off and they relate to income taxes levied by the same taxation authorities.

### (h) Advertising and promotion costs

Expenditure on advertising and promotional activities is recognised as an expense when the Group has the right to access the goods or has received the service.

### (i) Royalties paid

Royalties are recognised as an expense as revenue is earned.

### (j) Financial assets

The Group classifies its financial assets in the following categories: at fair value through profit or loss or loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

#### Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

## 2. Summary of significant accounting policies (continued)

### (j) Financial assets (continued)

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise "other receivables" and "cash and cash equivalents" in the statements of financial position.

Financial assets that are stated at cost or amortised cost are reviewed individually at balance date to determine whether there is objective evidence of impairment. If any such evidence exists, the asset's recoverable amount is calculated using the present value of future cash flows discounted at the original effective interest rate. An impairment loss is recognised in the statements of comprehensive income for the difference between the carrying amount and the recoverable amount. An impairment loss is reversed if the subsequent increase in the recoverable amount can be related objectively to an event occurring after the impairment was recognised. The impairment loss is reversed only to the extent that the financial asset's carrying value does not exceed the carrying value that would have been determined if no impairment loss had been recognised.

### (k) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

### (l) Creditors and accruals

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### (m) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statements of comprehensive income over the period of the borrowings using the effective interest method.

### (n) Intangible assets

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and business combinations. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Where the Group disposes of an operation within a cash generating unit, the goodwill associated with the operation disposed of is part of the gain or loss on disposal. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

**Franchise costs**

Franchise costs are those incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include for example, the initial fee paid to a system franchisor when a new store is opened. These are measured at cost less accumulated amortisation and accumulated impairment costs. Amortisation is on a straight line basis over the life of the applicable franchise or licence agreement.

**Concept development costs and fees**

Concept development costs and fees include certain costs, other than the direct cost of obtaining the franchise, associated with the establishment of quick service and takeaway restaurant concepts. These include, for example, professional fees and consulting costs associated with the establishment of a new brand or business acquisition.

These costs are capitalised where the concept is proven to be commercially feasible and the related future economic benefits are expected to exceed those costs with reasonable certainty. These are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the period which future economic benefits are reasonably expected to be derived.

## 2. Summary of significant accounting policies (continued)

### (n) Intangible assets (continued)

**Acquired software costs**

Software costs have a finite useful life. Software costs are capitalised and amortised on a straight line basis over the estimated economic life of 3–8 years.

### (o) Property, plant and equipment

**Owned assets**

Property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Where appropriate, the cost of property, plant and equipment includes site preparation costs, installation costs and the cost of obtaining resource consents required to bring the asset ready for use. Borrowing costs associated with non-qualified property, plant and equipment are, as per IAS23R, expensed as incurred.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the statements of comprehensive income as incurred.

**Leased assets**

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Assets acquired by way of finance leases are stated initially at an amount equal to the lower of its fair value and present value of the future minimum lease payments. Subsequent to initial recognition the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised on the Group's statements of financial position. The Group also leases certain plant and equipment and land and buildings by way of operating lease. The cost of improvements to leasehold assets is capitalised as buildings or leasehold improvements and then depreciated as outlined below.

**Capital work in progress**

All costs relating to an asset are first recorded in capital work in progress. Once all associated costs for an asset are established with relative certainty, the asset is then transferred from work in progress and capitalised into property, plant and equipment.

**Store start up costs**

Costs incurred in connection with assessing the feasibility of new sites are expensed as incurred with the exception of franchise costs and certain development costs and fees as discussed above.

**Depreciation**

Land is not depreciated. Depreciation is recognised in the statements of comprehensive income and is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives of fixed assets are as follows:

| | |
|---|---|
| Leasehold improvements | 5–20 years |
| Plant and equipment | 3–12.5 years |
| Motor vehicles | 4 years |
| Furniture and fittings | 3–10 years |
| Computer equipment | 3–5 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

### (p) Inventories

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of marketing, selling and distribution. The cost of inventories is based on the first-in first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location.

### (q) Dividends

Dividends are accrued in the period in which they are authorised.

## 2. Summary of significant accounting policies (continued)

### (r) Impairment on non-financial assets

The carrying amounts of the Group's assets except for inventories and deferred tax assets are reviewed at each balance date to determine whether there is any indication of impairment. If any such indication exists then the asset's or Cash Generating Unit's (CGU's) recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date. An impairment loss is recognised whenever the carrying amount of an asset or CGU exceeds its recoverable amount. A CGU is the smallest identifiable asset group that generates cash flows that are largely independent from other assets and groups.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses directly reduce the carrying amount of assets and are recognised in the statements of comprehensive income. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

Except for impairment losses on goodwill, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised. An impairment loss in respect of goodwill is not reversed.

### (s) Share capital

Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

### (t) Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

### (u) Employee benefits

#### Other long-term employee benefits

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value.

#### Share-based payment transactions

The grant date fair value of options granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest. The fair value of the options granted is measured using an options 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.

#### Short-term benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A provision is recognised for the amount expected to be paid under short-term cash bonus if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

### (v) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Senior Leadership Team. The Senior Leadership Team reviews the Group's internal reporting in order to assess performance and allocate resources.

## 2. Summary of significant accounting policies (continued)

### (w) Goods and services tax

The statement of comprehensive income and statements of cash flows have been prepared exclusive of Goods and Services Taxation (GST). All items in the statements of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

### (x) Non-current assets held for sale

Non-current assets (or disposal groups comprising assets and liabilities) that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets (or components of a disposal group) are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets (or disposal group) are measured at the lower of their carrying amount and fair value less costs to sell. Impairment losses on initial classification as held for sale and subsequent gains or losses on re-measurement are recognised in the statements of comprehensive income. Gains are not recognised in excess of any cumulative impairment loss.

### (y) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**Onerous contracts**

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

### (z) Non-trading items

The Group seeks to present a measure of comparable underlying performance on a consistent basis. In order to do so, the Group separately discloses items considered to be unrelated to the day to day operational performance of the Group. Such items are classified as non-trading items and are separately disclosed in the statements of comprehensive income and notes to the financial statements.

### (aa) New standards and interpretations

**New and amended standards adopted by the Group**

- External Reporting Board Standard *A1 Accounting Standards Framework (For-profit Entities Update)* ("XRB A1") was adopted by the Group. XRB A1 establishes a for-profit tier structure and outlines which suite of accounting standards entities in different tiers must follow. For the purposes of complying with NZ GAAP, Restaurant Brands New Zealand Limited is a listed entity in New Zealand and has therefore reported under Tier 1, preparing NZ IFRS financial statements.
- *NZ IAS 1 Amendments to Presentation of Items of Other Comprehensive Income* was adopted by the Group for the first time. The amendment requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be re-cycled to profit or loss in the future.
- *NZ IFRS 10 Consolidated Financial Statements* was adopted by the Group for the first time. The standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent entity.
- *NZ IFRS 12 Disclosures of Interests in Other Entities* was adopted by the Group for the first time. The standard sets out the required disclosures for all forms of interests in other entities.
- *NZ IFRS 13 Fair Value Measurement* was adopted by the Group for the first time. The standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source at fair value measurement and disclosure requirements for use across IFRS's.

## 2. Summary of significant accounting policies (continued)

### (aa) New standards and interpretations (continued)

**Relevant standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

- *NZ IFRS 9 Financial Instruments* (effective 1 January 2015) addresses the classification, measurement and derecognition of financial assets and financial liabilities. NZ IFRS 9 is intended to replace NZ IAS 39. The Group has not yet decided when to adopt NZ IFRS 9. The standard is not expected to have a material impact on the Group.

There are various other standards, amendments and interpretations which are currently not applicable to the Group. There are no NZ IFRS, NZ IFRIC interpretations or other applicable IFRS that are effective for the first time for the financial year beginning on or after 1 March 2013 that would be expected to have a material impact on the financial statements.

### (ab) Comparative information

Where necessary, comparative information has been reclassified in order to provide a more appropriate basis for comparison.

## 3. Segmental reporting

The Group has four operating segments: KFC, Pizza Hut, Starbucks Coffee and Carl's Jr. All segments operate quick service and takeaway restaurant concepts. No operating segments have been aggregated.

The segments were determined primarily because the Group manages each business separately and reports each business separately to the chief operating decision maker. The reportable segments are each managed separately as they operate in four distinct markets, sell distinct products, have distinct production processes and have distinct operating and gross margin characteristics. The Group operates in New Zealand.

All other segments represents general and administration support centre costs ("G&A"). G&A support centre costs are not an operating segment as the costs incurred are incidental to the Group's activities.

The Group evaluates performance and allocates resources to its operating segments on the basis of segment assets, segment revenues, concept earnings before interest and tax and depreciation and amortisation ("concept EBITDA"), and earnings before interest and tax basis ("concept EBIT").

The accounting policies of the Group's segments are the same as those described in the notes to the Group's financial statements. Segment assets include items directly attributable to the segment (i.e. property, plant and equipment, intangible assets and inventories). Unallocated items comprise other receivables, cash and cash equivalents, deferred tax and derivative financial instruments as they are all managed on a central basis. These are part of the reconciliation to total assets in the statements of financial position. Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

The Group has not disclosed segment liabilities as the chief operating decision maker (the Senior Leadership Team) evaluates performance and allocates resources purely on the basis of aggregated Group liabilities.

## 3. Segmental reporting (continued)

| $NZ000's | KFC 2014 | KFC 2013 | Pizza Hut 2014 | Pizza Hut 2013 |
|---|---|---|---|---|
| Store sales revenue | **241,521** | 237,032 | **48,393** | 47,876 |
| Other revenue | **–** | – | **–** | – |
| **Total operating revenue**** | **241,521** | 237,032 | **48,393** | 47,876 |
| **Concept EBITDA before general and administration expenses** | **44,529** | 45,272 | **5,496** | 3,796 |
| Depreciation | **(10,421)** | (9,972) | **(1,484)** | (1,947) |
| Gain/(loss) on sale of property, plant and equipment (included in depreciation) | **(18)** | (23) | **(9)** | (21) |
| Amortisation (included in cost of sales) | **(687)** | (672) | **(295)** | (188) |
| G&A – area managers, general managers and support centre | **(2,292)** | (2,501) | **(839)** | (1,000) |
| **EBIT before non-trading** | **31,111** | 32,104 | **2,869** | 640 |
| Impairment on property, plant and equipment | **(91)** | (129) | **–** | (31) |
| Other non-trading | **1,518** | 270 | **102** | (1,891) |
| **EBIT after non-trading** | **32,538** | 32,245 | **2,971** | (1,282) |
| **EBIT after non-trading** | | | | |
| Net financing costs | | | | |
| **Net profit before taxation** | | | | |
| Income tax expense | | | | |
| **Net profit after taxation** | | | | |
| (Deduct)/add back non-trading items | | | | |
| Taxation expense/(credit) on non-trading items | | | | |
| **Net profit after taxation excluding non-trading** | | | | |
| Segment assets | **63,968** | 74,268 | **14,807** | 17,209 |
| Unallocated assets | | | | |
| **Total assets** | | | | |
| Capital expenditure including intangibles | **6,967** | 15,402 | **476** | 1,031 |

* All other segments are general and administration support centre expenses (G&A).

** All operating revenue is from external customers.

**TOTAL STORE EBITDA**

**UP $2.0m**

| Starbucks Coffee | | Carl's Jr. | | All other segments* | | Consolidated full year | |
|---|---|---|---|---|---|---|---|
| **2014** | 2013 | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| **25,041** | 25,115 | **14,314** | 1,878 | **–** | – | **329,269** | 311,901 |
| **–** | – | **–** | – | **1,130** | 912 | **1,130** | 912 |
| **25,041** | 25,115 | **14,314** | 1,878 | **1,130** | 912 | **330,399** | 312,813 |
| **3,498** | 2,929 | **4** | (495) | **–** | – | **53,527** | 51,502 |
| **(974)** | (1,121) | **(769)** | (16) | **(466)** | (517) | **(14,114)** | (13,573) |
| **(29)** | (18) | **–** | – | **5** | – | **(51)** | (62) |
| **(87)** | (75) | **(98)** | (18) | **(265)** | (115) | **(1,432)** | (1,068) |
| **(431)** | (729) | **(491)** | (431) | **(7,179)** | (6,997) | **(11,232)** | (11,658) |
| **1,977** | 986 | **(1,354)** | (960) | **(7,905)** | (7,629) | **26,698** | 25,141 |
| **–** | – | **–** | – | **–** | (79) | **(91)** | (239) |
| **(197)** | (188) | **269** | – | **(129)** | (357) | **1,563** | (2,166) |
| **1,780** | 798 | **(1,085)** | (960) | **(8,034)** | (8,065) | **28,170** | 22,736 |
| | | | | | | **28,170** | 22,736 |
| | | | | | | **(755)** | (838) |
| | | | | | | **27,415** | 21,898 |
| | | | | | | **(7,462)** | (5,739) |
| | | | | | | **19,953** | 16,159 |
| | | | | | | **(1,472)** | 2,405 |
| | | | | | | **382** | (910) |
| | | | | | | **18,863** | 17,654 |
| **4,004** | 4,947 | **14,421** | 8,083 | **2,924** | 1,705 | **100,124** | 106,212 |
| | | | | | | **8,214** | 5,548 |
| | | | | | | **108,338** | 111,760 |
| **412** | 948 | **12,176** | 6,496 | **2,143** | 2,158 | **22,174** | 26,035 |

## 4. Other revenue

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Sales of services | **1,130** | 912 | **–** | – |
| Dividends | **–** | – | **16,158** | 15,652 |
| | **1,130** | 912 | **16,158** | 15,652 |

**GROUP NET PROFIT AFTER TAX (EXCLUDING NON-TRADING ITEMS)**

**UP 6.8%**

## 5. Analysis of expenses

The profit before taxation is calculated after charging/(crediting) the following items:

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Fees paid to auditor | | | | |
| To PwC for audit of annual financial statements | **78** | 69 | **-** | – |
| To PwC for other services | | | | |
| Agreed on procedures in relation to interim financial statements | **19** | 19 | **-** | – |
| Assurance services* | **9** | 7 | **-** | – |
| Other services** | **8** | – | **-** | – |
| Total fees paid to auditor | **114** | 95 | **-** | – |
| Government training grants (included in general and administration expenses) | **-** | (160) | **-** | – |
| Amortisation of intangibles (included in cost of sales) | **1,432** | 1,068 | **-** | – |
| Royalties paid | **19,416** | 18,560 | **-** | – |
| Depreciation expense | **14,114** | 13,573 | **-** | – |
| Operating rental expenses | **17,646** | 16,524 | **-** | – |
| Net loss on disposal of property, plant and equipment (included in depreciation expense) | **51** | 62 | **-** | – |
| Net gain on disposal of property, plant and equipment (included in non-trading costs) | **(2,581)** | (2,656) | **-** | – |
| Donations | **74** | 160 | **-** | – |
| Directors' fees | **250** | 251 | **-** | – |
| Interest expense (net) | **909** | 885 | **733** | 818 |
| Interest income – interest rate swap fair value changes | **(180)** | (79) | **-** | – |
| Finance lease interest | **26** | 32 | **-** | – |

* Assurance services comprise audit of Company share registry and certain compliance certificates for third parties.

** Other services in 2014 comprise executive reward services review and tax compliance advice.

### Non-trading items

| | | | | |
|---|---|---|---|---|
| Loss on sale of stores | | | | |
| Net sale proceeds | **(1,057)** | (2,484) | **-** | – |
| Property, plant and equipment disposed of | **385** | 956 | **-** | – |
| Goodwill disposed of | **699** | 3,192 | **-** | – |
| | **27** | 1,664 | **-** | – |
| Gain on sale and leaseback of stores | **(1,754)** | – | **-** | – |
| Other store closure costs | **325** | 1,325 | **-** | – |
| Other store closure costs – franchise fees written off | **47** | 144 | **-** | – |
| Other store closure costs – insurance proceeds | **(31)** | (1,263) | **-** | – |
| Other store relocation and refurbishment costs | **11** | 296 | **-** | – |
| Other store relocation and refurbishment – insurance proceeds | **(6)** | – | **-** | – |
| Impairment on property, plant and equipment | **(91)** | 239 | **-** | – |
| **Total non-trading items** | **(1,472)** | 2,405 | **-** | – |

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Personnel expenses | | |
| Wages and salaries | **83,697** | 78,882 |
| Increase in liability for long service leave | **60** | 29 |
| | **83,757** | 78,911 |

The Parent has no personnel expenses (2013: nil).

## 6. Income tax expense in the statements of comprehensive income

### Reconciliation of effective tax rate

| | | | Group | | | Company | |
|---|---|---|---|---|---|---|---|
| **$NZ000's** | Note | | **2014** | | 2013 | **2014** | 2013 |
| Total profit before income tax for the period | 3 | | **27,415** | | 21,898 | **15,425** | 14,834 |
| Total income tax (expense)/credit | 3 | | **(7,462)** | | (5,739) | **205** | 229 |
| Net profit after income tax | | | **19,953** | | 16,159 | **15,630** | 15,063 |
| Income tax using the Company's domestic tax rate | | **(28.0%)** | **(7,676)** | (28.0%) | (6,131) | **(4,319)** | (4,154) |
| Non-deductible expenses and non-assessable income | | **0.7%** | **197** | 1.7% | 380 | **4,524** | 4,383 |
| Prior period adjustment | | **0.1%** | **17** | 0.1% | 12 | **-** | - |
| | | **(27.2%)** | **(7,462)** | (26.2%) | (5,739) | **205** | 229 |
| Income tax (expense)/credit comprises: | | | | | | | |
| Current tax (expense)/credit | | | **(8,115)** | | (6,962) | **205** | 229 |
| Deferred tax credit | 10 | | **653** | | 1,223 | **-** | - |
| **Net tax (expense)/credit** | | | **(7,462)** | | (5,739) | **205** | 229 |
| Income taxation expense | | | | | | | |
| Income tax (expense)/credit | | | **(7,462)** | | (5,739) | **205** | 229 |
| **Total income tax (expense)/credit** | 3 | | **(7,462)** | | (5,739) | **205** | 229 |

### Imputation credits

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Imputation credits available for subsequent reporting periods | **11,828** | 9,815 |

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax
- Imputation credits that will arise from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The current income tax for the period was calculated using the rate of 28% (2013: 28%). The deferred tax balances in these financial statements have been measured using the 28% tax rate (2013: 28%).

## 7. Property, plant and equipment

| Group $NZ000's | Land | Leasehold improvements | Plant, equipment and fittings | Motor vehicles | Leased plant and equipment | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| **Balance as at 29 February 2012** | **1,750** | **95,596** | **57,912** | **1,107** | **743** | **2,604** | **159,712** |
| Additions | 3,797 | – | 743 | 127 | 374 | 18,651 | 23,692 |
| Transfer from work in progress | – | 10,040 | 3,933 | – | – | (13,973) | – |
| Disposals | – | (5,088) | (7,070) | (210) | (379) | – | (12,747) |
| **Balance as at 28 February 2013** | **5,547** | **100,548** | **55,518** | **1,024** | **738** | **7,282** | **170,657** |
| Additions | 2,702 | – | 1,117 | 145 | 62 | 16,307 | 20,333 |
| Transfer from work in progress | – | 14,297 | 5,010 | – | – | (19,307) | – |
| Transfer to assets classified as held for sale | (1,485) | (882) | – | – | – | – | (2,367) |
| Disposals | (5,406) | (5,878) | (2,635) | (234) | (7) | – | (14,160) |
| **Balance as at 24 February 2014** | **1,358** | **108,085** | **59,010** | **935** | **793** | **4,282** | **174,463** |
| Accumulated depreciation | | | | | | | |
| **Balance as at 29 February 2012** | **–** | **(41,935)** | **(37,590)** | **(806)** | **(645)** | **–** | **(80,976)** |
| Charge | – | (8,023) | (5,258) | (212) | (80) | – | (13,573) |
| Disposals | – | 3,389 | 6,380 | 210 | 332 | – | 10,311 |
| **Balance as at 28 February 2013** | **–** | **(46,569)** | **(36,468)** | **(808)** | **(393)** | **–** | **(84,238)** |
| Charge | – | (8,408) | (5,437) | (130) | (139) | – | (14,114) |
| Transfer to assets classified as held for sale | – | 14 | – | – | – | – | 14 |
| Disposals | – | 2,145 | 2,259 | 223 | 8 | – | 4,635 |
| **Balance as at 24 February 2014** | **–** | **(52,818)** | **(39,646)** | **(715)** | **(524)** | **–** | **(93,703)** |
| Impairment provision | | | | | | | |
| **Balance as at 29 February 2012** | **–** | **(684)** | **(76)** | **–** | **–** | **–** | **(760)** |
| Charge | – | (215) | (24) | – | – | – | (239) |
| Utilised/disposed | – | 208 | 23 | – | – | – | 231 |
| **Balance as at 28 February 2013** | **–** | **(691)** | **(77)** | **–** | **–** | **–** | **(768)** |
| Charge | – | 82 | 9 | – | – | – | 91 |
| Utilised/disposed | – | 133 | 15 | – | – | – | 148 |
| **Balance as at 24 February 2014** | **–** | **(476)** | **(53)** | **–** | **–** | **–** | **(529)** |

The impairment charge recognised during the period relates to accelerated depreciation on leasehold improvements and plant, equipment and fittings on stores expected to be transformed or closed. Impairment charges incurred and utilised/disposed are recognised in non-trading in the statements of comprehensive income (refer Note 5).

The Parent has no property, plant and equipment (2013: nil).

| Carrying amounts | Land | Leasehold improvements | Plant, equipment and fittings | Motor vehicles | Leased plant and equipment | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| Balance as at 29 February 2012 | 1,750 | 52,977 | 20,246 | 301 | 98 | 2,604 | 77,976 |
| Balance as at 28 February 2013 | 5,547 | 53,288 | 18,973 | 216 | 345 | 7,282 | 85,651 |
| **Balance as at 24 February 2014** | **1,358** | **54,791** | **19,311** | **220** | **269** | **4,282** | **80,231** |

## 8. Intangibles

| Group $NZ000's | Goodwill | Franchise fees | Concept development costs | Software costs | Total |
|---|---|---|---|---|---|
| Cost | | | | | |
| **Balance as at 29 February 2012** | **26,290** | **9,170** | **1,560** | **2,505** | **39,525** |
| Additions | 822 | 991 | 90 | 440 | 2,343 |
| Disposals | (13,376) | (1,528) | – | (99) | (15,003) |
| **Balance as at 28 February 2013** | **13,736** | **8,633** | **1,650** | **2,846** | **26,865** |
| Additions | – | 317 | – | 1,524 | 1,841 |
| Disposals | (699) | (189) | – | (33) | (921) |
| **Balance as at 24 February 2014** | **13,037** | **8,761** | **1,650** | **4,337** | **27,785** |
| Accumulated depreciation | | | | | |
| **Balance as at 29 February 2012** | **(4,988)** | **(4,971)** | **(710)** | **(1,976)** | **(12,645)** |
| Charge | – | (757) | (59) | (252) | (1,068) |
| Disposals | 4,157 | 1,384 | – | 92 | 5,633 |
| **Balance as at 28 February 2013** | **(831)** | **(4,344)** | **(769)** | **(2,136)** | **(8,080)** |
| Charge | – | (777) | (86) | (569) | (1,432) |
| Disposals | – | 142 | – | 9 | 151 |
| **Balance as at 24 February 2014** | **(831)** | **(4,979)** | **(855)** | **(2,696)** | **(9,361)** |
| Impairment provision | | | | | |
| **Balance as at 29 February 2012** | **(6,027)** | **–** | **–** | **–** | **(6,027)** |
| Reversals arising from disposals | 6,027 | – | – | – | 6,027 |
| **Balance as at 28 February 2013** | **–** | **–** | **–** | **–** | **–** |
| **Balance as at 24 February 2014** | **–** | **–** | **–** | **–** | **–** |

Impairment charges and disposals are recognised in non-trading in the statements of comprehensive income (refer Note 5).

| Carrying amounts | | | | | |
|---|---|---|---|---|---|
| Balance as at 29 February 2012 | 15,275 | 4,199 | 850 | 529 | 20,853 |
| Balance as at 28 February 2013 | 12,905 | 4,289 | 881 | 710 | 18,785 |
| **Balance as at 24 February 2014** | **12,206** | **3,782** | **795** | **1,641** | **18,424** |

The Parent has no intangible assets (2013: nil).

### Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill is allocated to the Group's operating divisions which represent the lowest level within the Group at which the goodwill is monitored for internal management purposes.

### Amortisation

Amortisation charge is recognised in cost of sales in the statements of comprehensive income (refer Note 5).

## 8. Intangibles (continued)

The aggregate carrying amounts of goodwill allocated to each unit are as follows:

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| KFC | **2,170** | 2,170 |
| Pizza Hut | **10,036** | 10,735 |
| | **12,206** | 12,905 |

The recoverable amount of each cash-generating unit was based on its value in use.

### KFC

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Cash flows were projected based on a three year strategic business plan as approved by the Board of Directors. The cash flows were based on sales growth of 4.0–6.0% over 2015–2017 (2013: 1.0–3.6% over 2014–2016). Adjustments were made for margin improvements through reduced operating expenses and also capital expenditure and taxation. A terminal year was calculated based on the 2017 year and assumes a continuous growth of a minimum of projected inflation estimates of 2.5% (2013: 2.5%).

Cash flows are also dependent on assumptions on the EBITDA margins projected in the three year strategic business plan as approved by the Board of Directors. Cash flows were based on EBITDA being maintained at 19.0–19.3% as a proportion of sales over 2015–2017 (2013: 20% over 2014–2016).

As a result of the review, no impairment of goodwill was necessary (2013: nil).

The discount rate applied to future cash flows is based on an 8.2% weighted average post-tax cost of capital (2013: 8.2%) applicable to Restaurant Brands.

### Pizza Hut

Value in use was determined by discounting the future cash flows generated from the continuing use of the unit. Cash flows were projected based on a three year strategic business plan as approved by the Board of Directors. The cash flows were based on sales growth of 3.4–5.2% over 2015–2017 (2013: 4.0–6.0% over 2014–2016). Adjustments were made for margin improvements through reduced operating expenses and also capital expenditure. A terminal year was calculated based on the 2017 year and assumes a continuous growth of a minimum of projected inflation estimates of 2.5% (2013: 2.5%).

Cash flows are also dependent on assumptions on the EBITDA margins projected in the three year strategic business plan as approved by the Board of Directors. Cash flows were based on EBITDA being maintained at 11.9–12.7% as a proportion of sales over 2014–2017 (2013: 8.1–8.6% over 2014–2016).

As a result of the review and based on the key assumptions described above, no impairment of goodwill was necessary (2013: nil).

The discount rate applied to future cash flows is based on an 8.2% weighted average post-tax cost of capital (2013: 8.2%) applicable to Restaurant Brands.

The weighted average cost of capital calculation was reviewed in 2012 based on CAPM methodology using current market inputs. Changes in the market inputs have been considered and are not deemed material enough to change the weighted average cost of capital calculation.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data).

### Impact of possible changes in key assumptions

Set out below are reasonably possible changes in key assumptions as applied to goodwill balances for KFC and Pizza Hut.

| Key assumptions | Variation % (absolute terms) | Pizza Hut impairment charge ($m) | KFC impairment charge ($m) |
|---|---|---|---|
| Terminal year sales growth | (2.5) | no impairment necessary | no impairment necessary |
| Discount rate | 1.0 | no impairment necessary | no impairment necessary |
| EBITDA ratio as a % of sales per annum | (1.0) | no impairment necessary | no impairment necessary |
| Sales growth | zero growth initial and terminal | no impairment necessary | no impairment necessary |

## 9. Investments in subsidiaries

The following subsidiary companies are all wholly owned and incorporated in New Zealand (except as outlined below), have a 24 February balance date and have been owned for the full financial year:

| Restaurant operating companies | Investment holding companies |
|---|---|
| Restaurant Brands Limited | RB Holdings Limited |
| Restaurant Brands Australia Pty Limited | RBP Holdings Limited |
| (incorporated in Victoria, Australia) | RBDNZ Holdings Limited |
| | RBN Holdings Limited |

| Property holding company | Non-trading subsidiary company |
|---|---|
| Restaurant Brands Properties Limited | Restaurant Brands Pizza Limited |

| Employee share option plan trust company |
|---|
| Restaurant Brands Nominees Limited |

## 10. Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities are attributable to the following:

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| **Group $NZ000's** | **2014** | 2013 | **2014** | 2013 | **2014** | 2013 |
| Property, plant and equipment | **1,167** | 515 | **-** | – | **1,167** | 515 |
| Inventory | **49** | 17 | **-** | – | **49** | 17 |
| Provisions | **1,973** | 2,038 | **-** | – | **1,973** | 2,038 |
| Intangibles | **36** | 2 | **-** | – | **36** | 2 |
| Other | **-** | – | **(2)** | (2) | **(2)** | (2) |
| | **3,225** | 2,572 | **(2)** | (2) | **3,223** | 2,570 |

At balance date deferred tax assets of $0.3 million and deferred tax liabilities of nil are expected to be settled within 12 months (2013: deferred tax assets of $0.4 million and deferred tax liabilities of nil). The Parent has no deferred tax assets or liabilities (2013: nil).

Movement in temporary differences during the period:

| Group $NZ000's | Balance 29 February 2012 | Recognised in profit or loss | Balance 28 February 2013 | Recognised in profit or loss | Balance 24 February 2014 |
|---|---|---|---|---|---|
| Property, plant and equipment | **208** | 307 | **515** | 652 | **1,167** |
| Inventory | **7** | 10 | **17** | 32 | **49** |
| Provisions | **1,708** | 330 | **2,038** | (65) | **1,973** |
| Intangibles | **(574)** | 576 | **2** | 34 | **36** |
| Other | **(2)** | – | **(2)** | – | **(2)** |
| | **1,347** | 1,223 | **2,570** | 653 | **3,223** |

## 11. Inventories

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Raw materials and consumables | **1,587** | 1,776 | **-** | – |

All inventories are valued at cost. The cost of inventories is recognised as an expense and included in cost of goods sold in the statements of comprehensive income.

## 12. Other receivables

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Prepayments | **643** | 526 | **–** | – |
| Other debtors | **1,107** | 1,654 | **–** | – |
| | **1,750** | 2,180 | **–** | – |

There were no foreign currency debtors included in other debtors (2013: nil).

The Group's exposure to credit risk is minimal as the Group's primary source of revenue is from sales made on a cash basis.

The carrying value of other receivables approximates fair value.

## 13. Assets held for sale

### Sale and leaseback

The directors approved the sale and leaseback of the Carl's Jr. Hastings property during the period. The assets relating to the sale have been presented as set out below. The sale is expected to be completed during the next financial year.

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Assets classified as held for sale | | | | |
| Property, plant and equipment | **2,353** | – | **–** | – |

In accordance with IFRS 5 the assets held for sale are held at their carrying amount.

## 14. Derivative financial instruments

| | Group & Company | | Group & Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014 Assets** | **2014 Liabilities** | 2013 Assets | 2013 Liabilities |
| Current | | | | |
| Fair value of interest rate swap | **–** | **6** | – | 186 |

The above table shows the Group's financial derivative holdings at period end.

The fair value of the interest rate swap falls into level 2 fair value measurement. Refer to Note 2(c) for information on the measurement of fair values. There were no transfers between fair value measurements during the period (2013: nil).

Fair values at balance date have been assessed using a range of market interest rates between 2.50% to 2.96% (2013: 2.76% to 2.97%).

## 15. Capital and reserves

### Share option reserve

The share option reserve comprises the net change in options exercised during the period and the cumulative net change of share based payments incurred. All remaining options lapsed during the period and the balance of the reserve was transferred to retained earnings.

### Foreign currency translation reserve

The foreign currency translation reserve comprises all exchange rate differences arising from translating the financial statements of the foreign currency operation.

## 16. Dividend distributions

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Interim dividend of 6.5 cents per share paid (2013: 6.5 cents per share) | **6,359** | 6,360 | **6,359** | 6,360 |
| Final dividend of 9.5 cents per share paid (2013: 9.5 cents per share) | **9,299** | 9,293 | **9,299** | 9,293 |
| | **15,658** | 15,653 | **15,658** | 15,653 |

## 17. Equity

The issued capital of the Company is 97,871,090 (2013: 97,850,110) ordinary fully paid up shares. The par value is nil (2013: nil). All issued shares carry equal rights in respect of voting and the receipt of dividends, and upon winding up rank equally with regard to the Company's residual assets.

| | Group & Company | | Group & Company | |
|---|---|---|---|---|
| | **2014 Number** | **2014 NZ$000's** | 2013 Number | 2013 NZ$000's |
| Balance at beginning of period | **97,850,110** | **26,723** | 97,809,001 | 26,648 |
| Shares issued on exercise of options | **20,980** | **33** | 41,109 | 75 |
| **Balance at end of period** | **97,871,090** | **26,756** | 97,850,110 | 26,723 |

## 18. Earnings per share

The calculation of basic earnings per share for the 52 week period ended 24 February 2014 was based on the weighted average number of ordinary shares on issue of 97,858,777 (2013: 97,833,862). The calculation of diluted earnings per share for the 52 week period ended 24 February 2014 was based on the weighted average number of ordinary shares on issue adjusted to assume conversion of all dilutive potential ordinary shares, of 97,858,777 (2013: 97,877,795). The difference between weighted average number of shares used to calculate basic and diluted earnings per share represents share options outstanding.

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Basic earnings per share | | |
| Profit after taxation attributable to shareholders ($NZ000's) | **19,953** | 16,159 |
| Basic earnings per share (cents) | **20.39** | 16.52 |
| | | |
| Diluted earnings per share | | |
| Profit after taxation attributable to shareholders ($NZ000's) | **19,953** | 16,159 |
| Diluted earnings per share (cents) | **20.39** | 16.51 |

## 19. Loans and finance leases

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings. All existing bank loans, loans and finance leases are denominated in New Zealand dollars (2013: all denominated in New Zealand dollars). For more information about the Group's exposure to interest rate and foreign currency risk see Note 22.

| | | Group | | Company | |
|---|---|---|---|---|---|
| **$NZ000's** | Note | **2014** | 2013 | **2014** | 2013 |
| Non-current liabilities | | | | | |
| Finance leases | 23d | **131** | 228 | **–** | – |
| Secured bank loans | 22c | **–** | 14,555 | **–** | 14,555 |
| | | **131** | 14,783 | **–** | 14,555 |
| Current liabilities | | | | | |
| Finance leases | 23d | **146** | 116 | **–** | – |
| Secured bank loans | 22c | **8,060** | – | **8,060** | – |
| | | **8,206** | 116 | **8,060** | – |

Secured bank loans expire in October 2014 and the Group expects to renew the facility on similar terms.

In March 2009 the Group entered into an interest rate swap to fix the interest rate on $10.0 million of bank loans for five years. At balance date the interest rate applicable was 5.05% (2013: 5.05%) inclusive of bank margin. The swap matured on 10 March 2014.

As security over the loan and bank overdraft, the bank holds a negative pledge deed between Restaurant Brands New Zealand Limited and all its subsidiary companies. The negative pledge deed includes all obligations and cross guarantees between the guaranteeing subsidiaries.

The carrying value equates to fair value.

## 20. Creditors and accruals

| | Group | | Company | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Trade creditors | **11,944** | 12,556 | **–** | – |
| Other creditors and accruals | **5,068** | 5,021 | **116** | 116 |
| Employee entitlements | **6,382** | 5,927 | **–** | – |
| Indirect and other taxes | **3,201** | 2,941 | **–** | – |
| | **26,595** | 26,445 | **116** | 116 |

Included in trade creditors are foreign currency creditors of $NZ141,000 ($AU52,000, $US69,000), (2013: $NZ84,000 ($AU48,000, $US20,000)), which are not hedged.

The carrying value of creditors and accruals approximates fair value.

## 21. Provisions and deferred income

| Group $NZ000's | Surplus lease space | Store closure costs | Employee entitlements | Deferred income | Total |
|---|---|---|---|---|---|
| Opening balance | 292 | 224 | 556 | 6,351 | 7,423 |
| Created during the period | 4 | 16 | 257 | 443 | 720 |
| Used during the period | (213) | (229) | (74) | (1,448) | (1,964) |
| Released during the period | (27) | (11) | (123) | – | (161) |
| **Balance at 24 February 2014** | **56** | **–** | **616** | **5,346** | **6,018** |
| | | | | | |
| 2014 | | | | | |
| Non-current | – | – | 395 | 4,044 | 4,439 |
| Current | 56 | – | 221 | 1,302 | 1,579 |
| **Total** | **56** | **–** | **616** | **5,346** | **6,018** |

The provision for surplus lease space reflects lease commitments that the Group has on properties leased that are surplus to its current operating requirements. The Group is currently seeking tenants to sub-lease the excess space that it has. The provision has been used in the period to off-set payments made to lessors.

The provision for store closure costs reflects the estimated costs of make good and disposal of fixed assets for stores committed for closure.

The provision for employee entitlements is long service leave. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Once an employee attains the required length of service, the employee has a period of five years in which to take this leave.

Deferred income relates to non-routine revenue from suppliers and landlords and is recognised in the statements of comprehensive income on a systematic basis over the life of the associated contract.

## 22. Financial instruments

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign currency exchange rates and interest rates.

### (a) Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the New Zealand dollar. The currencies giving rise to this risk are primarily US dollars and Australian dollars.

The direct exposure to foreign currency risk is small and is primarily confined to raw material purchases, some items of capital equipment and some franchise fee payments. Where any one item is significant, the Group will specifically hedge its exposure.

The Group has an indirect exposure to foreign currency risk on some of its locally sourced ingredients, where those ingredients in turn have a high imported component. Where this is significant the Group contracts to a known purchase price with its domestic supplier based on a forward cover position taken by that supplier on its imported components.

The Group has a residual foreign currency risk on its assets and liabilities that are denominated in Australian dollars as part of its remaining Australian investment.

### (b) Interest rate risk

The Group's main interest rate risk arises from bank loans. The Group analyses its interest rate exposure on a dynamic basis. Based on a number of scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. Based on these scenarios the maximum loss potential is assessed by management as to whether it is within acceptable limits.

Where necessary the Group hedges its exposure to changes in interest rates primarily through the use of interest rate swaps. There are no minimum prescribed guidelines as to the level of hedging.

Note 2(c) discusses in detail the Group's accounting treatment for derivative financial instruments.

As discussed in Note 19, the Group has an interest rate swap in place to fix the interest rate on $10.0 million of bank loans to March 2014 (2013: $10.0 million to March 2014). In 2011 the Group ceased cash flow hedge accounting for the interest rate swap as the forecasted transaction was no longer expected to occur. The interest rate swap matured on 10 March 2014. The Group will continue to monitor interest rate movements to ensure it maintains an appropriate mix of fixed and floating rate exposure within the Group's policy.

## 22. Financial instruments (continued)

### (c) Liquidity risk

In respect of the Group's cash balances, non-derivative financial liabilities and derivative financial liabilities, the following table analyses the amounts into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date, along with their effective interest rates at balance date. The amounts disclosed in the table are the contractual undiscounted cash flows.

| $NZ000's | Effective interest rate | Total | 12 months or less | 12 months or more |
|---|---|---|---|---|
| Group 2014 | | | | |
| Cash | | **204** | **204** | **-** |
| Bank balance | **2.00%** | **566** | **566** | **-** |
| Bank loan - principal | **4.86%** | **(8,060)** | **(8,060)** | **-** |
| Bank loan - expected interest | **5.68%** | **(312)** | **(312)** | **-** |
| Finance leases | **8.20%** | **(277)** | **(146)** | **(131)** |
| Finance leases - expected interest | **8.20%** | **(23)** | **(17)** | **(6)** |
| Derivative financial instruments | **-** | **(6)** | **(6)** | **-** |
| Creditors and accruals (excluding indirect and other taxes and employee benefits) | **-** | **(17,012)** | **(17,012)** | **-** |
| | | **(24,920)** | **(24,783)** | **(137)** |
| Group 2013 | | | | |
| Cash | | 249 | 249 | - |
| Bank balance | 2.00% | 549 | 549 | - |
| Bank term loan - principal | 5.03% | (14,555) | - | (14,555) |
| Bank term loan - expected interest | 4.68% | (1,137) | (680) | (457) |
| Finance leases | 8.20% | (344) | (116) | (228) |
| Finance leases - expected interest | 8.20% | (41) | (24) | (17) |
| Derivative financial instruments | - | (186) | (186) | - |
| Creditors and accruals (excluding indirect and other taxes and employee benefits) | - | (18,210) | (18,210) | - |
| | | (33,675) | (18,418) | (15,257) |
| Company 2014 | | | | |
| Bank balance | **8.45%** | **(903)** | **(903)** | **-** |
| Derivative financial instruments | **-** | **(6)** | **(6)** | **-** |
| Bank loan - principal | **4.86%** | **(8,060)** | **(8,060)** | **-** |
| Bank loan - expected interest | **5.68%** | **(312)** | **(312)** | **-** |
| Creditors and accruals | **-** | **(116)** | **(116)** | **-** |
| Amounts payable to subsidiary companies | **-** | **(140,030)** | **(140,030)** | **-** |
| | | **(149,427)** | **(149,427)** | **-** |
| Company 2013 | | | | |
| Bank balance | 2.00% | 10 | 10 | - |
| Derivative financial instruments | - | (186) | (186) | - |
| Bank term loan - principal | 5.03% | (14,555) | - | (14,555) |
| Bank term loan - expected interest | 4.68% | (1,137) | (680) | (457) |
| Creditors and accruals | - | (116) | (116) | - |
| Amounts payable to subsidiary companies | - | (134,269) | (134,269) | - |
| | | (150,253) | (135,241) | (15,012) |

Prudent liquidity risk management implies the availability of funding through adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group has bank funding facilities, excluding overdraft facilities, of $35.0 million (2013: $35.0 million) available at variable rates. The amount undrawn at balance date was $26.9 million (2013: $20.4 million).

The Group has fixed the interest rate on $10.0 million of bank loans with the balance at a floating interest rate. The bank loan is structured as a revolving wholesale advance facility with portions of the facility renewing on a regular basis. This leads to the loans being sensitive to interest rate movement in 12 months or less.

## 22. Financial instruments (continued)

### (d) Credit risk

Credit risk arises from cash deposits with banks and financial institutions and outstanding receivables.

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The nature of the business results in most sales being conducted on a cash basis that significantly reduces the risk that the Group is exposed to. Reputable financial institutions are used for investing and cash handling purposes.

There were no financial assets neither past due nor impaired at balance date (2013: nil).

At balance date there were no significant concentrations of credit risk and the maximum exposure to credit risk is represented by the carrying value of each financial asset in the statements of financial position.

### (e) Fair values

The carrying values of bank loans and finance leases are the fair value of these liabilities. A Group set-off arrangement is in place between certain bank accounts operated by the Group.

#### Sensitivity analysis

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates on a weighted average balance will have an impact on profit.

At 24 February 2014 it is estimated that a general increase of one percentage point in interest rates would decrease the Group and Parent's profit before income tax and equity by approximately $0.1 million (2013: $0.1 million). A one percentage point decrease in interest rates would increase the Group and Parent's profit before income tax and equity by approximately $0.1 million (2013: $0.1 million).

A general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies would have minimal impact on the cost of the Group's directly imported ingredients denominated in foreign currencies (Parent: nil).

#### Capital risk management

The Group's capital comprises share capital, reserves, retained earnings and debt.

The Group's objectives when managing capital are to safeguard the Group's ability to continue to operate as a going concern, to maintain an optimal capital structure commensurate with risk and return and reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

The Group is subject to a number of externally imposed bank covenants as part of the terms of its secured bank loan facility.

The most significant covenants relating directly to capital management are the ratio of total debt to earnings before interest, tax and amortisation (EBITA) and restrictions relating to acquiring its own shares.

The specific covenants relating to financial ratios the Group is required to meet are:

- debt coverage ratio (i.e. net borrowings to EBITA), and
- fixed charges coverage ratio (i.e. EBITL to total fixed charges), with EBITL being EBIT before lease costs. Fixed charges comprise interest and lease costs.

The covenants are monitored and reported to the bank on a six monthly basis. These are reviewed by the Board on a monthly basis.

There have been no breaches of the covenants during the period (2013: no breaches).

## 23. Commitments

### (a) Capital commitments

The Group has capital commitments which are not provided for in these financial statements, as follows:

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Store development | **4,461** | 4,724 |

The Parent has no capital commitments (2013: nil).

### (b) Operating lease commitments

Non-cancellable operating lease rentals are payable as follows:

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Not later than one year | **17,373** | 16,110 |
| Later than one year but not later than two years | **16,033** | 12,217 |
| Later than two years but not later than five years | **39,765** | 29,310 |
| Later than five years | **33,709** | 27,729 |
| | **106,880** | 85,366 |

The parent has no operating lease commitments (2013: nil).

### (c) Renewal rights of operating leases

The Group has entered into a number of operating lease agreements for retail premises. The lease periods vary and many have an option to renew. Lease payments are increased in accordance with the lease agreements to reflect market rentals. The table below summarises the Group's lease portfolio.

| | Right of renewal | | No right of renewal | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| Number of leases expiring: | | | | |
| Not later than one year | **15** | 31 | **13** | 11 |
| Later than one year but not later than two years | **15** | 35 | **5** | 8 |
| Later than two years but not later than five years | **49** | 35 | **14** | 12 |
| Later than five years | **69** | 53 | **14** | 10 |

### (d) Finance lease commitments

The carrying amount of finance leases in relation to computer and related equipment for the Group as at balance date is $0.3 million (2013: $0.3 million).

The non cancellable finance lease rentals are payable as follows:

| | Group | |
|---|---|---|
| **$NZ000's** | **2014** | 2013 |
| Minimum lease payments of: | | |
| Not later than one year | **164** | 140 |
| Later than one year but not later than two years | **129** | 140 |
| Later than two years but not later than five years | **7** | 105 |
| | **300** | 385 |
| Future lease finance charges | **(23)** | (41) |
| Net finance lease liability | **277** | 344 |
| | | |
| Current | **146** | 116 |
| Non-current | **131** | 228 |
| | **277** | 344 |

The fair value of finance leases equals their carrying amount as the impact of discounting is not significant.

## 24. Net cash flow from operating activities

The following are definitions of the terms used in the statements of cash flows:

### Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank, cash on hand and overdraft balances.

### Investing activities

Investing activities are those activities relating to the acquisition, holding and disposal of property, plant and equipment, intangibles and investments. Investments can include securities not falling within the definition of cash.

### Financing activities

Financing activities are those activities which result in changes in the size and composition of the capital structure of the Company.

### Operating activities

Operating activities include all transactions and other events that are not investing or financing activities.

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| **$NZ000's** | **2014** | 2013 | **2014** | 2013 |
| **Total profit after taxation attributable to shareholders** | **19,953** | 16,159 | **15,630** | 15,063 |
| (Less)/add items classified as investing/financing activities: | | | | |
| Gain on disposal of property, plant and equipment | **(2,530)** | (2,594) | **-** | - |
| | **(2,530)** | (2,594) | **-** | - |
| Add/(less) non-cash items: | | | | |
| Depreciation | **14,114** | 13,573 | **-** | - |
| Disposal of goodwill | **699** | 3,192 | **-** | - |
| (Decrease)/increase in provisions | **(460)** | 469 | **-** | - |
| Amortisation of intangible assets | **1,432** | 1,068 | **-** | - |
| Write-off of franchise fees | **47** | 144 | **-** | - |
| Impairment on property, plant and equipment | **(91)** | 239 | **-** | - |
| Net increase in deferred tax asset | **(653)** | (1,223) | **-** | - |
| Change in fair value of derivative financial instruments | **(180)** | (79) | **(180)** | (79) |
| | **14,908** | 17,383 | **(180)** | (79) |
| Add/(less) movement in working capital: | | | | |
| Decrease in inventories | **189** | 151 | **-** | - |
| (Increase)/decrease in other debtors and prepayments | **(179)** | 340 | **-** | - |
| (Decrease)/increase in trade creditors and other payables | **(366)** | 1,603 | **-** | 30 |
| Increase in income tax payable | **251** | 1,408 | **-** | - |
| Decrease in income tax | **426** | 315 | **426** | 315 |
| | **321** | 3,817 | **426** | 345 |
| **Net cash from operating activities** | **32,652** | 34,765 | **15,876** | 15,329 |

## 25. Financial assets and financial liabilities by category

| $NZ000's | Group 2014 | Group 2013 | Company 2014 | Company 2013 |
|---|---|---|---|---|
| Loans and receivables | | | | |
| Other debtors | **1,107** | 1,654 | **-** | - |
| Cash and cash equivalents | **770** | 798 | **-** | 10 |
| | **1,877** | 2,452 | **-** | 10 |
| Derivatives held at fair value through profit or loss | | | | |
| Derivative financial instruments – liabilities | **6** | 186 | **6** | 186 |
| | **6** | 186 | **6** | 186 |
| Financial liabilities at amortised cost | | | | |
| Bank overdraft | **-** | - | **903** | - |
| Loans and finance leases – non current | **131** | 14,783 | **-** | 14,555 |
| Loans and finance leases – current | **8,206** | 116 | **8,060** | - |
| Creditors and accruals (excluding indirect and other taxes and employee benefits) | **17,012** | 17,577 | **116** | 116 |
| Amounts payable to subsidiary companies | **-** | - | **140,030** | 134,269 |
| | **25,349** | 32,476 | **149,109** | 148,940 |

## 26. Contingent liabilities

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Company and Group (2013: nil).

## 27. Related party disclosures

### Parent and ultimate controlling party

The immediate parent and controlling party of the Group is Restaurant Brands New Zealand Limited.

### Identity of related parties with whom material transactions have occurred

Note 9 identifies all entities within the Group. All of these entities are related parties of the Company.

In addition, the directors and key management personnel of the Group are also related parties.

### (a) Subsidiaries

Material transactions within the Group are loans and advances to and from Group companies and dividend payments. All inter-company group loans in the Parent are non-interest bearing, repayable on demand and disclosed as a current liability.

During the period the Parent was advanced $5.8 million by its subsidiary company (2013: $0.3 million repaid to its subsidiary company). At balance date the amount owed to subsidiary companies was $140.0 million (2013: $134.3 million). During the period the Parent received $16.2 million in dividends from its subsidiary company (2013: $15.7 million).

## 27. Related party disclosures (continued)

### (b) Other transactions with entities with key management or entities related to them

During the period the Group made the following:

- Stock purchases of $0.3 million (2013: $0.3 million) from Barker Fruit Processors Limited, a company of which Company director Sue Helen Suckling is chairman. There was nil owing at balance date (2013: nil).
- Stock purchases of $48,000 (2013: $68,000) from Nestle New Zealand Limited, a company of which Company director Ted van Arkel is a director. There was nil owing at balance date (2013: nil). Ted van Arkel retired as director of Nestle on 16 February 2014.
- Stock purchases of $2.7 million (2013: $1.1 million) from Hellers Limited, a company of which Company director David Alan Pilkington is chairman. There was nil owing at balance date (2013: nil).
- The Company made rental payments of $46,000 (2013: $68,000) in respect of the lease of the KFC Silverdale store to Eldamos Investments Limited, a wholly owned subsidiary of The Warehouse Group Limited, of which Company director Ted van Arkel is chairman. On 31 May 2013 Eldamos Investments sold the property to an unrelated party.

These transactions were performed on normal commercial terms.

### (c) Key management and director compensation

Key management personnel comprises members of the Senior Leadership Team. Key management personnel compensation comprised short-term benefits for the period of $2.4 million (2013: $2.2 million) and other long-term benefits of $23,000 (2013: $21,000). Directors' fees were $0.3 million (2013: $0.3 million).

### (d) Share options issued to key management personnel

During the period the remaining 5,755 options issued under the employee share option plan (refer to Note 28) to key management personnel were exercised (2013: 11,027). The table below summarises the movement in outstanding options during the period.

| Date of issue | Exercise price | Outstanding options at 28 February 2013 | Exercised during period | Outstanding options at 24 February 2014 |
|---|---|---|---|---|
| 23-Sep-03 | $1.39 | 5,755 | (5,755) | – |
| **Total** | | **5,755** | **(5,755)** | **–** |

Refer to Note 19 for details regarding the guarantees between group companies.

## 28. Employee share growth share option plan

The Company had established an employee share option plan ("the Plan") for certain employees, under which it issued options at no cost for shares in the Company to the employees. The holder of an option is entitled to subscribe for one fully paid share for each option held (adjusted for bonus share issues), at an exercise price that is determined by reference to the market price at the time of issue of the options.

On the anniversary date of issue in each subsequent year 20% of the options issued become exercisable. Options only remain exercisable (subject to certain conditions and legislative provisions) whilst holders remain employed by the Company. The options terminate 10 years from the date they are issued and are equity settled. Principal officers and employees of the Company that participated in the Plan received an annual issue of options in respect of the number of shares equal to approximately 10% of their eligible earnings divided by the exercise price per share.

### Options issued and outstanding under the Plan:

| Date of issue | Exercise price | Issued | Outstanding options at 28 February 2013 | Exercised during period | Forfeited during period | Outstanding options at 24 February 2014 |
|---|---|---|---|---|---|---|
| 23-Sep-03 | $1.39 | 1,228,423 | 44,169 | (20,980) | (23,189) | – |
| **Total** | | **1,228,423** | **44,169** | **(20,980)** | **(23,189)** | **–** |

All options have now expired.

## 29. Subsequent events

### Dividends

The directors have declared a fully imputed final dividend of 10.0 cents per share for the 52 week period ended 24 February 2014 (2013: 9.5 cents).

### Acquisitions

On 25 March 2014 the Group purchased the KFC Mount Maunganui property and associated business assets for $3.8 million.

### Inventory ownership

In March 2014 the Group took over ownership of bulk warehouse stock that was previously owned and managed by an external third party logistics provider. As a consequence inventories and accounts payable balances will increase but the overall impact on working capital is expected to be minimal.

# INDEPENDENT AUDITORS' REPORT

to the shareholders of Restaurant Brands New Zealand Limited

## Report on the Financial Statements

We have audited the financial statements of Restaurant Brands New Zealand Limited ("the Company") on pages 30 to 63, which comprise the statements of financial position as at 24 February 2014, the statements of comprehensive income and statements of changes in equity and statements of cash flows for the period then ended, and the notes to the financial statements that include a summary of significant accounting policies and other explanatory information for both the Company and the Group. The Group comprises the Company and the entities it controlled at 24 February 2014 or from time to time during the financial year.

### Directors' Responsibility for the Financial Statements

The Directors are responsible for the preparation of these financial statements in accordance with generally accepted accounting practice in New Zealand and that give a true and fair view of the matters to which they relate 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.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider the internal controls relevant to the Company and the Group's preparation of financial statements that give a true and fair view of the matters to which they relate, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company and the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

We have no relationship with, or interests in, Restaurant Brands New Zealand Limited or any of its subsidiaries other than in our capacities as auditors and providers of accounting, taxation and other assurance services. These services have not impaired our independence as auditors of the Company and the Group.

### Opinion

In our opinion, the financial statements on pages 30 to 63:

(i) comply with generally accepted accounting practice in New Zealand;
(ii) comply with International Financial Reporting Standards; and
(iii) give a true and fair view of the financial position of the Company and the Group as at 24 February 2014, and their financial performance and cash flows for the period then ended.

## Report on Other Legal and Regulatory Requirements

We also report in accordance with Sections 16(1)(d) and 16(1)(e) of the Financial Reporting Act 1993. In relation to our audit of the financial statements for the period ended 24 February 2014:

(i) we have obtained all the information and explanations that we have required; and
(ii) in our opinion, proper accounting records have been kept by the Company as far as appears from an examination of those records.

## Restriction on Distribution or Use

This report is made solely to the Company's shareholders, as a body, in accordance with Section 205(1) of the Companies Act 1993. Our audit work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in an auditors' 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 shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

PricewaterhouseCoopers

Chartered Accountants
Auckland, New Zealand, 9 April 2014

# SHAREHOLDER INFORMATION

as at 14 April 2014

## 1. Stock exchange listing

The Company's ordinary shares are listed on the New Zealand Stock Exchange (NZX).

## 2. Distribution of security holders and security holdings

| Size of holding | Number of security holders | Percentage | Number of securities | Percentage |
|---|---|---|---|---|
| 1 to 999 | 1,110 | 18.35% | 577,973 | 0.59% |
| 1,000 to 4,999 | 3,079 | 50.90% | 6,224,974 | 6.36% |
| 5,000 to 9,999 | 874 | 14.45% | 5,708,193 | 5.83% |
| 10,000 to 49,999 | 882 | 14.58% | 15,273,230 | 15.61% |
| 50,000 to 99,999 | 64 | 1.06% | 4,088,859 | 4.18% |
| 100,000 to 499,999 | 34 | 0.56% | 5,834,116 | 5.96% |
| 500,000+ | 6 | 0.10% | 60,163,745 | 61.47% |
| | **6,049** | **100.00%** | **97,871,090** | **100.00%** |

| Geographic distribution | | | | |
|---|---|---|---|---|
| New Zealand | 5,848 | 96.68% | 91,841,457 | 93.84% |
| Australia | 114 | 1.88% | 5,343,899 | 5.46% |
| Rest of world | 87 | 1.44% | 685,734 | 0.70% |
| | **6,049** | **100.00%** | **97,871,090** | **100.00%** |

## 3. 20 largest registered holders of quoted equity securities

| | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|
| New Zealand Central Securities Depository Limited | 49,544,187 | 50.62% |
| Diab Investments NZ Limited | 5,000,000 | 5.11% |
| FNZ Custodians Limited | 2,509,201 | 2.56% |
| Investment Custodial Services Limited (account C) | 1,295,328 | 1.32% |
| JA Hong Koo & Pyung Keum Koo | 911,000 | 0.93% |
| NZPT Custodians (Grosvenor) Limited | 904,029 | 0.92% |
| Matthew Charles Goodson & Dianna Dawn Perron & Goodson & Perron Independent Trustee Limited | 496,666 | 0.51% |
| New Zealand Depository Nominee Limited (account 1) cash account | 446,862 | 0.46% |
| Guangqiang Chen | 326,375 | 0.33% |
| Forsyth Barr Custodians Limited | 265,623 | 0.27% |
| Russel Ernest George Creedy | 252,229 | 0.26% |
| Custodial Services Limited (account 3) | 222,054 | 0.23% |
| David George Harper & Karen Elizabeth Harper | 193,248 | 0.20% |
| Alan Sedgwick Limmer & Nina Agnes Limmer | 193,143 | 0.20% |
| Ja Seo Koo & Young Ran Koo | 190,000 | 0.19% |
| Investment Custodial Services Limited (account R) | 188,362 | 0.19% |
| Marcia Lynn Hane & William Lee Hane | 187,198 | 0.19% |
| FNZ Custodians Limited (DRP NZ account) | 183,625 | 0.19% |
| ASB Nominees Limited (569086 ML account) | 177,969 | 0.18% |
| FNZ Custodians Limited (DTA non resident account) | 171,569 | 0.18% |
| | **63,658,668** | **65.04%** |

## 3. 20 largest registered holders of quoted equity securities (continued)

New Zealand Central Securities Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to its members. As at 14 April 2014, the NZCSD holdings in Restaurant Brands were:

| | Number of ordinary shares | Percentage of ordinary shares |
|---|---|---|
| Tea Custodians Limited | 9,948,724 | 10.16% |
| Citibank Nominees (New Zealand) Limited | 9,764,299 | 9.98% |
| Accident Compensation Corporation | 8,846,427 | 9.04% |
| Westpac NZ Shares 2002 Wholesale Trust | 6,274,906 | 6.41% |
| New Zealand Superannuation Fund Nominees Limited | 4,393,477 | 4.49% |
| BT NZ Unit Trust Nominees Limited | 2,349,035 | 2.40% |
| BNP Paribas Nominees (NZ) Limited (COGN40) | 1,932,652 | 1.97% |
| JPMorgan Chase Bank NA | 1,860,731 | 1.90% |
| HSBC Nominees (New Zealand) Limited A/C State Street | 1,270,056 | 1.30% |
| BNP Paribas Nominees (NZ) Limited (BPSS40) | 1,100,050 | 1.12% |
| National Nominees New Zealand Limited | 719,602 | 0.74% |
| HSBC Nominees (New Zealand) Limited | 656,513 | 0.67% |
| Mint Nominees Limited | 157,964 | 0.16% |
| Private Nominees Limited | 145,198 | 0.15% |
| Public Trust Class 30 Nominees Limited | 105,000 | 0.11% |
| BNP Paribas Nominees (NZ) Limited (BPSS41) | 19,553 | 0.02% |
| | **49,544,187** | **50.62%** |

## 4. Substantial security holders

The following persons have given substantial security holder notices as shown by the register kept by the Company in accordance with section 35C of the Securities Markets Act 1988 as at 14 April 2014. The numbers of ordinary shares set out below are taken from the relevant substantial security holder notices.

| | Number of ordinary shares | Percentage of voting securities |
|---|---|---|
| Milford Asset Management Limited | 12,862,258 | 13.40% |
| Westpac Banking Corporation and BT Funds Management (NZ) Limited | 8,295,867 | 8.48% |
| Accident Compensation Corporation | 8,254,140 | 8.43% |
| D Diab | 5,000,000 | 5.14% |

## 5. Shares on issue

As at 14 April 2014, the total number of ordinary shares on issue was 97,871,090.

## 6. Directors' security holdings

| | Equity securities held | |
|---|---|---|
| | **2014** | 2013 |
| E K van Arkel | **50,000** | 50,000 |
| D Diab | **5,000,000** | 5,000,000 |

## 7. Stock exchange waiver

No waivers were sought or relied on from NZX during the period.

# STATUTORY INFORMATION

for the 52 week period ended 24 February 2014

## 1. Directorships

The names of the directors of the Company as at 24 February 2014 are set out in the Corporate Directory on page 74 of this annual report.

The following are directors of all subsidiary companies of the Group:
E K van Arkel and D A Pilkington.

The following are directors of Restaurant Brands Australia Pty Limited:
E K van Arkel, D A Pilkington, D Diab and G R Ellis.

## 2. Directors and remuneration

The following persons held office as directors during the 52 week period ended 28 February 2014 and received the following remuneration and other benefits:

| | **Directors' fees ($NZ)** |
|---|---|
| E K van Arkel | 84,995 |
| D Diab | 55,000 |
| D A Pilkington | 55,000 |
| S H Suckling | 55,000 |
| | **249,995** |

## 3. Entries recorded in the interests register

The following entries were recorded in the interests register of the Company and its subsidiaries during the year:

### a) Share dealings of Directors

No shares were purchased or sold by directors of the Company during the 52 week period ended 24 February 2014.

### b) Loans to Directors

There were no loans to directors during the 52 week period ended 24 February 2014.

## 3. Entries recorded in the interests register (continued)

### c) General disclosure of interest

In accordance with Section 140 (2) of the Companies Act 1993, directors of the Company have made general disclosures of interest in writing to the board of positions held in other named companies or parties as follows:

| Name | Position | Party |
|---|---|---|
| E K van Arkel | Chairman | Health Benefits Limited |
| | Chairman | The Warehouse Group Limited |
| | Director and Shareholder | Lang Properties Limited |
| | Director and Shareholder | Van Arkel & Co Limited |
| | Director | AWF Group Limited |
| | Director | Danske Mobler Limited |
| | Director | Auckland Regional Chamber of Commerce & Industry Limited |
| | Director | Abano Healthcare Group Limited |
| | Director | Philip Yates Securities Limited (and subsidiaries) |
| S H Suckling | Chairman | New Zealand Qualifications Authority |
| | Chairman | Barker Fruit Processors Limited (and subsidiaries) |
| | Chairman | ECL Group Limited |
| | Chairman | Callaghan Innovation Research Limited |
| | Director | Acemark Holdings Limited |
| | Director | SKYCITY Entertainment Group Limited |
| | Director | Oxford Health Group Limited and Oxford Clinic Hospital Limited |
| | Director | Jacobsen Holdings Limited |
| | Director | New Zealand Health Innovation Hub |
| | Member | Takeovers Panel |
| D A Pilkington | Chairman | Port of Tauranga Limited |
| | Chairman | Rangatira Limited (and subsidiaries) |
| | Chairman | Hellers Limited |
| | Director | Ballance Agri-Nutrients Limited (and subsidiaries) |
| | Director | Zespri Group Limited (and subsidiaries) |
| | Director | Douglas Pharmaceuticals Limited |
| | Director | Northport Limited |
| | Director | Primeport Timaru Limited |
| | Director and Shareholder | Excelsa Associates Limited |
| | Trustee | New Zealand Community Trust |
| D Diab | Director | Diab Investments NZ Limited |
| | Director | Diab Pty Limited |
| | Director | Diab Investments Pty Limited |
| | Director | Mainplay Investments Pty Limited |
| | Director | Diab Investments II Pty Limited |
| | Director | Mirrapol Holdings Pty Limited |
| | Director | Pizza Advertising Co-Operative Australia |
| | President | Australian Pizza Association |

## 3. Entries recorded in the interests register (continued)

**d) Directors' indemnity and insurance**

The Company has insured all its directors and the directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their position as directors. The insurance does not cover liabilities arising from criminal actions.

The Company has executed a deed of indemnity indemnifying all directors to the extent permitted by section 162 of the Companies Act 1993.

## 4. Employees' remuneration

During the period the following number of employees or former employees received remuneration of at least $100,000:

| | Number of employees | |
|---|---|---|
| | **2014** | 2013 |
| $100,000 – $109,999 | **6** | 6 |
| $110,000 – $119,999 | **4** | 5 |
| $120,000 – $129,999 | **3** | 3 |
| $130,000 – $139,999 | **3** | 1 |
| $140,000 – $149,999 | **2** | 2 |
| $150,000 – $159,999 | **2** | 5 |
| $160,000 – $169,999 | **1** | – |
| $170,000 – $179,999 | **–** | 2 |
| $180,000 – $189,999 | **2** | – |
| $190,000 – $199,999 | **–** | 1 |
| $210,000 – $219,999 | **–** | 1 |
| $220,000 – $229,999 | **1** | – |
| $310,000 – $319,999 | **–** | 1 |
| $320,000 – $329,999 | **1** | – |
| $660,000 – $669,999 | **–** | 1 |
| $690,000 – $699,999 | **1** | – |
| | **26** | 28 |

## 5. Subsidiary company directors

No employee of Restaurant Brands New Zealand Limited appointed as a director of Restaurant Brands New Zealand Limited or its subsidiaries receives, or retains any remuneration or other benefits, as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosed under Note 4 above.

# STATEMENT OF CORPORATE GOVERNANCE

for the 52 week period ended 24 February 2014

## Overview

The board of Restaurant Brands New Zealand Limited is committed to the guiding values of the Company: integrity, respect, continuous improvement and service. Whilst not formally constituted into a code of ethics, it expects that management and staff ultimately subscribe to these values and use them as a guide to making decisions. These values are reflected in a series of formal policies covering such matters as:

- Conflicts of interest
- Use of company property
- Use of company information
- Compliance with applicable laws

## Responsibility

The board is responsible for the proper direction and control of the Company's activities and is the ultimate decision-making body of the Company. Its responsibilities include setting strategic direction, approval of significant expenditures, policy determination, stewardship of the Company's assets, identification of significant business risks, legal compliance and monitoring management performance.

## Delegation

The board has delegated responsibility for the day-to-day leadership and management of the Company to the Chief Executive Officer (CEO) who is required to do so in accordance with board direction. The CEO's performance is reviewed each year by the board. The review includes a formal performance appraisal against measured objectives together with a qualitative review.

The board has approved a schedule of delegated authorities affecting all aspects of the Company's operation. This is reviewed from time to time as to appropriateness and levels of delegation.

## Composition and focus

As at 24 February 2014, the board comprised four non-executive directors (including the Chairman). In addition to committee responsibilities (below), individual board members work directly with management in major initiatives such as acquisitions and asset rationalisations.

Ted van Arkel, David Pilkington and Sue Suckling are considered by the board to be independent under the NZSX Listing Rules. Danny Diab is considered not to be independent as he represents a significant shareholding. The board does not have a policy on a minimum number of independent directors.

## Committees

From amongst its own members, the board has appointed the following permanent committees:

- Audit and Risk Committee. The members of the Audit and Risk Committee are David Pilkington (chairman), Ted van Arkel, Sue Suckling and Danny Diab. This committee is constituted to monitor the veracity of the financial data produced by the Company and ensure controls are in place to minimise the opportunities for fraud or for material error in the accounts. A majority of the committee's members must be independent directors.

  The Audit Committee meets two to three times a year, with external auditors of the Company and executives performing internal audit management from within the Company in attendance. The external auditors also meet with the committee with no Company executive present.

  The committee has adopted an audit charter setting out the parameters of its relationship with internal and external audit functions. The charter which is posted on the Company's website requires five yearly reviews of the external audit relationship and audit partner rotation.

- Appointments and Remuneration Committee. The members of the Appointments and Remuneration Committee are Sue Suckling (chairman), Ted van Arkel, Danny Diab, and David Pilkington. This committee is constituted to approve appointments and terms of remuneration for senior executives of the Company; principally the CEO and those reporting directly to the CEO. It also reviews any company-wide incentive and share option schemes as required and recommends remuneration packages for directors to the shareholders.

  The committee has adopted a written charter which is posted on the Company's website.

The board does not have a formal nominations committee, as all non-executive directors are involved in the appointment of new directors.

Other sub-committees may be constituted and meet for specific ad hoc purposes as required.

## Board appraisal and training

The board has adopted a performance appraisal programme by which it biennially monitors and assesses individual and board performance.

The Company does not impose any specific training requirements on its directors. The board believes all directors have considerable training and expertise. New directors complete an induction programme with company senior management.

## Insider trading

All directors and senior management of the Company are familiar with and have formally acknowledged acceptance of the Company's "Insider Trading Code" that relates to dealings in securities by directors and employees. A copy of the code is available on the Company's website.

## Size

The constitution prescribes a minimum of three directors and as at balance date there were four members of the board.

## Re-election

Under the terms of the constitution, one third of the directors (currently one) are required to retire from office at the annual meeting of the Company but may seek re-election at that meeting.

## Meetings

The board normally meets ten to twelve times a year and, in addition to reviewing normal operations of the Company, approves a strategic plan and annual budget each year.

Board meetings are usually scheduled annually in advance, although additional meetings may be called at shorter notice.

Directors receive formal proposals, management reports and accounts in advance of all meetings.

Executives are regularly invited to attend board meetings and participate in board discussion. Directors also meet with senior executives on items of particular interest.

Board and committee meeting attendance for the 52 week period ended 24 February 2014 was as follows:

| Name | Board meetings held | Board meetings attended | Audit and Risk Committee meetings held | Audit and Risk Committee meetings attended | Appointments and Remuneration Committee meetings held | Appointments and Remuneration Committee meetings attended |
|---|---|---|---|---|---|---|
| E K van Arkel | 11 | 10 | 2 | 2 | 1 | 1 |
| D Diab | 11 | 11 | 2 | 2 | 1 | 1 |
| D A Pilkington | 11 | 11 | 2 | 2 | 1 | 1 |
| S H Suckling | 11 | 11 | 2 | 2 | 1 | 1 |

## Board remuneration

Directors' fees for the 52 week period ended 24 February 2014 were set at $84,995 per annum for the Chairman and $55,000 for each non-executive director. Refer to the Statutory Information section of the annual report for more detail.

No directors currently take a portion of their remuneration under a performance-based equity compensation plan, although a number of directors do hold shares in the Company.

The terms of any directors' retirement payments are as prescribed in the constitution and require prior approval of shareholders in general meeting. No retirement payments have been made to any director.

## Directors' indemnity and insurance

The Company has insured all its directors and the directors of its subsidiaries against liabilities to other parties (except the Company or a related party of the Company) that may arise from their position as directors. The insurance does not cover liabilities arising from criminal actions.

The Company has executed a Deed of Indemnity, indemnifying all directors to the extent permitted by section 162 of the Companies Act 1993.

## Risk management

In managing the Company's business risks, the board approves and monitors policy and process in such areas as:

- Internal audit – Regular checks are conducted by operations and financial staff on all aspects of store operations.
- Treasury management – Exposure to interest rate and foreign exchange risks is managed in accordance with the Company's treasury policy.
- Financial performance – Full sets of management accounts are presented to the board at every meeting. Performance is measured against an annual budget with periodic forecast updates.
- Capital expenditure – All capital expenditure is subject to relevant approval levels with significant items approved by the board. The board also monitors expenditure against approved projects and approves the capital plan.
- Insurance – The Company has insurance policies in place covering most areas of risk to its assets and business. These include material damage and business interruption cover at all of its sites. Policies are reviewed and renewed annually with reputable insurers.

## External advice

Directors may seek their own independent professional advice to assist with their responsibilities. During the 2014 financial year no director sought their own independent professional advice, but the board sought advice with respect to market levels of director remuneration.

## Shareholding

There is no prescribed minimum shareholding for directors, although some do hold shares in the Company (refer to the Statutory Information section of the report for more detail).

Directors may purchase shares upon providing proper notice of their intention to do so and in compliance with the operation of the Company's "Insider Trading Code" (see above).

## Interests register

The board maintains an interests register. In considering matters affecting the Company, directors are required to disclose any actual or potential conflicts. Where a conflict or potential conflict has been disclosed, the director takes no further part in receipt of information or participation in discussions on that matter.

## Shareholder communication

The board places importance on effective shareholder communication. Half year and annual reports are published each year and posted on the Company's website, together with quarterly sales releases. From time to time the board may communicate with shareholders outside this regular reporting regime.

Consistent with best practice and a policy of continuous disclosure, external communications that may contain market sensitive data are released through NZX in the first instance. Further communication is encouraged with press releases through mainstream media. The board formally reviews its proceedings at the conclusion of each meeting to determine whether there may be a requirement for a disclosure announcement.

Shareholder attendance at annual meetings is encouraged and the board allows extensive shareholder debate on all matters affecting the Company.

## Auditor independence

The board manages the relationship with its auditors through the Audit and Risk Committee. The Company's external auditors are currently permitted to provide non-audit services to the Company with the approval of the Audit and Risk Committee.

Auditors' remuneration is disclosed in Note 5 to the financial statements.

## Diversity policy

The Company does not have a formal diversity policy. However it recognises the wide-ranging benefits that diversity brings to an organisation and its workplaces. Restaurant Brands endeavours to ensure diversity at all levels of the organisation to ensure a balance of skills and perspectives are available in the service of our shareholders and customers.

As at 24 February 2014, the gender balance of the Company's directors, officers and all employees is as follows:

| | Directors | | | | Officers | | | | Employees | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2014 | | 2013 | | 2014 | | 2013 | |
| Female | 1 | 25% | 1 | 25% | 4 | 40% | 4 | 44% | 1,909 | 52% | 1,920 | 52% |
| Male | 3 | 75% | 3 | 75% | 6 | 60% | 5 | 56% | 1,782 | 48% | 1,805 | 48% |
| Total | 4 | 100% | 4 | 100% | 10 | 100% | 9 | 100% | 3,691 | 100% | 3,725 | 100% |

## NZX corporate governance best practice code

In almost all respects, the Company's corporate governance practices conform with the NZX Corporate Governance Best Practice Code (the "Code"). The only areas in which the Company's practices vary from the Code are: it has not adopted a formal code of ethics, does not remunerate directors under a performance based equity compensation plan, does not impose specific training requirements on its directors and does not have a nominations committee.

# CORPORATE DIRECTORY

**Directors:**

E K (Ted) van Arkel (Chairman)
Sue Helen Suckling
Danny Diab
David Alan Pilkington

**Registered office:**

Level 3
Building 7
Central Park
666 Great South Road
Penrose
Auckland 1061
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**Share registrar:**

Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna

Private Bag 92 119
Auckland 1142
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Telephone: 64 9 488 8700

**Auditors:**

PricewaterhouseCoopers

**Solicitors:**

Bell Gully
Harmos Horton Lusk
Meredith Connell

**Bankers:**

Westpac Banking Corporation

**Contact details:**

**Postal Address:**

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Telephone: 64 9 525 8700
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# FINANCIAL CALENDAR

**Annual meeting:**
26 June 2014

**Close of register for final dividend:**
13 June 2014

**Final dividend paid:**
27 June 2014

**Interim profit announcement:**
October 2014

**Interim dividend paid:**
November 2014

**Financial year end:**
2 March 2015

**Annual profit announcement:**
April 2015

# NOTES

www.restaurantbrands.co.nz