Restaurant Brands New Zealand Limited
Annual Report 31 December 2019

What's new on the menu?

Edging towards our **$1 billion dollar target.** Opening **100 new stores** in the next five years. **Expanding in the USA.**

And that's just for starters.

Contents

About Restaurant Brands:

Restaurant Brands New Zealand Limited operates the KFC, Pizza Hut, Taco Bell and Carl's Jr. brands in New Zealand, the KFC and Taco Bell brands in Australia and the Taco Bell and Pizza Hut brands in Hawaii and Guam. These brands - four of the world's most famous - are distinguished for their product, look, style, ambience and service and for the total experience they deliver to their customers around the world.

There's a lot happening, we're increasing our appetite.

A new annual report already. We've changed our financial year to end on 31 December, reflecting just ten months of trading. The report is earlier than usual to align with that of our new majority owner, Finaccess Capital, which acquired a 75% stake in Restaurant Brands in April 2019. In addition, Yum!, our company's major franchisor, also balances at the end of December.

The latter half of the year has seen Restaurant Brands surge to an unprecedented level of performance. Our performance domestically and internationally continues to take our growth even further, reaching ever closer to our billion dollar revenue goal.

Taco Bell continues to succeed with double-digit growth in sales in Hawaii thanks to our recent store refurbishment programme. And with consumer anticipation at a high, we've just launched the brand in New Zealand and Australia, where we expect similar significant growth. Meanwhile KFC continues to perform well in both New Zealand and Australia.

The continued performance of these brands will be fuelled by our commitment to open 100 new restaurants in the next 5 years.

Our expansion strategy continues with the recent acquisition of 70 stores in Southern California, USA*, and our growth continues. As usual.

* Pending Yum! and landlord approval

Financial Highlights

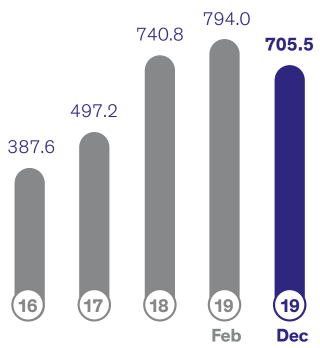
Historical summary

All figures in $NZ millions unless stated	52 Weeks 29 Feb 2016	52 Weeks 27 Feb 2017	52 Weeks 26 Feb 2018	52 Weeks 25 Feb 2019	44 Weeks 31 Dec 2019
Financial performance					
Sales*					
KFC	282.5	296.5	319.6	336.5	308.4
Pizza Hut	44.9	40.5	41.1	35.4	28.5
Starbucks Coffee	26.8	26.7	25.8	16.0	–
Carl's Jr.	33.4	36.3	34.9	31.9	29.9
Taco Bell	–	–	–	–	0.7
Total sales – New Zealand	**387.6**	**400.0**	**421.4**	**419.8**	**367.5**
KFC	–	97.2	151.8	191.5	168.5
Taco Bell	–	–	–	–	0.6
Total sales – Australia	**–**	**97.2**	**151.8**	**191.5**	**169.1**
Taco Bell	–	–	95.5	106.0	101.6
Pizza Hut	–	–	72.0	76.7	67.3
Total sales – Hawaii	**–**	**–**	**167.5**	**182.7**	**168.9**
Total sales	**387.6**	**497.2**	**740.8**	**794.0**	**705.5**
Concept EBITDA before G&A*					
KFC	57.2	61.4	66.5	70.4	66.1
Pizza Hut	4.9	4.1	3.2	2.0	0.9
Starbucks Coffee	4.4	4.8	4.8	3.1	–
Carl's Jr.	0.4	1.0	2.0	0.9	1.3
Taco Bell	–	–	–	–	(0.3)
Total concept EBITDA New Zealand	**66.9**	**71.2**	**76.5**	**76.4**	**67.9**
KFC	–	15.0	22.0	29.1	25.9
Taco Bell	–	–	–	–	(0.7)
Total concept EBITDA Australia	**–**	**15.0**	**22.0**	**29.1**	**25.2**
Taco Bell	–	–	19.4	21.0	20.5
Pizza Hut	–	–	4.7	2.8	2.3
Total concept EBITDA Hawaii	**–**	**–**	**24.1**	**23.7**	**22.9**
Total concept EBITDA	**66.9**	**86.2**	**122.6**	**129.2**	**116.0**
EBIT	34.1	39.4	57.8	56.2	64.4
NPAT (reported)	24.1	26.0	35.5	35.7	30.1
Financial position/cash flow					
Share capital	26.8	143.4	148.5	154.6	154.6
Total equity	75.6	192.1	201.6	224.7	208.0
Total assets	139.8	302.4	453.0	460.3	879.9
Operating cash flows	44.3	47.9	67.8	71.3	87.6
Shares					
Shares on issue (year end)	97,871,090	122,843,191	123,629,343	124,758,523	124,758,523
Number of shareholders (year end)	6,018	6,294	7,005	7,127	6,026
Basic earnings per share (full year reported)	24.6c	24.1c	28.8c	28.8c	24.1c
Ordinary dividend per share	21.0c	23.0c	28.0c	0c	0c
Other					
Number of stores (year end)					
KFC	91	92	94	94	100
Pizza Hut	39	35	36	30	29
Starbucks Coffee	25	24	22	–	–
Carl's Jr.	18	19	19	18	18
Taco Bell	–	–	–	–	1
Total stores – New Zealand	**173**	**170**	**171**	**142**	**148**
KFC	–	42	61	61	63
Taco Bell	–	–	–	–	2
Total stores – Australia	**–**	**42**	**61**	**61**	**65**
Taco Bell	–	–	37	36	37
Pizza Hut	–	–	45	44	37
Total stores – Hawaii	**–**	**–**	**82**	**80**	**74**
Total stores	**173**	**212**	**314**	**283**	**287**
Employees (partners) – New Zealand	3,363	3,422	3,596	3,484	3,777
Employees (partners) – Australia	–	2,354	3,275	3,360	3,887
Employees (partners) – Hawaii	–	–	2,185	2,007	1,935
Total employees (partners)	**3,363**	**5,776**	**9,056**	**8,851**	**9,599**

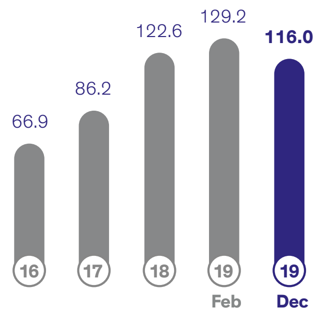
* Sales and concept EBITDA for each of the concepts may not aggregate to the total due to rounding.

Year in review

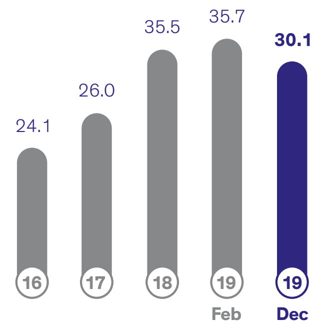
TOTAL SALES ($NZ M)



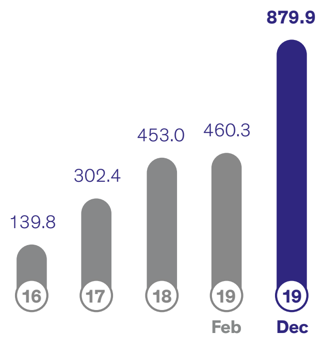
TOTAL CONCEPT EBITDA ($NZ M)



NPAT (REPORTED) ($NZ M)



TOTAL ASSETS ($NZ M)



New balance date

Following the announcement of a change in balance date for the company in October 2019, the trading results for the December 2019 period are for only 44 weeks (10 months) vs 52 weeks (12 months) for the February 2019 period previously reported.

Total sales

Total sales for the 10 month period were $705.5 million, down against the previous 12 month period, but positive on a same store basis across all three operating divisions. On an equivalent 12 month basis sales were up over 5%.

Total concept EBITDA[1]

Combined store EBITDA[1] (pre NZ IFRS 16) for the 10 months was $116.0 million, down 10.3% on the previous 12 month period; however on an equivalent 12 month basis, EBITDA is up over 6% at $137.1 million.

Net profit after tax

Reported net profit after tax of $30.1 million for the 10 month period was adversely impacted by the shorter reporting period and the adoption of NZ IFRS 16.

Taco Bell launched

The Taco Bell brand was successfully launched in New Zealand and Australia (New South Wales) with the first three stores opening in the last quarter of the December 2019 year.

Acquisition of 70 new stores

The company has entered into a conditional agreement to acquire 70 KFC and Taco Bell stores in California to be settled in the first half of the December 2020 financial year.

1 EBITDA is earnings before interest, tax, depreciation and amortisation. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS.

It’s no longer a strategic intent, we’re reaching our goal…

$867.1M

growing all the time...

Taco Bell

New Zealand and Australia

Targeting

60

new stores over 5 years.

KFC

New Zealand and Australia

Targeting

40

new stores over 5 years.

5-7 new stores p.a.

...and seizing opportunity for expansion.

KFC & Taco Bell

Mainland USA

70*

new stores in mainland USA*

* Pending Yum! and landlord approval

Chairman and CEO’s Report

We’re hitting our targets. Scaling new heights.

Chairman and CEO's Report

"Significant growth is expected in Taco Bell sales as the brand builds towards an initial target of approximately 60 stores by 2024."

$NZm	Dec 2019 (44 weeks)	Feb 2019 (52 weeks)	Change ($)	Change (%)
Total sales	**705.5**	794.0	-88.5	-11.1
Net profit after tax (NPAT)	**30.1**	35.7	-5.6	-15.8

Note: With the change in balance date announced last year, these reported results are for the 44 weeks ended 31 December 2019 whereas the prior year comparisons are for the 52 weeks ended 25 February 2019. A comparable unaudited "gross up" summary is included on page 54 of this report.

Overview

Restaurant Brands changed its balance date from February to 31 December during the year. Hence the financial results for the reporting period to December 2019 (December 19) are for 44 weeks compared with 52 weeks in the prior year (February 19). The company also saw the first full period impact of the adoption of leasing standard NZ IFRS 16 on the financial results. These two factors contributed to a reported NPAT of $30.1 million, down $5.6 million on the 52 week result of $35.7 million last year.

When excluding the negative impact of NZ IFRS 16 leases, the shorter accounting period and (for the previous year) the impact of some significant one-off costs, the comparable NPAT is $45.7 million, up 8.3% on the prior year equivalent. This was primarily driven through an aggressive capital investment programme and continued positive trading momentum across the key brands.

Taco Bell was successfully launched in New Zealand and New South Wales Australia with three stores opened during the last quarter of the year. The introduction of Taco Bell in these markets had a minimal impact on this year's results. However, significant growth is expected in Taco Bell sales as the brand builds towards an initial target of approximately 60 stores by 2024.

$30.1M

Net profit after tax

Group operating results

Directors are pleased to report that Restaurant Brands has produced a NPAT for the period ended 31 December 2019 of $30.1 million, down 15.8% on the reported NPAT of $35.7 million for the prior year. As previously noted this year's reported NPAT is for 44 weeks compared to 52 weeks in the prior year and includes the impact of the introduction of NZ IFRS 16 (the new lease accounting standard).

$NZm after tax	Dec 2019	Feb 2019	Change ($)	Change (%)
Reported NPAT	**30.1**	**35.7**	**-5.6**	**-15.8**
Impact of NZIFRS 16	4.5	–	4.5	–
Other income & expenses	4.0	6.5	-2.5	-38.5
Change of balance date*	7.1	–	7.1	–
Comparable Trading NPAT	**45.7**	**42.2**	**3.5**	**8.3**

* Estimated (unaudited) NPAT for the eight weeks to February 2020, based on the audited NPAT for the 44 weeks to December 2019, excluding the impact of NZ IFRS 16 and other income & expenses.

The above table sets out a like-for-like comparison of the current year's 10 month result versus the prior year 12 months' normalised trading. After adjusting for the negative impact of the new lease standard ($4.5 million) and the shorter trading period (estimated at $7.1 million), together with the positive impact of lower net income and expenses unrelated to normal trading ($2.5 million), the underlying trading profit is estimated at $45.7 million (up 8.3% on the prior equivalent year).

Total brand sales for the Group were $705.5 million, down $88.5 million when compared with the 52 week comparison; however on a like-for-like annualised footing they are up approximately 5% and were positive on a same store basis in all three divisions.

Combined store EBITDA (pre-NZ IFRS 16) of $116.0 million was down $13.3 million or -10.3% on prior year, although on full year annualised basis the results were up over 6% due to strong performances primarily from KFC in NZ and Australia and Taco Bell in Hawaii. EBITDA margin (as a % of sales) improved from 16.3% to 16.4%.

Due to the difficulty of making direct comparisons between reporting periods resulting from the change in balance date the following divisional analysis will focus more on same store sales and EBITDA margin as a % of sales as these operational performance measures are not affected by the change in reporting period or the lease standard.

Restaurant Brands' store numbers currently total 287, comprising 148 in New Zealand, 74 in Hawaii and 65 stores in Australia.

$705.5M

Total brand sales

New Zealand operations

New Zealand operating revenue for the 44 weeks ended 31 December was $395.5 million, down $56.3 million on the 52 week February 2019 year, including a $16.0 million reduction in sales due to the disposal of the Starbucks Coffee business during the prior year.

Total store sales were $367.5 million, a decrease of $52.2 million on last year. However, when normalised for 12 months New Zealand sales were up 3.5% and same store sales were strongly up 5.0%.

The New Zealand business delivered EBITDA of $67.9 million, an $8.5 million reduction on February 2019; however on an annualised basis the result is up 5% up on the prior year. Overall the New Zealand operations achieved a concept EBITDA before G&A % to sales of 18.5%, up from 18.2% last year. Once again this was largely driven by the continued strong performance of the KFC brand.

KFC New Zealand

$NZm	Dec 2019	Feb 2019	Change ($)	Change (%)
Network sales	**325.8**	356.9	-31.1	-8.7
Network store numbers	**106**	100		
RBD sales	**308.4**	336.5	-28.1	-8.4
RBD store numbers	**100**	94		
RBD EBITDA	**66.1**	70.4	-4.3	-6.1
EBITDA as a % of sales	**21.4**	20.9		

KFC New Zealand continues to underpin the overall performance of the New Zealand operations with another excellent year. Although reported sales were down 8.4% to $308.4 million due to the 44 week reporting year, same store sales were up 5.2% and total full year equivalent sales up 8.3%.

The KFC sales growth was driven by sound marketing programmes, a further roll out of KFC delivery to more than 40 stores, six new store openings, some very strong new product releases and continued positive impact from the sponsorship of Super Rugby.

Whilst there remains input cost pressures, the EBITDA margin strengthened to 21.4% of sales. In dollar terms, EBITDA for the 44 weeks totalled $66.1 million, down 6.1% on last year's (52 week) result, but on a 52 year equivalent basis was up 10.9% to $78.1 million.

The brand continued delivering investment in store assets with ten major renovations completed during the year, along with the opening of up to six new stores.

Pizza Hut New Zealand

$NZm	Dec 2019	Feb 2019	Change ($)	Change (%)
Network sales	85.2	101.0	-15.8	-15.6
Network store numbers	102	98		
RBD sales	28.5	35.4	-6.9	-19.3
RBD store numbers	29	30		
RBD EBITDA	0.9	2.0	-1.1	-56.1
EBITDA as a % of sales	3.1	5.7		

Transformation of the Pizza Hut network in New Zealand to a master franchise model continues on plan with the sale of three stores to franchisees during December 19. The company remains on target to reduce the number of company stores to 15 by the end of the next financial year.

Company owned store numbers decreased by one to 29, whilst the number of independent franchisee stores has increased to 73, bringing the total Pizza Hut network to 102 stores. During the period two stores were closed and six new stores were opened.

In company owned stores, total sales were down to $28.5 million, which is due to the reduced reporting period, less stores and lower same store sales. On an annual equivalent basis they were $33.7 million, down 4.7%. Same store sales declined by 4.1% over the period.

Restaurant Brands' Pizza Hut store EBITDA was $0.9 million (3.1% of sales), reflecting continued margin pressures with labour rates and ingredient costs increases.

+6

New Pizza Hut New Zealand stores opened

Carl's Jr. New Zealand

$NZm	Dec 2019	Feb 2019	Change ($)	Change (%)
Sales	29.9	31.9	-2.0	-6.1
Store numbers	18	18		
EBITDA ($m)	1.3	0.9	+0.4	+41.0
EBITDA as a % of sales	4.4	2.9		

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

Reported sales were down 6.1% due to the reduced reporting period although on an annualised basis sales were up 11.0%. The introduction of a delivery service in February 2019 continues to have a positive impact with strong same store sales growth of 11.3% helping drive profitability into the brand. Store numbers remained stable at 18.

EBITDA was $1.3 million (4.4% of sales vs 2.9% last year), an increase of $0.4m on the prior year despite the reduced reporting period.

Taco Bell New Zealand

In November the first Taco Bell was opened in New Lynn Mall, Auckland. The store opened with a first week's sales of over $110,000 and delivered over $0.7 million in sales in its first two months trading, significantly up on expectations. With establishment costs, the business incurred a small loss of $0.3 million for the year.

Australian operations

In $NZ terms, the Australian business (operating the KFC and Taco Bell brands) contributed total sales of $NZ169.1 million, store EBITDA of $NZ25.2 million and EBIT of $NZ8.6 million. On an annualised basis both sales and store EBITDA are up on the prior year.

Store EBITDA was impacted by a loss of $NZ0.7 million relating to the initial launch of the first two Taco Bell stores in December 2019.

KFC Australia

$Am	Dec 2019	Feb 2019	Change ($)	Change (%)
Sales	159.6	178.3	-18.7	-10.5
Store numbers	63	61		
Store EBITDA	24.5	27.0	-2.5	-9.3
EBITDA as a % of sales	15.4	15.2		

In $A terms, total sales for the KFC business in Australia were $A159.6 million, down $A18.7 million (or 10.5%) on last year due to the reduced reporting period. Same store sales continue to remain strong, up 5.1% on last year. On a full year equivalent basis sales were up 5.8% or $A10.3 million.

Store EBITDA of $A24.5 million was down $A2.5 million or -9.3% on last year due to the reduced reporting period. Full year equivalent EBITDA however was $A29.0 million, up over 7.4%. Store EBITDA as a percentage of sales is 15.4%, up from 15.2%, with good operating controls.

The company owned KFC store network totalled 63 stores as at balance date. One store was opened in the last quarter of the year along with one store acquired in December 2019. The business has continued to invest in the store upgrade programme with 14 stores completed in the financial year.

+5.1%

KFC Australia same store sales

Taco Bell New South Wales Australia

In December the first two Taco Bell stores were opened in Jesmond and Blacktown in New South Wales with initial sales exceeding expectations at $A0.6 million. As with the New Zealand Taco Bell business, initial set up costs have resulted in a small EBITDA loss of $A0.7 million.

Hawaii operations

In $NZ terms, the Hawaiian operations contributed $NZ168.9 million in revenues, $NZ22.9 million in brand EBITDA (pre-NZ IFRS 16) and an EBIT of $NZ8.1 million for the period ended December 19.

Total sales in Hawaii were $US110.6 million, with store level EBITDA of $US15.0 million. Once again Taco Bell had a very strong result with sales and margins well ahead of expectations. Whilst Pizza Hut continues to be challenged, facing increased margin pressures, the results this period were much improved. Same store sales in Hawaii were up 9.1% overall.

Taco Bell Hawaii

$USm	Dec 2019	Feb 2019	Change ($)	Change (%)
Sales	66.5	72.3	-5.8	-8.0
Store numbers	37	36		
Store EBITDA	13.5	14.3	-0.8	-5.6
EBITDA as a % of sales	20.2	19.8		

Taco Bell continues to perform very well with total sales of $US66.5 million and store level EBITDA of $US13.5 million (20.2% of sales). Full year equivalent sales and EBITDA are $US78.6 million (+8.7%) and $US15.9 million (+11.2%) respectively. A full promotional programme including both new product releases and the re-introduction of previously successful products, together with initial returns from refurbished stores all helped to drive the strong sales growth which resulted in same store sales of +13.7%.

Pizza Hut Hawaii

$USm	Dec 2019	Feb 2019	Change ($)	Change (%)
Sales	44.1	52.4	-8.3	-15.8
Store numbers	37	44		
Store EBITDA	1.6	1.9	-0.3	-15.8
EBITDA as a % of sales	3.4	3.6		

Total sales were $US44.1 million, up 3.0% on a same store basis. Store level EBITDA was $US1.6 million, down only $0.3 million despite the shorter reporting period. Margin pressure from participating in US wide value led marketing promotions together with higher commodity and direct labour expenses continue meaning EBITDA as a percentage of sales remained similar to prior period at 3.4%.

There has been a review and realignment of the store network resulting in seven stores closing during the period. This is in line with our refurbishment strategy that will see a move away from the larger restaurants into smaller, more cost-effective delivery and carry out (delco) units.

A new franchise agreement has been agreed in principle with Yum!, providing certainty for the brand going forward.

Corporate & other

General and administration (G&A) costs were $33.3 million, down $2.5 million from last year due to the reduced reporting period, but were up $3.6 million on a normalised annual basis. G&A as a % of total revenue was 4.5% which is consistent with the February 2019 year.

Depreciation charges of $47.6 million for December 19 were $17.3 million higher than the prior year primarily due to the impact of $22.4 million on the right of use assets created under NZ IFRS 16. Excluding the effect of NZ IFRS 16 depreciation was $25.3 million down $5.1 million due to the change in reporting period.

Financing costs of $21.5 million were up $14.7 million on the prior year once again reflecting the impact of NZ IFRS 16 with lease interest of $16.4 million. Interest on debt for the period ended 31 December 19 was $5.1 million, down $1.7 million on last year reflecting the shorter reporting period.

Tax expense was $12.8 million, down $0.9 million on the prior year with an effective tax rate of 29.9% (27.7% for February 19) without the one off benefit of non-assessable income in the prior year.

Other items

Other net income and expenses of $4.6 million is down from $9.0 million for the prior year. December 19 includes continued costs for refurbishment and relocation of stores of $3.2 million.

The February 19 figure included $3.5 million leave remediation costs and an impairment charge of $3.5 million relating to Carl's Jr. asset carrying value in New Zealand, partially offset by a gain on the sale of the Starbucks Coffee business. These were not repeated in the current December 2019 year.

Cash flow & balance sheet

The composition of the Group's balance sheet is significantly affected by the introduction of NZ IFRS 16. Its introduction has increased the total assets of the Group by $374.6 million primarily due to the inclusion of $356.1 million in right of use assets associated with the Group leased property and the deferred tax asset created from the adoption of the standard. Equally there has been an increase of $426.3 million in liabilities reflecting the future discounted lease liability on these leased stores.

Other than the impact of NZ IFRS 16 the balance sheet is largely unchanged with the exception of net debt (loans less cash holdings) which has reduced by $11.5 million to $119.4 million reflecting the build up in cash from not paying an interim dividend in preparation for the acquisition in California. The company's New Zealand and Australian banking facilities expire in October 2020 therefore $101.6 million was included in current liabilities. Subsequent to year end new facility agreements were signed with Westpac Banking Corporation, Bank of China, Rabobank and J.P. Morgan for a new facility for approximately $370 million for refinancing existing debt together with funding of the new California acquisition.

Operating cash flows were up $16.4 million to $87.6 million due once again to the impact of NZ IFRS 16 with $16.0 million of lease payments classified as financing activities (as payments of lease principal). After adjusting for NZ IFRS 16, the operating cash flows are up $0.3 million to $71.6 million (despite the change in the reporting period) reflecting continuing strong profitability (and some working capital movements).

Net investing cash outflows were $59.7 million (versus $26.7 million last year) with payments for fixed assets and intangibles of $59.7 million up from $36.9 million including the scrape and rebuild of three Taco Bell stores in Hawaii, building three new Taco Bell stores in New Zealand and Australia and significant KFC refurbishment expenditure in both those markets. Last year's net investing cash flows also included $10.2 million received from the sale of nine Pizza Hut stores and the Starbucks Coffee business.

US expansion

On 23 December 19 the company announced that it had entered into a conditional agreement to acquire 59 KFC and 11 joint KFC/Taco Bell stores in California, USA for $US73 million. The business generates an annual turnover of $US95 million and has a 12 month trailing store EBITDA in excess of $US12 million.

This initiative, which has been well signalled to the market is a sound strategic move, providing immediate critical mass in two very strong brands. It also provides significant growth potential for further expansion into mainland USA.

The transaction is contingent upon Yum! approval and satisfactory assignment of leases and other critical contracts for the business. It is expected to be completed early in the 2020 calendar year.

Outlook

Following the introduction of the Taco Bell brand to New Zealand and Australia (New South Wales) at the end of December 19, the focus remains on investing to build brand presence. While we do not forecast the brand to be margin positive, it is not expected to have a material effect on the result in the year to December 20.

The conditional acquisition of 59 KFC and 11 joint KFC/Taco Bell stores in California will have a considerable impact on the balance sheet and earnings profile once completed. Once the acquisition is finalised (provisionally March-April 2020) further details as to the financial impact on the company's results will be provided.

Further updates will be provided at the annual meeting.

Acknowledgements

Restaurant Brands has over 9,500 employees serving customers across our three divisions. This amazing team of people deliver a great product and provide a fantastic service to our customers. We are also fortunate to have the support of an extraordinary group of shareholders and board members whose guidance and trust has proven invaluable for our Company. Our sincere thanks to the entire team as we appreciate the passion and dedication put in by our staff and leaders, as this is what makes Restaurant Brands a success.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting of the company will be held in Auckland, New Zealand on Thursday 28 May 2020.

José Parés
Chairman of the Board

Russel Creedy
Group CEO

29 February 2020

At the time of publishing this annual report COVID-19 has been declared a public health emergency across the world. Up to now it has had no material effect on the results of the business in any of the geographic locations that Restaurant Brands currently operates, however following recent developments there is now likely to be a significant adverse impact on the Group's financial results in FY 20 financial year, although the value of that impact cannot be determined at this stage. We are aware that this is a rapidly changing situation which does create uncertainty for all our stakeholders. We continue to monitor the situation closely and take appropriate action based on advice from the authorities and we will continue to operate in the best interests of the health and safety of our staff and customers. Our thoughts are with the people affected by the COVID-19 virus.

26 March 2020

“Since acquisition we have seen RBD continue to perform very strongly in its current businesses (with record sales and profits across all three divisions).”

Q&A

José Parés

An interview with José Parés, Chairman of Restaurant Brands on the Company and its major shareholder, Finaccess.

Q. Finaccess acquired its 75% stake in Restaurant Brands on April 1 last year. After ten months of ownership are there any regrets on the purchase?

A. Certainly not, we acquired a solid performing company with a sound growth strategy and a stable management team. Since acquisition we have seen RBD continue to perform very strongly in its current businesses (with record sales and profits across all three divisions) and begin to execute its US expansion strategy with the agreement to purchase 70 KFC stores in California.

Q. Where are you expecting to see further growth in the coming year?

A. In addition to continued same store sales growth across its major brands in New Zealand, Australia and Hawaii we are looking forward to seeing a rapid new store build programme in New Zealand with both infill KFC stores and the new Taco Bell business. Furthermore we anticipate our plans to begin building KFC stores in the Hawaii market to start coming to fruition in the coming months.

As always we are constantly on the look out for acquisition opportunities, particularly in Australia.

Q. It was good to see the company announce the US mainland KFC acquisition on 23 December. Are you expecting this investment to grow?

A. The company has always seen this acquisition as a "beach head" or first step into the US mainland. Whilst it is a very sound operation with sales of $US95 million and a store EBITDA of $US12 million, we have bought the business for its growth potential. The California market is relatively under-penetrated by KFC and we are already looking at new store opportunities. As we have with our Australian business, we are looking to acquire small franchisees operating in the Southern California area. These businesses can be easily integrated into our existing network and contribute additional margin with minimal additional overhead.

Q. Clearly RBD has a plethora of growth opportunities. How are you proposing to fund these?

A. As we have previously signalled, our preference is for RBD to fund its growth out of existing cash flows in the first instance. Hence the dividend reduction. Secondly RBD is relatively lightly geared and can take on considerably more debt to fund growth initiatives. To that end we have recently renegotiated our banking facilities to better position the company to do so.

Q. There has been a complete change to the RBD board since acquisition. Can you comment on the composition and capabilities of the company's directors.

A. I believe that we have a good balance of backgrounds and skills with the current board. Independent directors Lyn and Stephen both have solid governance experience in the New Zealand environment and Emilio, our third independent director, has a strong financial background with large corporates. Carlos, Luis Miguel and I as non-independents have wide commercial backgrounds through our involvement in Grupo Modelo and our more recent experience with AmRest, a very similar company to Restaurant Brands.

Q. What have you done to ensure senior management retention after the takeover?

A. As a new board we liked the previous long term incentive scheme that was in place, linking reward for senior executives to enhanced shareholder value through share price appreciation. We are currently working on a new and similar scheme and expect to be able to make an announcement on this shortly.

Q. What factors determine when a dividend will next be paid?

A. As I said earlier, Restaurant Brands has identified a number of tremendous potential growth opportunities, which we are keen to encourage. These opportunities all require additional capital and it was our assessment that it made more sense to use retained earnings in the first instance to fund this growth, rather than return capital to shareholders in the form of a dividend and then seek the money back again through an equity raising.

That said, this company generates excellent cash flows and we believe that there may be a hiatus between such opportunities to consider a future dividend. Directors consider the dividend position on a regular basis.

Q. Why the change to Restaurant Brands' financial year?

A. Finaccess' financial year ends on 31 December and as a subsidiary of Finaccess it made sense for Restaurant Brands to conform to their reporting regime. It is worth noting that Yum!, the company's major franchisor also balances at the end of December.

Q. Does Finaccess have any plans to acquire the shares it does not already own?

A. Finaccess is comfortable with its current 75% holding in Restaurant Brands.

It welcomes the public company disciplines that Restaurant Brands operates under and enjoys having some flexibility, if necessary, to adjust its holding (although no changes are immediately planned). Finaccess has held varying levels of shareholding over a number of years in AmRest, a similarly listed public company operating in much the same businesses as Restaurant Brands in Europe and currently holds 67% of the stock on issue.

Q. Have you made any changes to the company's growth strategy since acquisition?

A. We continue to encourage management to pursue further organic growth through strong operations and marketing, together with enhancing ordering and product delivery capability. We also still see continuing inorganic growth opportunities in new store builds and acquisitions as the opportunity arises.

Q. Are you seeing any impact on the company from the recent COVID-19 virus crisis?

A. At time of interview there has been very little impact on RBD arising from the crisis, but we are very much aware of the potential impact of the outbreak on our staff individually and our operations in all three markets as a whole. We have ensured that management are taking every precaution and a number of contingency plans have been developed to meet the threat.

"We are constantly on the look out for acquisition opportunities, particularly in Australia."

Global brands. Local tastes.

Tailored to fit

When it comes to taste and brand appeal, 'one size does not fit all'. Some operators in our industry might like to think so but not as far as we're concerned. In RBD's (and its franchisors') books, achieving the right balance between international and local brand success is a fine art.

Consider food. It's easy to understand and accept the likely differences between, say, French and German palates, just as it is between Asian and US tastes. But did you know for example that ketchup preferences differ between Australia and New Zealand? It's this attention to the detailed nuances of individual markets – listening to consumers, understanding and meeting their needs – that ultimately determines overall business performance.

It's not just the taste experience we have to get right, brand experience is just as pivotal. KFC is well established in Australia and New Zealand – as it is around the world. People in our markets are very familiar with the brand. But similarities notwithstanding, we strive to fine tune the brand to maximise appeal in each market. For example, KFC is a big sponsor of cricket in New South Wales while in New Zealand we choose instead to take the brand right in amongst super rugby fans.

Other brands like Carl's Jr. and Taco Bell are not so well-known here as KFC. They may enjoy huge popularity across multiple international markets before coming to our shores, but it would be a mistake to expect New Zealanders, for example, to immediately pick up on years of international brand relationship building as if the brand had been here all along. Good things take time, as New Zealanders like to say.

Brand flexibility has been especially important in curating the right Taco Bell experience for both New Zealand and Australian markets. Our experience operating the brand in Hawaii goes a long way towards getting the operation right for markets downunder. But there are differences. Marketing messages and the precise calibration of channel mix may vary between markets according to different degrees of brand in-market maturity.

Another prime example of flexing the brand to suit is how we tailor the Taco Bell store design for young New Zealand and Australian audiences. Certain materials and substrates that form the base of a US Taco Bell store could well send the wrong cues to audiences downunder. So we modify them accordingly to maximise appeal.

And there are many other factors like opening hours, market regulations and so on, that demand a tailored approach to striking the right brand chord here.

The key to Restaurant Brands' success is the way we synchronise the many different functions that comprise an expansive, complex and multi-layered operation. The aim is, after all, to create the perfect in-store customer experience. It gets a little more complicated though when delivering that across four distinctly different brands in markets that display different characteristics.

But as long as we stick to the fundamentals of monitoring our markets closely, starting with the customer and truly getting under the skin of the experience they're looking for, then it's a lot easier to understand why no two markets are completely in step with one another.

To this understanding we bring an innate curiosity born of an organisational culture of innovation – testing, learning and refining to ensure product, store design, and brand language combine in precisely the right balance for a compelling, local competitive experience.

It's a bit like saying because everybody's different, we need to have all of the colours in all of the sizes. But however you look at it, it's a formula that continues to deliver.

TACO BELL

Fans are lining up.

Customers can't wait to get a taste of tacos!

Taco Bell – a global success...

This Californian, Mexican food-inspired brand first started back in 1962. From a solid 7,000 store base in the US, Taco Bell has more recently grown beyond those shores to operate a further 600 stores in more than 30 countries.

It's a brand that commands an extraordinary cult-like following with many pop culture devotees including references from sports personalities and movie stars. Even former US President Barack Obama invited everyone in America to enjoy a free Taco at Taco Bell.

...now in NZ and AUS.

The time is right for Taco Bell to expand downunder. Kiwi and Aussie palates are looking for new taste experiences and Mexican inspired food in particular has seen a surge in popularity. Combining this appetite with Taco Bell's enormous social following, the market opportunity looks set for long term success.

Arriving with bells on.

Form an orderly queue, it's going to get busy.

We can't recall the first time we were asked 'are you bringing Taco Bell to New Zealand?' It was 20 years ago at least. We've maintained a watching brief on the brand and been carefully biding our time. At the end of last year, as our stars aligned we sounded the fanfare and launched our first three Taco Bell stores into New Zealand and Australia.

And how the customers poured through the doors. Anticipation had been building for several weeks before the openings.

The headlines and social media had been awash with references to Taco Bell. Avid fans slept out overnight to beat the queues that trailed for more than a hundred metres on the opening days.

Since then, tens of thousands of customers have visited our Taco Bell stores to be treated to global taste favourites like the *Crunchwrap Supreme, Cheesy Gordita Crunch*, and not forgetting of course, *Crunchy Tacos*.

Onwards and upwards

While this launch of Taco Bell is new to New Zealand and Australia, Restaurant Brands is already very familiar with the brand. We've been operating 37 well-established Taco Bell stores in Hawaii since acquiring TD Foods back in 2014. Our store refurbishment programme there is delivering between 40% and 60% growth in same store sales.

With the numbers of customers visiting our New Zealand and New South Wales Taco Bells continuing to surpass our initial targets, the outlook for 2020 is extremely positive. We will confidently continue with our plan to roll out approximately 60 new Taco Bell stores in New Zealand and Australia over the next five years.

Continuing our journey to becoming a more sustainable business.

Over the past 12 months, we've been reviewing and refining the framework of our sustainability strategy, in line with GRI (Global Reporting Initiative) standards. We are focused on integrating these refinements into the fabric of 'how we do things'.

This includes, for example, a commitment to reducing our carbon footprint, through a reduction in the use of air travel and air freight, and the planned integration of electric cars. Initiatives such as these (and many others) will become a fundamental part of our future business growth. We look forward to sharing our progress with you in future reports.

For those new to our sustainability framework, its pillars are; caring about people and communities, environmental consciousness and leading in food quality. Since our last report, our sustainability leadership team have worked with our Group CEO's and CFO's to benchmark key success sustainability measures for our business, setting targets around those pillars so we can measure our success, and share them in our regular reporting.

Some examples across the pillars include:

- A 30% reduction in our energy usage/per sale by installing upgraded fryers, and the use of energy efficient LED lighting.
- A target of 100% recycled card and plastic, and recycling all of our cooking oil.
- Becoming 100% palm oil free and using fully sustainable cooking oil. 100% of new staff undergoing health and safety training before entering a store.

Our aim is unchanged from 12 months ago: to continually develop and refine sustainability initiatives that have a positive impact on the business socially, culturally and financially. With our targets embedded, we'll be able to definitively measure our progress.

On the pages that follow, read about some of the practical initiatives that are making a positive impact on our communities. We're proud to support these programmes and events.

Purpose	A thriving business built on brands that our employees and customers love and trust					
Pillars	Caring about people and communities		Environmental consciousness		Leading in food quality	
Strategic theme	An inclusive and productive team focused on wellbeing	Supporting our communities	Waste management	Resource stewardship	Beyond compliance	Ethical sourcing
Programmes and policies	Equal opportunity employment policy	Community donations	Waste Food policy	Energy efficiency programme	Food safety and product quality programmes and policies	Supplier audit programme
	Competitive remuneration policy	Youth development programme	Cooking oil recycling programme	Zero air freighting policy	Artificial colours and flavours policy	Animal welfare procurement policy
	Zero tolerance policy - forced or underage labour	Staff volunteer programme	Waste reduction programme	Low impact home delivery programme	Hormone and steroid free policy	Palm oil free policy
	Job Start programme	Local procurement policy	Reduced plastics policy	Sustainable fibres policy (paper and card)	Antibiotic use policy	Sustainable uniforms policy
	Staff satisfaction and wellness programmes			Carbon footprint reduction programme	Oil and fat policy	
	Career progression pathways and programmes				Staff food safety training programme	

Key initiatives

New Zealand

A focus on charitable work

Restaurant Brands is a large employer of young people, so we have a natural fit with youth-orientated charitable causes that align with our values - supporting the welfare of communities through breaking down the barriers to quality education that underprivileged youth in New Zealand can face. Here's how we do that.

The Gift Trust

We've established a 'giving platform' through The Gift Trust, a registered charity established in New Zealand to provide businesses (and individuals) with the means to donate to registered charities the donor selects. In 2019/2020, we've donated $100,000 to the trust and our intention is that we'll maintain that level each year.

Beneficiaries this year include $35,000 to Birthright New Zealand, which supports single-parent families, and $35,000 to the Manaiakalani Education Trust, supporting disadvantaged Māori and Pacifika students.

$100K

donated to The Gift Trust

KFC - Supporting Kiwi Lifesavers

Surf Life Saving New Zealand (SLSNZ) is the charity representing 74 surf life-saving clubs in New Zealand with around 17,000 members. We're proud to have been a charity partner of Surf Life Saving New Zealand since 2012.

Each year, hundreds, if not thousands, of Kiwis and visitors to New Zealand owe their lives to the work of our surf lifesavers, KFC are proud to be associated with the organization, and supports it though our Surf Safe meal. For every Surf Safe meal sold, KFC donates $1 to national surf lifesaving. In the last financial year, we've raised $92,000 for SLSNZ and will be distributing this soon.

$92K

raised for SLSNZ in 2019/2020

We champion womens' golf

KFC has been supporting women's golf since 2011. We are a major sponsor of the annual Anita Boon Pro-Am tournament, providing the KFC Golf Scholarship to further Kiwi women's golfing careers.

For the first time, the 2019/2020 KFC scholarship was awarded to joint winners Hanee Song and Wenyung Keh who each received $6,500.

Carl's Jr.– raising our STARS

Supporting the Graeme Dingle Foundation

Graeme Dingle Foundation is a child and youth charity. It runs successful programmes using the great outdoors, inspirational classroom leaders and world-class mentors to help our young people stay on track, develop confidence, build resilience and self-belief, set goals and contribute positively to society.

The Foundation's programmes are delivered across New Zealand by licensed community trusts. One of the successful programmes the Foundation runs is the STARS programme, and we are proud to be a part of it.

Carl's Jr. has been supporting the Foundation's STARS student mentoring programme for the past six years, donating 10 cents from every Super Star burger sold to the Foundation.

$25K

donated to the STARS programme

Victim support

Following the terrorism attack on the mosques in Christchurch last year, and the subsequent death of 51 people, we donated $50,000 to a victims support Trust. Victims support Trusts provide financial support to the surviving families of victims of the attack and we are proud to support it.

Measles outbreak

We donated $3,000 to the Samoan community to combat the measles epidemic that struck the country earlier this year.

$153K

donated overall in NZ to initiatives and scholarships

Australia

The KFC Youth Foundation

Building confidence and self-esteem in our young Aussies

The KFC Youth Foundation is our response to helping young Aussies. (We employ a lot of them!)

Founded in 2018, the Foundation gives young people the skills and support they need to thrive in the world now and in the years beyond, through mentorship, skills development and promoting mental wellbeing and overcoming adversity.

The Foundation in a major sponsor of REACH; a charity which runs group workshops and events to help develop confident, self-aware and passionate young people.

In the 2019/2020 year, the KFC Youth Foundation has donated $65,000 to various REACH projects, including the 25 years 25 stories event, Heroes Day and Grounded workshops. We've also given volunteer and food support for Diverge, an intensive 2-day workshop to help year 9/10 students to uncover their passion.

We've funded and supported 9 REACH workshops in Coffs Harbour and Grafton, are a proud Platinum sponsor of the Youth Rally, and host the KFC Youth Foundation Gala Ball.

$65K

donated to Australian initiatives and scholarships this year alone

Hawaii

In 2019/2020 Pizza Hut has continued its sponsorship of the worldwide BOOK IT! reading program through Hawaii Literacy; BOOK IT is an incentive program for children in grades K through six that motivates children to read by rewarding their reading accomplishments.

The teacher sets a reading goal for each child in the class. When children meet their monthly goal, the teacher will recognize them with a Reading Award Certificate, good for a free one-topping Personal Pan Pizza®. When a child redeems their Reading Award Certificate at Pizza Hut®, our team members celebrate right along with them.

BOOK IT! was created in 1984 and currently reaches millions of students in elementary schools annually. We've donated $60,000 to the programme, and $91,000 in initiatives and scholarships throughout Hawaii in total.

$60K

donated to Hawaii Literacy to the Book IT programme

Operations report

New Zealand

"The strong sales and margin performance is expected to continue for the 2020 financial year and KFC is expected to deliver another solid result."

KFC

KFC once again contributed a strong result with both sales and profit performance well up on a full year equivalent basis. The ongoing benefit of store upgrades, the impact of six new stores opening during the year (three in the first quarter) and higher levels of marketing activity all assisted in driving sales to an all-time high for a calendar year with annualised sales up 8.3%. Same store sales growth remained very strong, finishing up 5.2% (compared with +4.3% last year). Sponsorship of the New Zealand Super Rugby franchises continues to grow and enhance the strong brand awareness as well as continuing to improve customer engagement.

The brand successfully rolled out a customer delivery service for 41 KFC stores during the financial year. The roll out of this service to various new regions will continue over the coming year.

Profitability also remained strong, with EBITDA of $66.1 million down $4.3 million due to the reported period only covering 44 weeks, however on an annualised basis EBITDA was up 10.9%.

As a % of sales, EBITDA was 21.4%, up on last year's 20.9%. This improvement reflects continued sales leverage and relatively benign ingredient price pressure. However, some of these benefits were offset by higher labour costs as KFC continues to reinvest in staff with more certainty and stability in their hours as well as increase wage rates to maintain a level in excess of rising minimum wage requirements.

As part of the continuing reinvestment in the brand, 11 stores received major upgrades over the year.

Total company owned stores increased by six to 100 stores with the following new stores opening; Bombay, Courtenay place (Wellington), Tauranga Crossing, Newmarket (Auckland), West City (Auckland) and Bayfair (Tauranga). The Bombay store was the first motorway store opened with Waitomo Fuel and has delivered excellent sales.

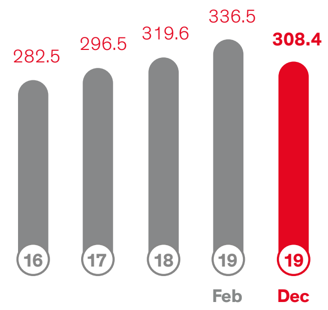
Staff turnover was 72%, which was largely in line with the previous year's 70%.

The actual lost time injuries per million hours increased from 4.1 in the prior year to 7.0 per million hours in the current year. It was disappointing to see this increase, the Group will continue to have a strong focus on staff safety which we hope will drive improvements back to lower levels achieved in previous years.

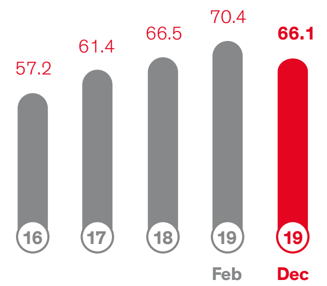
KFC is expected to deliver another solid result for the 2020 financial year. The company's reinvestment continues with 11 major store refits planned during the year with the benefits of this and the full year impact of the six new stores expected to continue to drive the brand forward. Continued high levels of marketing expenditure will also assist sales; however increase cost pressures particularly with rising labour costs will put pressure on the brand's EBITDA margin.

KFC remains the engine room of Restaurant Brands' New Zealand operations and is expected to continue its current momentum into the new financial year.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



100

STORES (+6 franchised)

2,815

STAFF

Pizza Hut

Total sales from Pizza Hut stores operated by Restaurant Brands were $28.5 million (down 19.3% or 4.7% on an annualised basis). Sales for the total Pizza Hut brand were down 0.3% to $100.7 million on an annualised basis.

Restaurant Brands' store numbers decreased by one over the year. With two stores closed, three stores sold to independent franchisees and four new company stores built at Hobsonville (Auckland), Windsor Park (Auckland), Pioneer Highway (Palmerston North) and Barrington Mall (Christchurch).

Same store sales for company stores fell 4.1% over the period. The launch of the new Pizza Hut website in December will help drive revenue in the new financial year.

Earnings from company stores were adversely impacted by the sale of two established stores to independent franchisees, combined with the additional costs of opening four new stores. There also remains significant pressure on labour and other non-food related costs. EBITDA for the year was $0.9 million, down to 3.1% of sales versus 5.7% last year.

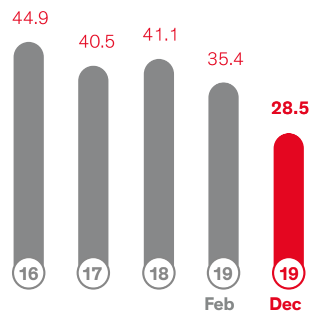
Staff turnover was 64%, excluding delivery drivers, which was a further improvement on 71% for non-delivery staff last year which in turn was an improvement from 77% the year before.

Lost time injuries per million hours worked has increased to 5.0 per million hours up from 4 per million hours. The level remains low with a continuing strong focus on staff safety we hope to see improvements in the upcoming year.

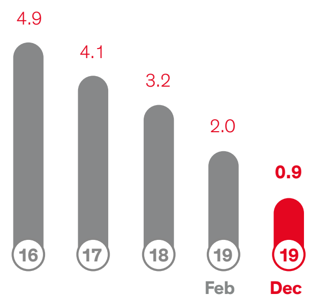
At year end, company-owned store decreased by one to 29 (out of a total of 102 in the market) with independent franchisee-owned stores at 73, up five from last year including two new stores opened by franchisees in Whangarei and Taupo.

The Pizza Hut business will see continued growth with two stores expected to opening in the first quarter of 2020 as Restaurant Brands continues to expand the store network. The company's move to a master franchisee model continues on plan with company owned stores expected to have reduced to 15 by the end of the 2020 year. Royalties from Pizza Hut franchises hit an all-time high with number of franchise stores up four on last year.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



29

STORES (+73 franchised)

357

STAFF

"The introduction of a delivery service in February 2019 had an immediate and positive impact on both sales and margin."

Carl's Jr.

Total sales decreased to $29.9 million for the period; however on an annualised basis sales were up 11%. Same store sales were also up at 11.3% compared to being down 3.3% last year. EBITDA was up $0.4 million to $1.3 million, which represented 4.4% of sales (2.9% February 19).

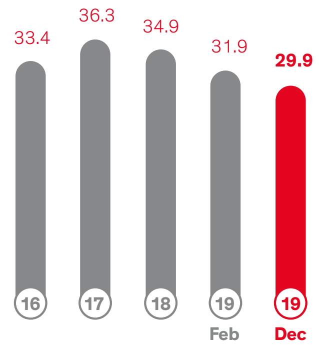
The introduction of a delivery service in February 2019 had an immediate and positive impact on both sales and margin. This positive impact has continued throughout the period, with both increased sales through the delivery service and increased brand awareness.

Staff turnover was 70%, a significant improvement on the prior year's 79% helped by fixed shift rosters now fully operational in the business.

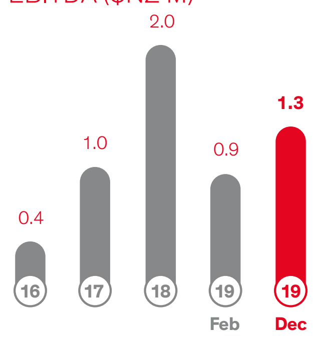
Lost time injuries per million hours worked remains very low at 2.5 per million hours, this is down on last year of 2.6 per million hours. There is a continuous focus on safety as the business aims to maintain this high safety level.

Carl's Jr. operates in a very competitive market and therefore the brand continues to face many challenges to its continued growth both in terms of sales and profitability. The momentum gained in the December 2019 year through the induction of the delivery service is set to continue into the new financial year.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



18

STORES

401

STAFF

"Average weekly sales over $0.1 million."

Taco Bell

TACO BELL

Taco Bell successfully launched its first store in New Lynn, Auckland during November 2019 with average weekly sales of over $0.1 million. Taco Bell Shortland Street, Auckland is expected to open in the second quarter of 2020.

The financial impact of the first store opening has been minimal on the December 2019 period and it is not expected to have a big impact on the 2020 year.

Taco Bell is an exciting addition to the brand portfolio operating in New Zealand which we expect to grow into a significant part of our New Zealand operations over the coming years.

TOTAL SALES ($NZ M)

$0.7M

EBITDA ($NZ M)

$(0.3)M

1

STORE

50

STAFF

Operations report

Australia

"An additional five stores are forecast to be opened during the December 2020 year."

KFC

Although sales are down $NZ23.0 million due to this reporting period only being for 44 weeks sales are up 4.0% on an annualised basis and same store sales up by 5.1% over last year.

Higher sales have been driven by organic growth from the existing stores as well as expansion in the home delivery channel which has been expanded into a number of new stores.

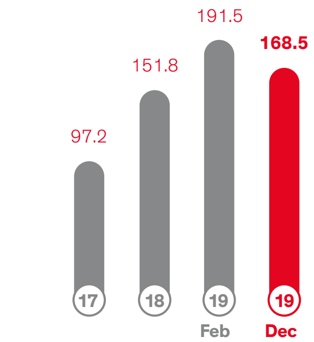
There was one new store opened and one store acquired during the period to increase store numbers to 63 at December 19. This, combined with the refurbishment of 15 stores has also helped to drive the sales increase.

Although the Australian business has a young workforce, it is relatively stable by market norms. Staff turnover was 42.6% in the December 19 period, an improvement from 44.6% for the February 19 year.

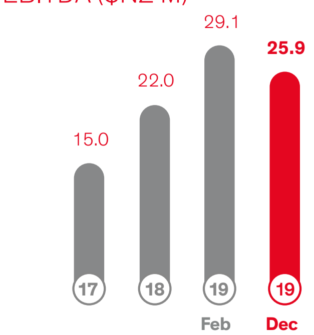
The Australian business has a strong focus on accident prevention. The number of lost time injuries per million hours was 10 for the December 19 year, down from 12 in the February 19 year.

The positive results from the Australian operations are expected to continue into the new financial year. With new opportunities to expand the network both through acquisitions and new store builds. The reinvestment in refurbishing current stores will also continue.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



63
STORES

3,766
STAFF

Taco Bell (New South Wales)

Taco Bell successfully launched its first two stores in New South Wales during December 2019. An additional five stores are forecast to be opened during the 2020 year.

The financial impact of the first store opening has been minimal on the December 2019 period and it is not expected to have a big impact on the 2020 year.

The launch of the brand in Australia has been well received by customers which is expected to continue as more stores open. We therefore expect the Taco Bell brand in Australia to grow into a significant part of our Australian operations in the future.

TOTAL SALES ($NZ M)
$0.6M

EBITDA ($NZ M)
$(0.7)M

2
STORES

121
STAFF

Operations report

Hawaii

> "Pizza Hut contributed $2.3 million to the Group's EBITDA which on an annualised basis is in line with last year."

Pizza Hut

The brand contributed $2.3 million to the Group's EBITDA which on an annualised basis is in line with last year. The business continues to be under margin pressure from Hawaii's rising direct labour costs and the required participation in US wide value promotions which has seen the EBITDA margin drop from 3.6% to 3.4%.

Pizza Hut sales for the period of $67.3 million were up 3.7% on an annualised basis with same store sales of 3.0% a significant improvement from -2.1% last year.

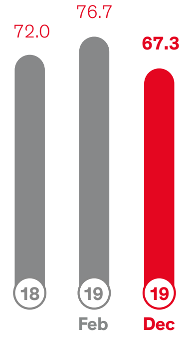
As part of our process of refreshing the brand we closed 7 stores during the period. This was part of our strategy of closing some of the very old dine-in restaurants and replacing them with smaller and more efficient delivery and carry-out (delco) style outlets. This will have a positive effect on future trading results and operations.

Staff turnover was 79% in the December 2019 period an improvement from 83% for the February 2019 year. This improvement is particularly pleasing given the challenging labour market in Hawaii which makes retaining staff critical to the business.

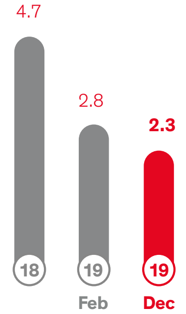
Lost time injuries per million hours were 4.3, an improvement over 4.5 reported last financial year. For the period ended 31 December 2019 there was a total of four accidents down from six last year, which continues to reflect the good safety record operated in Hawaii.

We are currently in final negotiations with Yum! for the renewal of a number of licenses for our Pizza Hutt stores which we expect to be completed within the first quarter of the 2020 year. With long term certainty established over the future of our Pizza Hut stores and the strategic decision to close various old style stores, this will allow us to accelerate the refurbishment reinvestment program. It will also help improve revenue and profitability in the brand.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



37
STORES

1,015
STAFF

"The brand contributing $20.5 million to the Group's EBITDA for the 44 week period up 15.8% over last year on an annualised basis."

Taco Bell

TACO BELL

Taco Bell had another successful year with total sales up 13.3% on an annualised and same store sales up 13.7% on last year. The brand contributed $20.5 million to the Group's EBITDA for the 44 week period, up 15.8% over last year on an annualised basis.

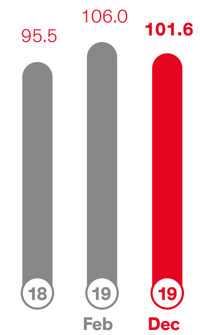
One new store opened in December 2019 lifting the number of stores to 37. The refurbishment strategy continues with two stores completely rebuilt and a further store currently under construction. A further six stores are in the pre-construction stage with building permits being sought from local government. We continue to see a significant uplift in sales from refurbished shops. This is expected to continue to drive future sales.

Staff turnover was 52% in the December 2019 financial period, which is a significant improvement on 63% for the February 2019 year. The above store management team is very stable with no significant turnover in this team in several years.

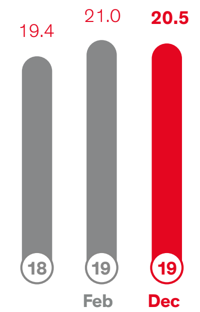
Lost time injuries per million hours were 8.1 for the period with a total of seven accidents, up from two last year. Although the increase in lost time accidents is disappointing, the number remains low by industry standard. Safety of our team and customers continues to be extremely important to the Group.

The positive results from Taco Bell are expected to continue with strong promotional activities including new product development combined with the impact of more stores in the network being refreshed.

TOTAL SALES ($NZ M)



EBITDA ($NZ M)



37
STORES

920
STAFF

Board of directors

1

2

3

4

5

6


1. José Parés

Chairman

Term of office
Appointed Director 1 April 2019 and appointed Chairman 10 July 2019. Last re-elected 2019 Annual Meeting

Board committees
Member of the Audit and Risk Committee

Profile
José is the Chief Executive Officer of Finaccess Capital. He is also the Chairman of the Board and a Proprietary Director of AmRest Holdings SE. During his professional carrier he has been Director of the Board of Crown Imports, Chicago, Il, the Vice Chairman of the Board of MMI, Toronto, Canada, Director of the Board of DIFA, Mexico and former member of the Beer Chamber of Mexico.

Previously, José worked for 19 years at Grupo Modelo (Mexico), in various positions, including Chief Operating Marketing & International Sales Officer where he oversaw growth of Grupo Modelo's annual revenues from $US1 billion to $US3 billion.

José graduated from Universidad Panamericana, Mexico (Business and Finance) and completed his MBA at ITAM, Mexico as well as the Business D-1 Program at IPADE, Mexico and Executive Programme at Wharton, San Francisco.

2. Emilio Fullaondo

Independent Non-Executive Director

Term of office
Appointed Director 1 April 2019. Last re-elected 2019 Annual Meeting

Board committees
Chairman of the Audit and Risk Committee, Member of the Appointments and Remuneration Committee and the Health and Safety Committee

Profile
Emilio is a senior executive with over 23 years of experience in the beer industry. Emilio worked in a number of finance roles for Grupo Modelo, including four years as Chief Financial Officer. Following the acquisition of Grupo Modelo by AB InBev in 2013, Emilio oversaw significant cultural and organisational changes at AB InBev (Mexico) as Vice President, Human Resources (to 2017) and Vice President, Projects until his resignation in January 2019.

Emilio is currently a Director and Chairman of the Audit and Control Committee of AmRest Holdings SE.

Emilio graduated from ITAM, Mexico (Public Accountant) and completed his MBA at the same institution as well as the Executive Management (AD) Program at IPADE, Mexico.

3. Carlos Fernández

Non-Executive Director

Term of office
Appointed Director 10 July 2019

Profile
Over the last 30 years, Carlos Fernández has held positions in various business sectors. He was the CEO (1997-2013) and Chairman of the Board of Directors (2005-2013) of Grupo Modelo.

From the time he was named CEO, up to 2013, this group consolidated its position as the leading brewing company in Mexico, the seventh largest worldwide and the world's largest beer exporter.

He has also served on the boards of national and international companies, including Anheuser Busch (US), Emerson Electric Co. (US), Seeger Industrial (Spain), Grupo Televisa (Mexico), Crown Imports Ltd. (US), Inbursa (Mexico) and Mexican Stock Exchange (Bolsa Mexicana de Valores). He has served on the advisory board of Grupo Modelo and has also been a member of the international advisory board at Banco Santander, S.A. and a director of Grupo Financiero Santander Mexico S.A.B de C.V.

Carlos is currently Chairman of the Board of Directors of Grupo Finaccess S.A.P.I. de C.V. - a company of which he was founder and which controls 75% of Restaurant Brands ordinary shares. Grupo Finaccess is also active in Mexico, Europe, Asia and the US. Carlos is also a Proprietary Director of AmRest Holdings SE, S.A. and a non-executive director of Inmobiliaria Colonial, S.A.

Carlos is an industrial engineer and has also participated in senior management programmes at the IPADE Business School (Instituto Panamericano de Alta Direccion de Empresa).

4. Luis Miguel Álvarez

Non-Executive Director

Term of office
Appointed Director 10 July 2019

Profile
Luis Miguel is a Board Member, Audit Committee Member and Investment Committee Member of Grupo Finaccess, S.A.P.I. de C.V. (since 2013). He is also the Founder & CEO of Compitalia, S.A. de C.V., a family investment company business which primarily invests directly in target companies through equity holdings and real estate investments, primarily in sectors such as: energy, restaurants, real estate projects and financial funds.

For over 25 years Luis Miguel occupied different positions within several Grupo Modelo entities (including the Vertical Companies) Director of Grupo Modelo, S.A.B. de C.V., President & General Manager of Gmodelo Agriculture, LLC., Idaho Falls, Idaho, Vice President & General Manager of Gmodelo Agriculture, Inc.). During his time at Grupo Modelo, Luis Miguel held various board positions within the group, including: Alternate Board Member and Executive Committee Member of Grupo Modelo, S.A.B. de C.V., Board Member and Executive Committee Member of InteGrow Malt, LLC., as well as Board Member of Impulsora Agricola, S.A. and International CO2 Extraction LLC.

Luis Miguel is currently a Proprietary Director of AmRest Holdings SA and a board member of other private and not for profit organisations.

5. Stephen Ward

Independent Non-Executive Director

Term of office
Appointed Director 10 July 2019

Profile
Stephen Ward is a professional Director with diverse corporate governance experience in New Zealand and Australia together with extensive expertise as a corporate and commercial lawyer in New Zealand. Stephen is a Non-Executive Director of Sydney Airport Limited and the Chair of its Safety, Security and Sustainability Committee. Stephen is the Non-Executive Chair of SecureFuture Wiri Limited. He is a member of the National Provident Fund Trust Board.

He holds voluntary positions on the boards of Wellington Free Ambulance, and The Life Flight Trust. Stephen is also the Independent Chair of the Advisory Council for the Financial Dispute Resolution Service.

Stephen was previously an independent director and member of the Audit & Risk and Appointments & Remunerations Committees of Sovereign Assurance Company Limited. He also served as an Independent Director, Chair of the Audit & Risk Committee and Chair of the Board at MAp Airports International Limited.

Stephen was a partner of Simpson Grierson, one of New Zealand's leading law firms for over 20 years (including over 14 years as a member of the firm's Board of Management) and continues to be a consultant to the firm.

Stephen holds an LLB from the University of Canterbury, is a member of the New Zealand Law Society and is a Chartered Member of the New Zealand Institute of Directors.

6. Huei Min (Lyn) Lim MNZM

Independent Non-Executive Director

Term of office
Appointed Director 10 July 2019

Profile
Lyn Lim has diverse Board and Committee Chair experience and is culturally competent. She is experienced in investment structures, risk management, HR, HSW, AML, dispute management and compliance.

She is on the boards of Auckland University of Technology (AUT), Auckland Regional Amenities Funding Board and General Capital Limited. She is also a trustee of the Asia New Zealand Foundation and holds voluntary position on the board of Middlemore Foundation.

Lyn has served on the boards of the New Zealand Shareholders' Association, Public Trust (and chaired the Human Resources and Remuneration Committee), the New Zealand China Trade Association, the Hong Kong and New Zealand Business Association, was the Chair of the New Zealand Chinese Youth Trust and held the positions of Trustee, Deputy Chair and Chair of Foundation North (the biggest and leading philanthropic entity in New Zealand). She has been a member of ANZ Private Bank External Advisory Board and has served as a council member of the Auckland District Law Society Inc.

Lyn holds an LLB (Hons) from the University of Canterbury and has 30 years of legal practice specialising in commercial, corporate and governance issues and dispute resolution.

In 2017, Lyn was appointed as a Member of the New Zealand Order of Merit for her services to New Zealand-Asia relations and governance. Lyn is a Chartered Member of the New Zealand Institute of Directors, a member of the New Zealand Law Society and a member and Vice Chair of the Women in Business Committee of the Inter Pacific Bar Association.

“KFC remains the engine room of Restaurant Brands’ New Zealand operations”

Consolidated income statement

for the 44 week period ended 31 December 2019

$NZ000’s	31 Dec 2019 44 weeks	% sales	vs Prior %	25 Feb 2019 52 weeks	% sales
Sales					
KFC	**308,357**		*(8.4)*	336,534	
Pizza Hut	**28,515**		*(19.3)*	35,350	
Starbucks Coffee	**–**		*(100.0)*	16,022	
Carl's Jr.	**29,920**		*(6.1)*	31,864	
Taco Bell	**729**		*n/a*	–	
Total New Zealand sales	**367,521**		***(12.4)***	**419,770**	
KFC	**168,532**		*(12.0)*	191,547	
Taco Bell	**573**		*n/a*	–	
Total Australia sales	**169,105**		***(11.7)***	**191,547**	
Taco Bell	**101,586**		*(4.2)*	106,004	
Pizza Hut	**67,329**		*(12.2)*	76,725	
Total Hawaii sales	**168,915**		***(7.6)***	**182,729**	
Total sales	**705,541**		***(11.1)***	**794,046**	
Other revenue	**28,125**		*(13.1)*	32,357	
Total operating revenue	**733,666**		***(11.2)***	**826,403**	
Cost of goods sold	**(587,874)**		*13.2*	(677,185)	
Gross margin	**145,792**		***(2.3)***	**149,218**	
Distribution expenses	**(3,976)**		*(9.6)*	(3,629)	
Marketing expenses	**(39,524)**		*11.3*	(44,542)	
General and administration expenses	**(33,306)**		*7.0*	(35,818)	
Other items	**(4,616)**		*48.7*	(8,997)	
Operating profit (EBIT)	**64,370**		***14.5***	**56,232**	
Financing expenses	**(21,464)**		*(215.8)*	(6,797)	
Net profit before taxation	**42,906**		***(13.2)***	**49,435**	
Taxation expense	**(12,815)**		*6.4*	(13,694)	
Net profit after taxation (NPAT)	**30,091**		***(15.8)***	**35,741**	
		% sales			**% sales**
Concept EBITDA before G&A					
KFC	**66,065**	*21.4*	*(6.1)*	70,384	*20.9*
Pizza Hut	**885**	*3.1*	*(56.1)*	2,017	*5.7*
Starbucks Coffee	**–**	*n/a*	*(100.0)*	3,110	*19.4*
Carl's Jr.	**1,302**	*4.4*	*41.0*	923	*2.9*
Taco Bell	**(345)**	*(47.3)*	*n/a*	–	*n/a*
Total New Zealand	**67,907**	***18.5***	***(11.2)***	**76,434**	**18.2**
KFC	**25,902**	*15.4*	*(10.9)*	29,064	*15.2*
Taco Bell	**(700)**	*(122.1)*	*n/a*	–	*n/a*
Total Australia	**25,202**	***14.9***	***(13.3)***	**29,064**	***15.2***
Taco Bell	**20,546**	*20.2*	*(2.0)*	20,968	*19.8*
Pizza Hut	**2,319**	*3.4*	*(16.6)*	2,781	*3.6*
Total Hawaii	**22,865**	***13.5***	***(3.7)***	**23,749**	***13.0***
Total concept EBITDA before G&A	**115,974**	***16.4***	***(10.3)***	**129,247**	***16.3***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	**9.9**			(19.6)	

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 order centre, advertising and local store marketing expenses. General and administration expenses (G&A) are non-store related overheads.

Consolidated income statement

for the period ended 31 December 2019
annualised unaudited results for 52 weeks - based on audited 44 week period results

$NZ000's	Reported 31 Dec 2019 Audited 44 weeks	Annualised[1] 31 Dec 2019 Unaudited 52 weeks	Annualised % change	Reported 25 Feb 2019 Audited 52 weeks
Sales				
KFC	308,357	**364,422**	*8.3%*	336,534
Pizza Hut	28,515	**33,700**	*(4.7%)*	35,350
Starbucks Coffee	–	**–**	*n/a*	16,022
Carl's Jr.	29,920	**35,360**	*11.0%*	31,864
Taco Bell	729	**861**	*n/a*	–
Total New Zealand sales	**367,521**	434,343	***3.5%***	**419,770**
KFC	168,532	**199,174**	*4.0%*	191,547
Taco Bell	573	**677**	*n/a*	–
Total Australia sales	**169,105**	199,852	***4.3%***	**191,547**
Taco Bell	101,586	**120,056**	*13.3%*	106,004
Pizza Hut	67,329	**79,570**	*3.7%*	76,725
Total Hawaii sales	**168,915**	199,626	***9.2%***	**182,729**
Total sales	**705,541**	833,821	***5.0%***	**794,046**
Other revenue	28,125	**33,239**	*2.7%*	32,357
Total operating revenue	**733,666**	867,060	***4.9%***	**826,403**
Cost of goods sold	(587,874)	**(694,760)**	*(2.6%)*	(677,185)
Gross margin	**145,792**	172,300	***15.5%***	**149,218**
Distribution expenses	(3,976)	**(4,699)**	*(29.5%)*	(3,629)
Marketing expenses	(39,524)	**(46,710)**	*(4.9%)*	(44,542)
General and administration expenses	(33,309)	**(39,365)**	*(9.9%)*	(35,818)
Other items	(4,616)	**(5,455)**	*39.4%*	(8,997)
Operating profit (EBIT)	**64,370**	76,072	***35.3%***	**56,232**
Financing expenses	(21,464)	**(25,367)**	*(273.2%)*	(6,797)
Net profit before taxation	**42,906**	50,706	***2.6%***	**49,435**
Taxation expense	(12,815)	**(15,145)**	*(10.6%)*	(13,694)
Net profit after taxation (NPAT)	**30,091**	35,562	***(0.5%)***	**35,741**
Concept EBITDA before G&A				
KFC	66,065	**78,076**	*10.9%*	70,384
Pizza Hut	885	**1,046**	*(48.1%)*	2,017
Starbucks Coffee	–	**–**	*n/a*	3,110
Carl's Jr.	1,302	**1,538**	*66.6%*	923
Taco Bell	(345)	**(408)**	*n/a*	–
Total New Zealand	**67,907**	80,253	***5.0%***	**76,434**
KFC	25,902	**30,611**	*5.3%*	29,064
Taco Bell	(700)	**(827)**	*n/a*	–
Total Australia	**25,202**	29,784	***2.5%***	**29,064**
Taco Bell	20,546	**24,282**	*15.8%*	20,968
Pizza Hut	2,319	**2,740**	*(1.5%)*	2,781
Total Hawaii	**22,865**	27,023	***13.8%***	**23,749**
Total concept EBITDA before G&A	**115,974**	137,060	***6.0%***	**129,247**

1 The annualised December 2019 figures are an arithmetic calculation grossing up the 44 week audited results to reflect an equivalent 52 week period. This has been done for illustrative purposes only.

Non-GAAP financial measures

for the 44 week period ended 31 December 2019

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 and other items.** The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A (general and administration expenses) and other items by taking net profit before taxation and adding back (or deducting) financing expenses, other items, depreciation, amortisation and G&A. The Group also refers to this measure as **Concept EBITDA before G&A and other items**. This measure provides the results of the Group's core operating business and excludes those costs not directly attributable to stores. This is believed to be a useful measure to assist in the understanding of the financial performance of the Group.

   The term **Concept** refers to the Group's seven operating divisions comprising the New Zealand divisions (KFC, Pizza Hut, Taco Bell and Carl's Jr.), two Australian divisions (KFC and Taco Bell) and the two Hawaii divisions (Taco Bell and Pizza Hut). The term **G&A** represents non-store related overheads.

2. **Total NPAT excluding the impact of NZ IFRS 16.** Total Net Profit After Taxation ("NPAT") excluding the impact of NZ IFRS 16 is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) lease items whilst also allowing for any tax impact of those items. This measure reflects the performance of the business, excluding costs associated with the adoption of NZ IFRS 16 and is considered a useful measure to assist with understanding the financial performance of the Group.

3. **Capital expenditure including intangibles.** Capital expenditure including intangibles represents additions to property, plant and equipment and intangible assets. This measure represents the amount of reinvestment in the business and is therefore a useful measure to assist the understanding of the financial position of the Group.

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*	31 Dec 2019	25 Feb 2019
EBITDA before G&A, NZ IFRS 16 and other items	1	**115,974**	**129,247**
Depreciation		(25,250)	(30,163)
Loss on sale of property, plant and equipment (included in depreciation)		(106)	(146)
Lease deprecation		(22,395)	–
Add back lease costs		32,369	–
Amortisation (included in cost of sales)		(2,178)	(3,112)
General and administration costs – area managers, general managers and support centre		(29,428)	(30,597)
Other income		722	3,034
Other expenses		(5,338)	(12,031)
EBIT		**64,370**	**56,232**
Financing costs		(21,464)	(6,797)
Net profit before taxation		**42,906**	**49,435**
Taxation expense		(12,815)	(13,694)
Net profit after taxation		**30,091**	**35,741**
Add back NZ IFRS 16 impact		6,076	–
Taxation expense on NZ IFRS 16 impact		(1,547)	–
Net profit after taxation excluding NZ IFRS 16	2	**34,620**	**35,741**

* Refers to the list of non-GAAP measures as listed above.

Financial statements December 2019

Contents Page

Restaurant Brands is pleased to present its financial statements.

The results for the period ended 31 December 2019 are for 44 weeks as compared to the period ended 25 February which covers 52 weeks.

Note disclosures are grouped into five sections which the Directors consider most relevant when evaluating the financial performance of Restaurant Brands.

Section	Note Reference
Performance	1-3
Funding and equity	4-7
Working capital	8-12
Long term assets	13-20
Other notes	21-31

Significant accounting policies which are relevant to an understanding of the financial statements and summarise the measurement basis used are provided throughout the notes and are denoted by the highlighted text surrounding them.

Directors' statement

for the 44 week period ended 31 December 2019

The Directors of Restaurant Brands New Zealand Limited (Restaurant Brands) are pleased to present the financial statements for Restaurant Brands and its subsidiaries (together the Group) for the period ended 31 December 2019 contained on pages 58 to 92.

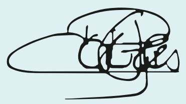
Financial statements for each financial period fairly present the financial position of the Group and its financial performance and cash flows for that period and have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and all relevant financial reporting and accounting standards have been followed.

Proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

Adequate steps have been taken to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

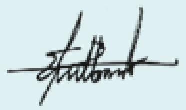
The Directors hereby approve and authorise for issue the financial statements for the period ended 31 December 2019.

For and on behalf of the Board:



José Parés
Chairman

28 February 2020



Emilio Fullaondo
Director

Consolidated statement of comprehensive income

for the 44 week period ended 31 December 2019

$NZ000's	Note	31 Dec 2019	25 Feb 2019
Store sales revenue	1,2	705,541	794,046
Other revenue	1,2	28,125	32,357
Total operating revenue		733,666	826,403
Cost of goods sold		(587,874)	(677,185)
Gross profit		145,792	149,218
Distribution expenses		(3,976)	(3,629)
Marketing expenses		(39,524)	(44,542)
General and administration expenses		(33,306)	(35,818)
Other income	2	722	3,034
Other expenses	2	(5,338)	(12,031)
Operating profit (EBIT)	1	64,370	56,232
Financing expenses	4	(21,464)	(6,797)
Profit before taxation		42,906	49,435
Taxation expense	21	(12,815)	(13,694)
Profit after taxation attributable to shareholders		30,091	35,741
Other comprehensive income:			
Exchange differences on translating foreign operations		1,707	4,189
Share option reserve		–	(34)
Derivative hedging reserve		(1,473)	(836)
Income tax relating to components of other comprehensive income		217	182
Other comprehensive income for the period, net of tax		451	3,501
Total comprehensive income for the period attributable to shareholders		30,542	39,242
Basic earnings per share from total operations (cents)	3	24.12	28.77
Diluted earnings per share from total operations (cents)	3	24.12	28.77

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

Consolidated statement of changes in equity

for the 44 week period ended 31 December 2019

$NZ000's	Note	Share capital	Share option reserve	Foreign currency translation reserve	Derivative hedging reserve	Retained earnings	Total
For the 52 week period ended 25 February 2019							
Balance at the beginning of the period		148,491	34	(6,060)	174	58,969	201,608
Comprehensive income							
Profit after taxation attributable to shareholders		–	–	–	–	35,741	35,741
Other comprehensive income							
Movement in share option reserve		–	(34)	–	–	–	(34)
Movement in foreign currency translation reserve		–	–	4,189	–	–	4,189
Movement in derivative hedging reserve		–	–	–	(654)	–	(654)
Total other comprehensive income		–	(34)	4,189	(654)	–	3,501
Total comprehensive income		–	(34)	4,189	(654)	35,741	39,242
Transactions with owners							
Shares issued		6,132	–	–	–	–	6,132
Shares issued costs		(58)	–	–	–	–	(58)
Net dividends distributed		–	–	–	–	(22,254)	(22,254)
Total transactions with owners		6,074	–	–	–	(22,254)	(16,180)
Balance at the end of the period	7	154,565	–	(1,871)	(480)	72,456	224,670
For the 44 week period ended 31 December 2019							
Balance at the beginning of the period		154,565	–	(1,871)	(480)	72,456	224,670
Adoption of NZ IFRS 16	16	–	–	–	–	(47,218)	(47,218)
Restated balance at the beginning of the period		154,565	–	(1,871)	(480)	25,238	177,452
Comprehensive income							
Profit after taxation attributable to shareholders		–	–	–	–	30,091	30,091
Other comprehensive income							
Movement in foreign currency translation reserve		–	–	1,707	–	–	1,707
Movement in derivative hedging reserve		–	–	–	(1,256)	–	(1,256)
Total other comprehensive income		–	–	1,707	(1,256)	–	451
Total comprehensive income		–	–	1,707	(1,256)	30,091	30,542
Balance at the end of the period	7	154,565	–	(164)	(1,736)	55,329	207,994

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

Consolidated statement of financial position

as at 31 December 2019

$NZ000's	Note	31 Dec 2019	25 Feb 2019
Non-current assets			
Property, plant and equipment	13	**175,781**	153,400
Right of use assets	14	**356,132**	–
Sub-lease receivable		**1,029**	–
Intangible assets	20	**249,140**	249,093
Deferred tax asset	21	**36,353**	16,304
Derivative financial instruments	5	**–**	339
Total non-current assets		**818,435**	419,136
Current assets			
Inventories	8	**12,415**	10,226
Trade and other receivables	9	**9,528**	12,109
Income tax receivable		**1,546**	2,734
Cash and cash equivalents	10	**34,965**	15,034
New stores developed for sale	11	**3,015**	1,038
Total current assets		**61,469**	41,141
Total assets		**879,904**	460,277
Equity attributable to shareholders			
Share capital	7	**154,565**	154,565
Reserves	7	**(1,900)**	(2,351)
Retained earnings		**55,329**	72,456
Total equity attributable to shareholders		**207,994**	224,670
Non-current liabilities			
Provision for employee entitlements	22	**676**	782
Deferred income	23	**328**	7,852
Loans	4	**52,748**	145,491
Lease liabilities	18	**409,309**	–
Derivative financial instruments	5	**2,217**	1,100
Total non-current liabilities		**465,278**	155,225
Current liabilities			
Loans	4	**101,578**	362
Income tax payable		**3,563**	4,275
Trade and other payables	12	**78,791**	73,386
Provision for employee entitlements	22	**1,584**	1,567
Lease liabilities	18	**21,039**	–
Deferred income	23	**77**	792
Total current liabilities		**206,632**	80,382
Total liabilities		**671,910**	235,607
Total equity and liabilities		**879,904**	460,277

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

Consolidated statement of cash flows

for the 44 week period ended 31 December 2019

$NZ000's	Note	31 Dec 2019	25 Feb 2019
Cash flows from operating activities			
Cash was provided by/(applied to):			
Receipts from customers		**734,263**	825,540
Payments to suppliers and employees		**(609,579)**	(731,317)
Interest paid		**(5,370)**	(6,801)
Interest paid on leases	19	**(16,351)**	–
Payment of income tax		**(15,338)**	(16,159)
Net cash from operating activities		**87,625**	71,263
Cash flows from investing activities			
Cash was (applied to)/provided by:			
Acquisition of business	20	**(647)**	–
Payment for intangibles		**(4,911)**	(3,820)
Purchase of property, plant and equipment		**(54,772)**	(33,114)
Proceeds from disposal of property, plant and equipment		**555**	10,159
Landlord contributions received		**105**	46
Net cash used in investing activities		**(59,670)**	(26,729)
Cash flows from financing activities			
Cash was provided by/(applied to):			
Proceeds from loans		**265,345**	336,535
Repayment of loans		**(257,521)**	(358,487)
Dividends paid to shareholders		**–**	(17,700)
Payments for lease principal	19	**(16,019)**	–
Share issue costs		**–**	(58)
Net cash used in financing activities		**(8,195)**	(39,710)
Net increase in cash and cash equivalents		**19,760**	4,824
Cash and cash equivalents at beginning of the period		**15,034**	10,140
Opening cash balances acquired on acquisition		**3**	–
Foreign exchange movements		**168**	70
Cash and cash equivalents at the end of the period		**34,965**	15,034
Cash and cash equivalents comprise:			
Cash on hand	10	**1,680**	446
Cash at bank	10	**33,285**	14,588
		34,965	15,034

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

Consolidated statement of cash flows (continued)

for the 44 week period ended 31 December 2019

$NZ000's	31 Dec 2019	25 Feb 2019
Reconciliation of profit after taxation with net cash from operating activities		
Total profit after taxation attributable to shareholders	**30,091**	35,741
Add items classified as investing/financing activities:		
Loss/(gain) on disposal of property, plant and equipment	**3,590**	(2,946)
	3,590	(2,946)
Add/(less) non-cash items:		
Depreciation	**47,646**	30,309
Lease termination	**(301)**	–
Share option amortisation	**–**	258
(Decrease)/increase in provisions	**(67)**	90
Amortisation of intangible assets	**3,959**	5,147
Impairment on property, plant and equipment	**(660)**	3,290
Net increase in deferred tax asset	**(3,187)**	(1,432)
	47,390	37,662
Add/(less) movement in working capital:		
(Increase)/decrease in inventories	**(2,166)**	1,732
Decrease/(increase) in trade and other receivables	**645**	(3,540)
Increase in trade and other payables	**7,629**	3,601
Increase/(decrease) in income tax payable	**446**	(987)
	6,554	806
Net cash from operating activities	**87,625**	71,263
Reconciliation of movement in term loans		
Opening balance	**145,853**	166,815
Net cash flow from financing activities	**7,824**	(21,952)
Foreign exchange movement	**649**	990
Closing balance	**154,326**	145,853

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

Basis of preparation

for the 44 week period ended 31 December 2019

1. Reporting entity

The reporting entity is the consolidated group (the "Group") comprising the economic entity Restaurant Brands New Zealand Limited (the "Company") and its subsidiaries. Restaurant Brands New Zealand is a limited liability company incorporated and domiciled in New Zealand. The principal activity of the Group is the operation of quick service and takeaway restaurant concepts in New Zealand, Australia, Hawaii, Saipan and Guam.

Restaurant Brands New Zealand Limited is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is Level 3, Building 7, Central Park, 666 Great South Road, Penrose, Auckland.

The Company is listed on the New Zealand Stock Exchange ("NZX") and the Australian Securities Exchange ("ASX") and is an FMC reporting entity and subject to the Financial Markets conduct Act 2013 legislative provisions. The Group is designated as a for-profit entity for financial reporting purposes.

Subsidiaries of the Company are as follows:

Name	Nature
Restaurant Brands Limited	Restaurant operating
Restaurant Brands Australia Pty Limited	Restaurant operating
QSR Pty Limited	Restaurant operating
Taco Aloha Inc.	Restaurant operating
Hawaii Pizza Hut Inc.	Restaurant operating
Pizza Hut of Guam, Inc.	Restaurant operating
Pizza Hut of Saipan, Inc.	Restaurant operating
TB Guam Inc.	Restaurant operating
Restaurant Brands Hawaii Limited	Investment holding
Pacific Island Restaurants Inc.	Investment holding
TD Food Group Inc.	Investment holding
RB Holdings Limited	Investment holding
RBP Holdings Limited	Investment holding
RBDNZ Holdings Limited	Investment holding
RBN Holdings Limited	Investment holding
Restaurant Brands Australia Holdings Pty Limited	Investment holding
Restaurant Brands Properties Limited	Property holding
Restaurant Brands Nominees Limited	Employee share option plan trustee
Restaurant Brands Pizza Limited	Non-trading

2. Basis of preparation

The financial statements of the Group have been prepared in accordance with:

- New Zealand Generally Accepted Accounting Practice ("NZ GAAP")
- Part 7 of the Financial Markets Conduct Act 2013
- NZX Main Board Listing Rules

They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), NZ IFRIC interpretations, and other applicable Financial Reporting Standards, as appropriate for a for-profit entity. The financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain investments and financial instruments as identified in the accompanying notes. The financial statements are presented in New Zealand dollars, rounded where necessary to the nearest thousand dollars. The 31 December 2019 results are for 44 weeks (Feb 2019: 52 weeks) due to a change in balance date to align with Global Valar S.L. our majority shareholder. Therefore the current period is not directly comparable to the prior period.

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting policy choice is provided by NZ IFRS, is new or has changed (refer Note 28), is specific to the Group's operations or is significant or material.

These policies have been consistently applied to all the years presented unless otherwise stated. See Note 2 and 23 for details regarding corrections made.

To ensure consistency with the current period, comparative figures have been restated where appropriate. Previously, the Group presented certain items as non-trading in the consolidated statement of comprehensive income. To ensure consistency and comparability with the current period, the transactions previously included as non-trading items have been split between other income and other expenses.

These audited financial statements were authorised for issue on 28 February 2020 by the Board of Directors who do not have the power to amend after issue.

Notes to and forming part of the financial statements

For the 44 week period ended 31 December 2019

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Notes to and forming part of the financial statements
for the 44 week period ended 31 December 2019

PERFORMANCE

1. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The Group is split into three geographically distinct operating divisions: New Zealand, Australia, and USA (Hawaii). The chief operating decision makers, responsible for allocating resources and assessing performance of the operating segments, have been identified as the Group Chief Executive Officer (Group CEO) and Group Chief Financial Officer (Group CFO). The chief operating decision makers consider the performance of the business from a geographic perspective, being New Zealand, Australia and Hawaii (including Guam and Saipan) while the performance of the corporate support function is assessed separately.

The Group is therefore organised into three operating segments, depicting the three geographic regions the Group operates in and the corporate support function located in New Zealand. All segments operate quick service and takeaway restaurant concepts. All operating revenue is from external customers.

The Group evaluates performance and allocates resources to its operating segments on the basis of segment assets, segment revenues, concept EBITDA before general and administration expenses and EBIT before other items. EBITDA refers to earnings before interest, taxation, depreciation and amortisation. EBIT refers to earnings before interest and taxation. Operating revenue is from external customers.

Segment assets include items directly attributable to the segment (i.e. property, plant and equipment, intangible assets and inventories). 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 makers evaluate performance and allocate resources purely on the basis of aggregated Group liabilities.

31 December 2019 $NZ000's	New Zealand	Australia	Hawaii	Corporate support function	Total
Business segments					
Store sales revenue	367,521	169,105	168,915	–	**705,541**
Other revenue	27,976	–	149	–	**28,125**
Total operating revenue	**395,497**	**169,105**	**169,064**	**–**	**733,666**
EBITDA before general and administration expenses, NZ IFRS 16 and other items	**67,907**	**25,202**	**22,865**	**–**	**115,974**
General and administration expenses	(11,923)	(6,786)	(7,694)	(3,024)	**(29,427)**
EBITDA before NZ IFRS 16 and other items	**55,984**	**18,416**	**15,171**	**(3,024)**	**86,547**
Depreciation	(13,241)	(6,849)	(5,257)	(9)	**(25,356)**
Amortisation	(1,830)	(325)	(23)	–	**(2,178)**
Segment result (EBIT) before NZ IFRS 16 and other items	**40,913**	**11,242**	**9,891**	**(3,033)**	**59,013**
Other items					
Other income	100	321	–	–	**421**
Other expenses	(62)	(2,965)	(1,832)	(479)	**(5,338)**
Operating profit (EBIT) before NZ IFRS 16	40,951	8,598	8,059	(3,512)	**54,096**
Adjustment for NZ IFRS 16	6,647	2,323	1,304	–	**10,274**
Operating profit (EBIT)	**47,598**	**10,921**	**9,363**	**(3,512)**	**64,370**
Current assets	40,455	10,712	10,302	–	**61,469**
Non-current assets	114,319	157,763	169,513	–	**441,595**
Non-current lease assets (including lease deferred tax)	195,805	114,607	66,428	–	**376,840**
Total assets	**350,579**	**283,082**	**246,243**	**–**	**879,904**
Capital expenditure including intangibles	23,079	21,749	14,328	–	**59,156**

Notes to and forming part of the financial statements (continued)
for the 44 week period ended 31 December 2019

25 February 2019 $NZ000's	New Zealand	Australia	Hawaii	Corporate support function	Total
Business segments					
Store sales revenue	419,770	191,547	182,729	–	**794,046**
Other revenue	32,044	–	313	–	**32,357**
Total operating revenue	**451,814**	**191,547**	**183,042**	**–**	**826,403**
EBITDA before general and administration expenses and other items	**76,434**	**29,064**	**23,749**	**–**	**129,247**
General and administration expenses	(12,683)	(6,905)	(8,839)	(2,170)	**(30,597)**
EBITDA after general and administration expenses	**63,751**	**22,159**	**14,910**	**(2,170)**	**98,650**
Depreciation	(16,567)	(7,679)	(6,045)	(18)	**(30,309)**
Amortisation (included in cost of sales)	(1,846)	(444)	(822)	–	**(3,112)**
Segment result (EBIT) before other items	**45,338**	**14,036**	**8,043**	**(2,188)**	**65,229**
Other items					
Other income	3,034	–	–	–	**3,034**
Other expense	(6,480)	(2,322)	(3,009)	(219)	**(12,031)**
Operating profit (EBIT)	**41,892**	**11,714**	**5,034**	**(2,407)**	**56,232**
Current assets	20,464	7,340	13,337	–	**41,141**
Non-current assets	110,637	145,620	162,879	–	**419,136**
Total assets	**131,101**	**152,960**	**176,216**	**–**	**460,277**
Capital expenditure including intangibles	18,295	12,263	6,880	–	**37,438**

1.1 Reconciliation between EBIT after other items and NZ IFRS 16 and net profit after tax

$NZ000's	31 Dec 2019	25 Feb 2019
EBIT	**64,370**	56,232
Financing costs	**(21,464)**	(6,797)
Net profit before taxation	**42,906**	49,435
Taxation expense	**(12,815)**	(13,694)
Net profit after taxation	**30,091**	35,741
Add back net financing impact of NZ IFRS 16	**6,076**	–
Less taxation expense of NZ IFRS 16	**(1,547)**	–
Net profit after taxation excluding NZ IFRS 16	**34,620**	35,741
Add back other income	**(421)**	(3,034)
Add back other expenses	**5,338**	12,031
Less income tax on other items	**(883)**	(2,557)
Net profit after taxation excluding other items and NZ IFRS 16	**38,654**	42,181

2. Revenue and expenses
Operating revenue
Store sales revenue

Revenue from store sale of goods is recognised at point of sale, measured at the fair value of the consideration received, net of returns, discounts, and excluding GST.

Other revenue

Other revenue includes sale of goods and services to independent franchisees. Sale of goods, including cost of freight, are recognised similar to store sales revenue. Sale of services is recognised over time as the independent franchisee simultaneously receives and consumes the benefit provided by the Group. Royalties received are based on the revenue generated by the independent franchisees, recognised over time.

Also included in other revenue is revenue related to the sale of new stores developed and constructed under contract to franchisees. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from the construction of stores is therefore recognised over time on a cost-to-cost method, i.e. based on the portion of the contracted costs incurred for work performed to date relative to the estimated total cost. Previously, the Group netted royalties received from independent franchisees as an off-set with the royalties paid to the master franchisor. During the period ended 25 February 2019, the Group became the master franchisee for the Pizza Hut brand in New Zealand and as a result the royalties received and paid should have been recognised separately. Comparatives have been corrected to align with this treatment amounting to $1.5 million. Royalties received are included within other income with the royalties paid included within cost of goods sold.

Operating expenses
Royalties paid

$NZ000's	31 Dec 2019	25 Feb 2019
Royalties paid	**42,069**	47,312

Royalties are recognised as an expense as revenue is earned.

Wages and salaries

$NZ000's	31 Dec 2019	25 Feb 2019
Wages and salaries	**204,306**	229,489
Decrease in liability for long service leave	**(89)**	(147)
	204,217	229,342

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave, that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

Lease expenses

$NZ000's	31 Dec 2019	25 Feb 2019
Lease expense	**3,953**	44,510

This relates to short term and variable lease costs included in the statement of comprehensive income not included in NZ IFRS 16 costs.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

$NZ000's	31 Dec 2019	25 Feb 2019
Other income		
Net gain on sale of stores	**100**	1,848
Gain on the sale of Starbucks Coffee	**–**	1,186
Lease termination	**301**	–
Lease surrender gain	**321**	–
Total other income	**722**	3,034
Other expenses		
Recurring		
Amortisation of franchise rights acquired on acquisition of QSR Pty Limited (QSR) and Pacific Island Restaurants Inc. (PIR)	**(1,781)**	(2,035)
Relocation and refurbishment	**(3,209)**	(1,021)
Non-recurring		
Acquisition costs	**(631)**	(345)
Hawaii workers compensation	**–**	(1,625)
Leave remediation	**(361)**	(3,466)
Calendar realignment costs	**(16)**	–
Impairment of assets	**–**	(3,539)
Utilisation of depreciation provision	**660**	–
Total other expenses	**(5,338)**	(12,031)

Gain on the sale of Starbucks Coffee

During October 2018 the Group sold the Starbucks Coffee business in New Zealand for $4.4 million (including stock). The net gain on the sale was $1.2 million.

Lease termination

This is the gain related to the termination of a lease contract prior to its maturity.

Leave remediation

The Group identified a payroll calculation discrepancy in regards to entitlements under the Holidays Act 2003 which, over time, have resulted in staff receiving incorrect payments. The specific areas that require remediation date back to 2012, and primarily relate to the payment rates for annual leave. Included in other expenses above is a $0.4 million (Feb 2019: $3.5 million) expense relating to leave remediation. The expense in the 31 December 2019 period relates to costs associated with making the payments to the affected employees.

Utilisation of depreciation provision

This is the correction of depreciation charged on assets that were impaired in previous periods, refer Note 13.

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 other income and other expenses and are separately disclosed in the statement of comprehensive income and notes to the financial statements.

3. Earnings per share

	31 Dec 2019	25 Feb 2019
Basic earnings per share		
Profit after taxation attributable to the shareholders ($NZ000's)	**30,091**	35,741
Weighted average number of shares on issue (000's)	**124,759**	124,230
Basic earnings per share (cents)	**24.12**	28.77
Diluted earnings per share		
Profit after taxation attributable to the shareholders ($NZ000's)	**30,091**	35,741
Weighted average number of shares on issue (000's)	**124,759**	124,230
Diluted earnings per share (cents)	**24.12**	28.77

Basic earning per share (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 reflects any commitments the Company has to issue shares in the future that would decrease EPS.

FUNDING AND EQUITY

4. Loans

$NZ000's	31 Dec 2019	25 Feb 2019
Secured bank loans denominated in:		
NZD	**10,000**	12,200
AUD	**87,521**	77,921
USD	**56,805**	55,732
Secured bank loans	**154,326**	145,853

A loan is classified as current if it is due for repayment within 12 months of the Group's year end.

Current	**101,578**	362
Term	**52,748**	145,491
Secured bank loans	**154,326**	145,853

Facilities

On 12 October 2017 the existing Westpac bank loan facility was renewed on similar terms for a further three years, expiring on 12 October 2020. The total loan facility with Westpac bank is $125 million.

On 12 October 2017 a new loan facility agreement for $A50 million was entered into with MUFG Bank, Ltd, for a term of three years, expiring on 12 October 2020.

On 7 March 2017 as part of the acquisition of Pacific Island Restaurants Inc. the Group acquired a loan facility with First Hawaiian Bank. The facility is currently $US51.2 million. There are principal payments of $US0.3 million per month commencing on 1 February 2020 with the remainder of the facility expiring 16 December 2023.

On 24 February 2020 the Group announced a new debt facility, refer Note 27 for details.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

Interest rate swaps

The table below summarised the Group's current interest rate swaps. The effective interest rate is inclusive of the swap margin and the maturity date of the swaps coincides with the date of the loans.

Date entered	Face value	Maturity date	Interest rate paid	Interest rate received	Swap fair value ($NZ000's)
22 January 2017	$NZ10 million	28 January 2022	3.0%	1.1%	(394)
25 January 2017	$A15 million	25 January 2022	2.5%	0.9%	(565)
14 November 2017	$A20 million	14 November 2022	2.4%	0.9%	(884)
22 May 2017	$US10 million	1 June 2022	2.1%	1.7%	(198)
29 June 2017	$US10 million	1 July 2022	2.0%	1.7%	(176)
Total					**(2,217)**

Security

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

As security over the USD debt facility, the bank holds guarantees and security over the Hawaii business.

The Group has also indemnity guarantees of $1.9 million across various properties leased in New Zealand and Australia and a standby letter of credit in Hawaii of $0.5 million.

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

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
- debt coverage ratio (i.e. net borrowings to EBITDA), and
- interest cover ratio (i.e. EBITDA to interest), 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, and
- non-guaranteeing Group EBIT excluding Restaurant Brands Hawaii to consolidated EBIT.

The covenants are reported to the bank on a six monthly basis for New Zealand and Australia and quarterly in Hawaii. The Board reviews covenant compliance on a monthly basis.

There have been no breaches of the covenants during the period (Feb 2019: no breaches).

The carrying value equates to fair value.

For more information about the Group's exposure to interest rate and foreign currency risk see Note 6.

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 profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

Financing costs

$NZ000's	31 Dec 2019	25 Feb 2019
Financing expenses	**21,464**	6,797

Included within the period ended 31 December 2019 was $16.4 million of interest relating to leases recognised due to the implementation of NZ IFRS 16 (Feb 2019: Nil).

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; lease interest (Note 14); foreign exchange gains and losses; gains and losses on certain financial instruments that are recognised in profit or loss in the statement of comprehensive income; unwinding of the discount on provisions and impairment losses on financial assets.

5. Derivatives and hedge accounting

$NZ000's	31 Dec 2019 Liabilities	25 Feb 2019 Liabilities/asset
Term		
Fair value of interest rate swaps	**2,217**	761
	2,217	**761**
Change in fair value of interest rate swaps	**(1,455)**	(789)
Change in value of hedged item used to determine hedge effectiveness	**1,455**	789

The above table shows the Group's financial derivative holdings at period end and the change in fair value of the hedge and the underlying item being hedged. The interest rate swaps hedge ratio was 1:1 for both periods as the change in fair value of the interest rate swap mirrored the change in the fair value of the hedged item used to determine hedge effectiveness.

There were no transfers between fair value levels during the period (Feb 2019: Nil). The fair values are classified as level two.

The fixed interest rates of the swaps used to hedge range between 2.02% and 3.03% (Feb 2019: 2.02% to 4.69%) and the variable rates of the loans are between 0.88% and 1.71% above the applicable bank bill rates. Refer Note 4 for the interest rate swaps face values, maturity dates, currencies and interest rate ranges.

The Group's current hedge relationships are cash flow hedges. Under NZ IFRS 9 the hedged risk is designated as being changes in the variable interest rate, with changes in the full fair value of the interest rate swaps being accounted for through other comprehensive income (to the extent the hedge is effective).

Financial assets
The Group classifies its financial assets as those to be measured at amortised cost (loans, receivables and non-derivative financial instruments), and those to be measured subsequently at fair value either through OCI or through profit or loss (derivative financial instruments).

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 trade receivables, other debtors and cash and cash equivalents in the statement 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. Any impairment losses are recognised in profit or loss in the statement of comprehensive income.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

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 receivables and other debtors, 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 trade and other payables 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 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.

Financial assets and financial liabilities by category

$NZ000's	31 Dec 2019	25 Feb 2019
Loans and receivables		
Trade receivables	**2,454**	595
Other receivables	**2,599**	6,193
Cash and cash equivalents	**34,965**	15,034
	40,018	21,822
Derivatives used for hedging		
Derivative financial instruments – liabilities	**2,217**	761
	2,217	761
Financial liabilities at amortised cost		
Loans	**154,326**	145,853
Trade and other payables (excluding indirect and other taxes and employee benefits)	**53,981**	52,728
	208,307	198,581

6. Financial risk management

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 Australian dollars and US 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 foreign currency risk on its assets and liabilities that are denominated in Australian and US dollars as part of its Australian and US investments.

(b) Interest rate risk

The Group's main interest rate risk arises from bank loans. 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 guidelines as to the minimum prescribed level of hedging set out by the board, however the board reviews all swaps before they are entered into.

Note 5 discusses in detail the Group's accounting treatment for derivative financial instruments.

As discussed in Note 4, the Group has an interest rate swap in place to fix the interest rate on $A35 million of Australian denominated bank loans to 2022 (Feb 2019: $A35 million), $NZ10 million to 2022 (Feb 2019: $NZ5 million to 2019 and $NZ10 million to 2022) and $US20 million to 2022 (Feb 2019: $US20 million). 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.

(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
31 December 2019				
Cash on hand	–	**1,680**	1,680	–
Cash at bank	0.50%	**17,385**	17,385	–
Money market deposit	0.95%	**15,900**	15,900	–
Bank term loan – principal	7.74%	**(10,000)**	(10,000)	–
Bank term loan – principal	3.22%	**(87,521)**	(87,521)	–
Bank term loan – principal	4.31%	**(56,804)**	(4,056)	(52,748)
Bank term loan – expected interest	3.91%	**(9,939)**	(2,180)	(7,759)
Derivative financial instruments	–	**(1,940)**	(751)	(1,189)
Trade and other payables (excluding indirect and other taxes and employee benefits)	–	**(53,235)**	(53,235)	–
		(184,474)	**(122,778)**	**(61,696)**
25 February 2019				
Cash on hand	–	**446**	446	–
Cash at bank	0.37%	**14,588**	14,588	–
Bank term loan – principal	4.51%	**(12,200)**	–	(12,200)
Bank term loan – principal	3.19%	**(77,921)**	–	(77,921)
Bank term loan – principal	4.13%	**(55,732)**	(362)	(55,370)
Bank term loan – expected interest	3.73%	**(16,432)**	(5,436)	(10,996)
Derivative financial instruments	–	**(378)**	(10)	(368)
Creditors and accruals (excluding indirect and other taxes and employee benefits)	–	**(52,728)**	(52,728)	–
		(200,357)	**(43,502)**	**(156,855)**

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 $253 million (Feb 2019: $252 million) available at variable rates. The amount undrawn at balance date was $99 million (Feb 2019: $106 million). On 24 February 2020 the Group announced a new debt facility, refer Note 27 for details.

The Group has fixed the interest rate on $NZ10 million of NZD bank loans, $A35 million of AUD bank loans and $US20 million of USD bank loans with the balance at a floating interest rate. The bank loans are 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.

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for the 44 week period ended 31 December 2019

(d) Credit risk

Credit risk arises from cash deposits with banks and financial institutions and outstanding trade and other 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 (Feb 2019: 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 statement 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 31 December 2019 it is estimated that a general increase of one percentage point in interest rates would decrease the Group profit before income tax by approximately $0.8 million (Feb 2019: $1.5 million) however equity would increase by $0.7 million. A one percentage point decrease in interest rates would increase the Group profit before income tax by approximately $0.8 million (Feb 2019: $1.5 million), however equity would reduce by $0.6 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.

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.

7. Equity and reserves

Share capital

	31 Dec 2019 number	**31 Dec 2019 $NZ000's**	25 Feb 2019 number	25 Feb 2019 $NZ000's
Balance at beginning of year	**124,758,523**	**154,565**	123,629,343	148,491
Share issue costs	**–**	**–**	–	(58)
Shares issued June 2018	**–**	**–**	751,180	5,841
Shares issued December 2018	**–**	**–**	378,000	291
Balance at end of year	**124,758,523**	**154,565**	124,758,523	154,565

The issued and authorised capital of the Company represents ordinary fully paid up shares. The par value is nil (Feb 2019: 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.

The shares issued in June 2018 were in relation to the company's dividend reinvestment plan.

The shares issued in December 2018 were in relation to shares issued to the Group CEO and Group CFO under the Performance Rights Plan upon the vesting criteria being satisfied.

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

Foreign currency translation reserve

$NZ000's	**31 Dec 2019**	25 Feb 2019
	(164)	(1,871)

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

Derivative hedging reserve

$NZ000's	**31 Dec 2019**	25 Feb 2019
	(1,736)	(480)

The derivative hedging reserve represents the fair value of outstanding derivatives.

WORKING CAPITAL

8. Inventories

$NZ000's	**31 Dec 2019**	25 Feb 2019
Raw materials and consumables	**12,415**	10,226

Inventories recognised as an expenses during the period ended 31 December 2019 amounted to $178.8 million (Feb 2019: $205.8 million). These are included in cost of sales.

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. The cost of inventories consumed is recognised as an expense and included in cost of goods sold in the statement of comprehensive income.

9. Trade and other receivables

$NZ000's	**31 Dec 2019**	25 Feb 2019
Trade receivables	**2,454**	595
Prepayments	**4,475**	5,321
Other receivables	**2,599**	6,193
	9,528	12,109

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

NZD	**6,461**	7,609
AUD	**2,230**	1,114
USD	**837**	3,386
	9,528	12,109

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 trade and other receivables approximates fair value.

Receivables are initially recognised at fair value. They are subsequently adjusted for impairment losses. Discounting is not applied to receivables where collection is expected to occur within the next twelve months.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

10. Cash and cash equivalents

$NZ000's	31 Dec 2019	25 Feb 2019
Cash on hand	**1,680**	446
Cash at bank	**33,285**	14,588
	34,965	15,034

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

NZD	**20,698**	3,053
AUD	**7,092**	5,619
USD	**7,175**	6,362
	34,965	15,034

11. New stores developed for sale

$NZ000's	31 Dec 2019	25 Feb 2019
New stores developed for sale	**3,015**	1,038

This relates to new Pizza Hut stores developed for sale in New Zealand which are being actively marketed for sale and are expected to be sold within the next 12 months.

12. Trade and other payables

$NZ000's	31 Dec 2019	25 Feb 2019
Trade payables	**31,404**	25,524
Other payables and accruals	**22,577**	27,017
Employee benefits	**16,948**	14,986
Indirect and other taxes	**7,862**	5,859
	78,791	73,386

The carrying amount of the Group's trade and other payables are denominated in the following currencies:

NZD	**49,652**	44,570
AUD	**16,254**	15,674
USD	**12,885**	13,142
	78,791	73,386

The carrying value of trade payables and accruals approximates fair value.

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

LONG TERM ASSETS

13. Property, plant and equipment

$NZ000's	Land	Leasehold improvements	Plant, equipment and fittings	Motor vehicles	Leased plant and equipment	Capital work in progress	Total
Cost							
Balance as at 26 February 2018	**658**	**202,011**	**101,541**	**1,904**	**258**	**4,127**	**310,499**
Additions	–	4,239	4,374	249	–	24,756	33,618
Transfers from work in progress	–	12,773	6,165	303	–	(19,241)	–
Disposals	–	(12,669)	(9,735)	(516)	(62)	–	(22,982)
Reclassification	–	812	(783)	(35)	–	6	–
Movement in exchange rates	–	1	325	(23)	–	(19)	284
Balance as at 25 February 2019	**658**	**207,167**	**101,887**	**1,882**	**196**	**9,629**	**321,419**
Additions	3,774	3,556	1,571	–	–	45,344	54,245
Acquisition of business	–	39	113	–	–	–	152
Transfers from work in progress	–	27,532	12,829	181	–	(40,542)	–
Disposals	–	(12,513)	(6,762)	(193)	–	320	(19,148)
Movement in exchange rates	(57)	60	197	–	–	(46)	154
Balance as at 31 December 2019	**4,375**	**225,841**	**109,835**	**1,870**	**196**	**14,705**	**356,822**
Accumulated depreciation							
Balance as at 26 February 2018	**–**	**(91,934)**	**(59,021)**	**(839)**	**(258)**	**–**	**(152,052)**
Charge	–	(18,841)	(10,920)	(361)	–	–	(30,122)
Disposals	–	10,296	7,830	331	62	–	18,519
Reclassification	–	377	(377)	–	–	–	–
Movement in exchange rates	–	179	(136)	5	–	–	48
Balance as at 25 February 2019	**–**	**(99,923)**	**(62,624)**	**(864)**	**(196)**	**–**	**(163,607)**
Charge	–	(15,650)	(9,042)	(306)	–	–	(24,998)
Disposals	–	6,412	4,857	176	–	–	11,445
Movement in exchange rates	–	(8)	(64)	2	–	–	(70)
Balance as at 31 December 2019	**–**	**(109,169)**	**(66,873)**	**(992)**	**(196)**	**–**	**(177,230)**
Impairment provision							
Balance as at 26 February 2018	**–**	**(1,135)**	**(101)**	**–**	**–**	**–**	**(1,236)**
Charge	–	(2,991)	(334)	–	–	–	(3,325)
Utilised/disposed	–	133	16	–	–	–	149
Balance as at 25 February 2019	**–**	**(3,993)**	**(419)**	**–**	**–**	**–**	**(4,412)**
Charge	–	(40)	(212)	–	–	–	(252)
Utilised/disposed	–	136	717	–	–	–	853
Balance as at 31 December 2019	**–**	**(3,897)**	**86**	**–**	**–**	**–**	**(3,811)**
Carrying amounts							
Balance as at 26 February 2018	658	108,942	42,419	1,065	–	4,127	157,211
Balance as at 25 February 2019	658	103,251	38,844	1,018	–	9,629	153,400
Balance as at 31 December 2019	**4,375**	**112,775**	**43,048**	**878**	**–**	**14,705**	**175,781**

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

Depreciation expense

$NZ000's	31 Dec 2019	25 Feb 2019
Depreciation expense	**25,250**	30,163

Sale of property, plant and equipment

$NZ000's	31 Dec 2019	25 Feb 2019
Net (loss) on disposal of property, plant and equipment (included in depreciation expense)	**(106)**	(146)
Net (loss)/gain on disposal of property, plant and equipment (included in other costs)	**(3,209)**	3,092

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Depreciation 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.

Depreciation expense is included in profit or loss in the statement of comprehensive income.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss in the statement of comprehensive incom.

Significant judgments and estimates – impairment testing of Carl's Jr. property, plant and equipment

Impairment testing is an area where estimates and judgments have a significant risk of causing a material adjustment to the carrying amount of the Group's tangible asset balances. Estimates of future cash flows are highly subjective judgements and can be significantly impacted by changes in the business or economic conditions.

Property, plant and equipment and intangible assets are reviewed for impairment semi-annually, or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in the Consolidated statement of comprehensive income for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. When assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows; a restaurant's assets is the relevant cash generating unit. If, in a subsequent period, the amount of the impairment loss decreases and it can be related objectively to an event occurring after the impairment was recognised, the reversal of the previously recognised impairment loss is recognised in the Consolidated statement of comprehensive income.

The value in use calculation evaluates recoverability based on the restaurant's forecasted discounted cash flows, which incorporate estimated sales growth and margin improvement based upon current plans for the store and actual results at comparable restaurants.

Key assumptions in the determination of fair value are:

- the estimate of future cash flows of the restaurant incorporating reasonable sales growth and margin improvement
- the discount rate incorporating the rates of return based on the risk and uncertainty inherent in the forecast cash flows
- the terminal year sales growth is calculated based on continuous sales growth of a minimum of projected inflation estimated at 2.5%.

During the 25 February 2019 period the Group reviewed its tangible assets for signs of impairment, eight Carl's Jr. stores were identified as having possible impairments. Four stores had their assets fully impaired. A discounted cash flow model was prepared for the remaining four stores using the following assumptions.

	Discount rate 2020-2022 %	Sales growth 2020-2022 %	EBITDA margin 2020-2022 %	EBITDA margin terminal year %
Key assumptions February 2019	10.9	1.0-3.5	1.0-4.1	2.5-4.1

The discount rate applied represents the weighted average post-tax cost of capital being an applicable rate for a standalone restaurant within the New Zealand segment.

Following the impairment assessment in the 25 February 2019 period, an impairment of $3.3 million was included in other expense items (refer Note 2) and as part of the impairment provision within property, plant and equipment. The $0.7 million other expense disclosed in Note 2 relates to a correction of depreciation charged on assets that were impaired in previous periods.

Following a review of store performance and consideration of other impairment indicators, the Group has determined that no indicators of impairment exist at 31 December 2019 which would require impairment testing to be performed, or a further write down in the associated store assets.

14. Adoption of NZ IFRS 16 – Leases

The Group has adopted NZ IFRS 16 retrospectively from 26 February 2019, but has not restated comparatives for the 25 February 2019 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 26 February 2019.

The associated right of use assets were measured on a retrospective basis as if the new rules had always been applied, adjusted by the amount of any prepaid or accrued lease payments, lease incentives, onerous or favourable leases recognised in the balance sheet as at 26 February 2019. The recognised right of use assets are all property leases.

Lease liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 26 February 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 26 February 2019 was 4.8%.

On transition, the Group applied the following practical expedients:

- the accounting for operating leases with a remaining lease term of less than 12 months as at 26 February 2019 as short-term leases
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Key estimates and judgements

In the process of adopting NZ IFRS 16, a number of judgements and estimates have been made. These include:

- incremental borrowing rate at the time of adoption. The Group engaged an independent valuation expert to establish the incremental borrowing rates
- lease terms, including any rights of renewal expected to be exercised. The Group has assumed that all rights of renewal are expected to be exercised which is consistent with the Group's strategy and previous leases. This judgement has been applied unless a store closure or a decision to relocate a store is known at the time of adoption
- foreign exchange conversion rates
- application of practical expedients and recognition exemptions allowed by the new standards, including in respect of low value assets and short-term lease exemptions.

$NZ000's	Property
Right of use asset at adoption date 26 February 2019	**346,487**
Depreciation	(22,396)
Lease modifications	11,179
Lease additions	18,721
FX movement	2,141
Right of use asset at period end	**356,132**

Sensitivity

The effect on the opening consolidated balance sheet as at 26 February 2019 from an increase or decrease of 0.5% in the incremental borrowing rate would result in a change of approximately $18.3 million.

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The Group leases relate to buildings which were all classified as operating leases until 25 February 2019. Payments made under operating leases (net of any incentives received from the lessor) were previously charged to profit and loss on a straight line basis over the period of the lease. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

From 26 February 2019, leases are recognised as a right of use asset and a corresponding liability. Each lease payment is allocated between the lease liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments and known fixed lease increases, less any lease incentives receivable.

The group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability or right of use asset until they take effect.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability and any restoration costs. These assets are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

15. Impact of NZ IFRS 16 on segmental results and earnings per share

The following table shows the adjustments to the segmental reporting as a result of adoption of NZ IFRS 16.

31 December 2019 $NZ000's	Pre NZ IFRS 16	Adjustments	Post NZ IFRS 16
EBITDA before general and administration expenses	**115,974**	**31,511**	**147,485**
General & administration expenses	(29,427)	857	(28,570)
EBITDA after general and administration expenses	**86,547**	**32,368**	**118,915**
Depreciation	(25,356)	(22,395)	(47,751)
Amortisation (included in cost of sales)	(2,178)	–	(2,178)
Segment result (EBIT) before other items	**59,013**	**9,973**	**68,986**
Other items			
Other income	421	301	722
Other expense	(5,338)	–	(5,338)
Operating profit (EBIT)	**54,096**	**10,274**	**64,370**
Current assets	61,469	–	61,469
Non-current assets	443,880	374,555	818,435
Total assets	**505,349**	**374,555**	**879,904**
Earnings per share attributable to shareholders			
Basic/diluted earnings per share	27.35	(3.23)	24.12

16. Impact of NZ IFRS 16 adoption

At 25 February 2019 the Group had lease commitments of $196.5 million and lease liabilities of $1.9 million in relation to lease incentives received on operating leases and NZ IAS 17 accruals. The commitments included all building leases. The following table shows adjustments made to the balance sheet on adoption of NZ IFRS 16 on 26 February 2019.

$NZ000's	Total
Right of use asset	346,487
Intangible assets – favourable leases	(2,980)
Sub-lease receivable	315
Deferred tax asset	16,896
Total assets	**360,718**
Current lease incentives	780
Current lease liability	(19,575)
Trade and other payables	1,294
Non-current lease incentives	1,079
Non-current lease liabilities	(391,514)
Total liabilities	**(407,936)**
Net liabilities	**(47,218)**
Retained earnings adjustment on adoption of NZ IFRS 16	**(47,218)**

17. Reconciliation of lease commitments to lease liabilities

$NZ000's	Total
Operating lease commitments disclosed as at 25 February 2019	196,522
As at 26 February 2019	
Discounted at the incremental borrowing rate at the date of initial application	156,048
Value of future lease options expected to be exercised at the date of initial application	255,041
Net present value of future lease liability	**411,089**
Current lease liability	19,575
Non-current lease liability	391,514
Total future lease liabilities as at 26 February 2019	**411,089**

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18. Impact of NZ IFRS 16 on the balance sheet

Assets and liabilities have both increased as a result of the change in accounting policy in relation to leases. At 31 December 2019 the balance sheet accounts affected by the change are detailed below:

31 December 2019 $NZ000's	Pre NZ IFRS 16	Adjustments	Post NZ IFRS 16
Right of use assets	–	356,132	356,132
Intangibles	251,425	(2,285)	249,140
Sub-lease receivable	–	1,029	1,029
Deferred tax assets	16,674	19,679	36,353
Impact on total assets	**268,099**	**374,555**	**642,654**
Current lease incentives	780	(780)	–
Current lease liability	–	21,039	21,039
Trade and other payables	80,976	(2,185)	78,791
Non-current lease incentives	1,081	(1,081)	–
Non-current lease liabilities	–	409,309	409,309
Impact on total liabilities	**82,837**	**426,302**	**509,139**
Impact on net liabilities		**51,747**	

19. Impact of NZ IFRS 16 on the statement of cash flows

Cash outflows from leases for the period ended 31 December 2019 are detailed in the table below. For the period ended 25 February 2019 the equivalent cash outflow was included in cash flows from operating activities as payments to suppliers and employees.

31 December 2019 $NZ000's	Total
For the period ending 31 December 2019	
Interest paid on leases (operating activities)	(16,351)
Payments for lease liabilities principal (financing activities)	(16,019)
Total cash outflows from leases	**(32,370)**

Included in payments to suppliers and employees is $4.0 million of lease payments relating to short term and variable leases.

20. Intangibles

$NZ000's	Goodwill	Franchise fees	Favourable leases	Concept development costs	Acquired software costs	Total
Cost						
Balance as at 26 February 2018	**222,044**	**25,931**	**4,297**	**1,290**	**9,723**	**263,285**
Additions	–	2,341	101	–	1,378	3,820
Disposals	–	(2,072)	–	–	(262)	(2,334)
Movement in exchange rates	4,275	792	148	–	(5)	5,210
Balance as at 25 February 2019	**226,319**	**26,992**	**4,546**	**1,290**	**10,834**	**269,981**
Opening balance adjustment NZ IFRS 16	–	–	(4,546)	–	–	(4,546)
Additions	–	2,903	–	–	2,008	4,911
Acquisition of business	405	77	–	–	–	482
Disposals	(106)	(73)	–	–	(613)	(792)
Movement in exchange rates	2,054	220	–	–	(1)	2,273
Balance as at 31 December 2019	**228,672**	**30,119**	**–**	**1,290**	**12,228**	**272,309**
Accumulated amortisation						
Balance as at 26 February 2018	**(831)**	**(8,387)**	**(718)**	**(1,058)**	**(6,034)**	**(17,028)**
Charge	–	(2,676)	(822)	(99)	(1,551)	(5,148)
Disposals	–	1,073	–	–	264	1,337
Movement in exchange rates	–	(25)	(26)	–	2	(49)
Balance as at 25 February 2019	**(831)**	**(10,015)**	**(1,566)**	**(1,157)**	**(7,319)**	**(20,888)**
Opening balance adjustment NZ IFRS 16	–	–	1,566	–	–	1,566
Charge	–	(2,668)	–	(63)	(1,228)	(3,959)
Disposals	–	61	–	–	62	123
Movement in exchange rates	–	(11)	–	–	–	(11)
Balance as at 31 December 2019	**(831)**	**(12,633)**	**–**	**(1,220)**	**(8,485)**	**(23,169)**

Impairment charges are recognised in other expenses in the statement of comprehensive income.

Carrying amounts						
Balance as at 26 February 2018	221,213	17,544	3,579	232	3,689	246,257
Balance as at 25 February 2019	225,488	16,977	2,980	133	3,515	249,093
Balance as at 31 December 2019	**227,841**	**17,486**	**–**	**70**	**3,743**	**249,140**

During December 2019 the Group acquired a KFC store in Australia for $0.6 million giving rise to goodwill on acquisition of $0.4 million.

Goodwill
Goodwill arises on the acquisition of subsidiaries and business combinations. Goodwill is measured at cost less accumulated impairment losses and has an indefinite useful life. 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 takeaway 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.

Favourable leases
Favourable leases arise on acquisition of subsidiaries and business combinations. The terms of the lease were compared to market prices at the date of acquisition, to determine whether an intangible asset or liability should be recognised. If the terms of an acquired contract are favourable relative to market prices, an intangible asset is recognised. If the terms of the acquired contract are unfavourable relative to market prices, a liability is recognised. This is then amortised over the length of the lease. Following the introduction of NZ IFRS 16 these are now included as part of the right of use asset value.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

Concept development costs and fees
Concept development costs 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.

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.

Amortisation

Amortisation charge is recognised in cost of sales and non-trading items in the statement of comprehensive income.

$NZ000's	31 Dec 2019	25 Feb 2019
Amortisation of intangibles	**3,959**	5,148

Significant judgments and estimates – impairment testing

Impairment testing is an area where estimates and judgments have a significant risk of causing a material adjustment to the carrying amount of the Group's goodwill balances.

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

$NZ000's	31 Dec 2019	25 Feb 2019
KFC Australia	**94,552**	94,365
KFC New Zealand	**3,818**	3,818
Pizza Hut New Zealand	**9,119**	9,224
Taco Bell and Pizza Hut Hawaii	**120,352**	118,081
	227,841	225,488

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

Value in use was determined by discounting the future cash flows generated from the continuing use of the brand. Cash flows were projected based on a three year strategic business plan as approved by the Board of Directors.

The key assumptions used for the value in use calculation are as follows:

Brand	31 Dec 2019 Sales growth 2021-2023 %	31 Dec 2019 EBITDA margin 2021-2023 %	31 Dec 2019 EBITDA margin terminal year %	25 Feb 2019 Sales growth 2020-2022 %	25 Feb 2019 EBITDA margin 2020-2022 %	25 Feb 2019 EBITDA margin terminal year %
KFC New Zealand	**4.1**	**20.8**	**20.8**	4.0	20.2 – 20.5	20.5
Pizza Hut New Zealand	**1.1**	**4.4**	**4.4**	3.7	9.0 – 10.6	10.6
KFC Australia	**4.3**	**15.3**	**15.3**	3.4	15.2 – 15.7	15.7
Taco Bell and Pizza Hut Hawaii	**0.9 – 4.7**	**4.3 – 19.8**	**4.3 – 19.8**	0.4 – 5.0	6.0 – 19.7	9.0 – 19.7

The terminal year sales growth is calculated based on the 2023 year and assumes a continuous sales growth of a minimum of projected inflation estimates of 2.5% (Feb 2019: 2.5%).

The discount rate for New Zealand KFC was 8.9% weighted average post-tax cost of capital (Feb 2019: 8.9%). The discount rate for New Zealand Pizza Hut was 11% (Feb 2019: 8.9%). The discount rate applied to future cash flows for the KFC business in Australia is based on a 8.7% weighted average post-tax cost of capital (Feb 2019: 8.7%). The discount rate applied to future cash flows for the Taco Bell and Pizza Hut business in Hawaii is based on an 8.8% (Feb 2019: 8.8%) weighted average post-tax cost of capital.

The analysis has been completed excluding the lease assets as the inclusion of the lease assets along with the adjusted discount rate should have no impact on the underlying calculations. The adjusted discount rates including lease assets would be for New Zealand KFC was 8.5% weighted average post tax cost of capital. The discount rate for New Zealand Pizza Hut was 9.9%. The discount rate applied to future cash flows for the KFC business in Australia is based on a 7.7% weighted average post tax cost of capital. The discount rate applied to future cash flows for Taco Bell and Pizza Hut business in Hawaii is based on a 7.1% weighted average post tax cost of capital.

The weighted average cost of capital calculation was reviewed in 2019 based on capital asset pricing model (CAPM) methodology using current market inputs.

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).

In respect of the New Zealand KFC brand any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

In respect of the New Zealand Pizza Hut brand the Group has included a small business risk premium which increased the discount rate to 11.0%. The relevant changes to key assumptions which would result inreducing the recoverable amount to equal its carrying value are as follows:

- terminal year sales growth: 53 basis points or 21% reduction
- discount rate: 65 basis points or 6% increase
- EBITDA as a % of sales: 43 basis points or 10% reduction
- sales growth: 62 Basis points or 56% reduction

In respect of the Hawaii brands of Taco Bell and Pizza Hut, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

In respect of the Australian KFC brand, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

OTHER NOTES

21. Taxation

Taxation – statement of comprehensive income

The total taxation expense is analysed as follows:

$NZ000's	Note		31 Dec 2019		25 Feb 2019
Total profit before taxation for the period	1		**42,906**		49,435
Taxation expense	1		**(12,815)**		(13,694)
Net profit after income tax			**30,091**		35,741
Taxation expense using the Company's domestic tax rate		(28.0%)	**(12,014)**	(28.0%)	(13,842)
(Non-deductible expenses) and non-assessable income		(2.4%)	**(1,020)**	0.2%	98
Adjustments due to different rate in different jurisdictions		0.5%	**219**	0.1%	50
		(29.9%)	**(12,815)**	(27.7%)	(13,694)
Taxation expense comprises:					
Current tax expense			**(16,002)**		(15,126)
Deferred tax credit			**3,187**		1,432
Net tax expense			**(12,815)**		(13,694)

Imputation credits

$NZ000's	31 Dec 2019	25 Feb 2019
Imputation credits available for subsequent reporting periods	**11,790**	–

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 be utilised 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 prior period imputation credits balance is nil due to the loss of shareholder continuity following the change of control with Global Valar S.L. acquiring 75% shareholding in the Group effective on 1 April 2019.

The current income tax for the period was calculated using the rate of 28% for New Zealand, 30% for Australia and 21% for USA (Feb 2019: 28% New Zealand, 30% Australia and USA changed to 21% during the period). The deferred tax balances in these financial statements have been measured using the 28% tax rate for New Zealand, 30% for Australia and 21% for the USA (Feb 2019: 28% New Zealand, 30% Australia and 21% USA).

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

Taxation – balance sheet

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year:

	Assets		Liabilities		Net	
$NZ000's	**31 Dec 2019**	25 Feb 2019	**31 Dec 2019**	25 Feb 2019	**31 Dec 2019**	25 Feb 2019
Property, plant and equipment	**10,766**	9,497	**–**	–	**10,766**	9,497
Inventory	**51**	32	**–**	–	**51**	32
Debtors	**–**	–	**(172)**	(161)	**(172)**	(161)
Provisions	**4,463**	5,042	**–**	–	**4,463**	5,042
Intangibles	**1,889**	1,718	**(2,393)**	(2,421)	**(504)**	(703)
Other	**2,070**	2,597	**–**	–	**2,070**	2,597
Leases	**19,679**	–	**–**	–	**19,679**	–
	38,918	18,886	**(2,565)**	(2,582)	**36,353**	16,304

$NZ000's	**Balance 26 February 2018**	**Opening balances on acquisitions**	**Recognised in income statement**	**Recognised in equity**	**Foreign currency translation**	**Balance 25 February 2019**
Property, plant and equipment	7,317	–	2,151	–	29	**9,497**
Inventory	44	–	(12)	–	–	**32**
Debtors	(18)	–	(165)	–	22	**(161)**
Provisions	4,129	–	1,111	(185)	(13)	**5,042**
Intangibles	225	–	(796)	–	(132)	**(703)**
Other	1,993	–	498	–	106	**2,597**
Tax losses	1,265	–	(1,355)	–	90	**–**
	14,955	–	1,432	(185)	102	**16,304**

$NZ000's	**Balance 25 February 2019**	**Opening balances adjustment NZ IFRS 16**	**Recognised in income statement**	**Recognised in equity**	**Foreign currency translation**	**Balance 31 December 2019**
Property, plant and equipment	9,497		1,260	–	9	**10,766**
Inventory	32	–	20	–	(1)	**51**
Debtors	(161)	–	(12)	–	1	**(172)**
Provisions	5,042	(1,286)	705	–	2	**4,463**
Intangibles	(703)	–	254	–	(55)	**(504)**
Other	2,597	–	(587)	–	60	**2,070**
Leases	–	18,182	1,547	–	(50)	**19,679**
	16,304	16,896	3,187	–	(34)	**36,353**

Current and deferred taxation are calculated on the basis of tax rates enacted or substantially enacted at reporting date, and are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences.

Tax returns for the Group and the detailed calculations that are required for filing tax returns are not prepared until after the financial statements are prepared. Estimates of these calculations are made for the purpose of calculating income tax expense, current tax and deferred tax balances. Any difference between the final tax outcomes and the estimations made in previous years will affect current year balances.

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

22. Provision for employee entitlements

$NZ000's	
Balance at 25 February 2019	**2,349**
Created during the period	313
Used during the period	(353)
Released during the period	(46)
Foreign exchange movements	(3)
Balance at 31 December 2019	**2,260**

31 December 2019	
Non-current	676
Current	1,584
Total	**2,260**

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.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

23. Deferred income

$NZ000's	
Balance at 25 February 2019	**8,644**
Created during the period	51
Landlord contribution – NZ IFRS 16 adjustment	(4,617)
Used during the period	(3,829)
Foreign exchange movements	156
Balance at 31 December 2019	**405**

31 December 2019	
Non-current	328
Current	77
Total	**405**

Deferred income relates to rebates from suppliers and is recognised in profit or loss in the statement of comprehensive income on a systematic basis over the life of the associated contract.

Deferred income used within the period includes a correction of $3.2 million relating to landlord contributions that were incorrectly considered to be lease incentives as defined by SIC 15. Given that these amounts relate to reimbursements for landlord's assets, amounts should have instead been recognised as other income in the period they were received. Accordingly, these reimbursements have been reversed out of deferred income and property, plant and equipment. For the current reporting period there is no impact on profit or loss or EPS.

24. Related party transactions

Parent and ultimate controlling party

The immediate parent of the Group is Global Valar, S.L. and the ultimate parent company is Grupo Finaccess S.A.P.I. de C.V.

Transactions with entities with key management or entities related to them

During the period the Group received a reimbursement payment of $4.3 million from Finaccess Capital, a subsidiary of Grupo Finaccess, in regards to acquisition costs incurred as part of the partial takeover process, which resulted in Finaccess owning 75% of the company.

This transaction was at arm's length and performed on normal commercial terms.

Key management and director compensation

Key management personnel comprises the Group CEO and his direct reports, the Group CFO, the three Divisional CEO's, and the Group Chief People Officer.

$NZ000's	31 Dec 2019	25 Feb 2019
Key management – total benefits	**2,679**	3,090
Directors' fees	**360**	458

In addition to the amounts paid to key management included in the table above, is the value of shares conditionally vested in December 2018 to the Group CEO and Group CFO under the long term incentive plan. The shares fully vested to the Group CEO and Group CFO on 1 April 2019, upon completion of the Finaccess 75% share offer. The value of the shares on vesting date was $3.6 million (Group CEO $2.4 million, Group CFO $1.2 million).

Total Group CEO remuneration

$NZ000's	Salary	Short term incentives	Long term incentives	Total remuneration
31 December 2019	806	–	–	**806**
25 February 2019	921	116	–	**1,037**

Short term incentive scheme

A short term incentive scheme is in place for all support office employees. The incentive is based on achieving in excess of planned results for the specific financial year. Any bonus payment to employees is at the discretion of the Appointments and Remuneration committee. The maximum that can be received by the CEO is 50% of base salary.

Long term incentive scheme

On 4 December 2018 the vesting criteria for the Performance Rights Plan for the Group CEO, Russel Creedy, and Group CFO, Grant Ellis ("the executives") issued on 14 August 2017 was satisfied. The outstanding conditions were:

The shares were issued under the following conditions:

- The shares were not to be sold, transferred or disposed of prior to the completion of the takeover offer, except to accept Global Valar S.L.'s takeover offer.
- If Global Valar S.L.'s takeover offer was not completed or the executives cease employment prior to completion of the takeover offer then their relevant shares must be transferred back to the Company for no consideration.

The Global Valar S.L. takeover was completed effective 1 April 2019. The associated expense of the shares issued was $0.3 million and was recognised within the statement of comprehensive income in the period ended 25 February 2019.

A condition of the shares vesting to the Group CEO and Group CFO was that the shares were required to be included in the Finaccess 75% share offer. Based on the Finaccess share offer price the value of the shares received by the Group CEO was $2.4 million. This has not been included in the table above.

25. Commitments

Capital commitments

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

$NZ000's	31 Dec 2019	25 Feb 2019
Store development	**9,267**	9,259

26. Contingent liabilities

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (Feb 2019: nil).

27. Subsequent events

Purchase of KFC and Taco Bell business assets in Southern California

On 24 December 2019 the Group entered into a conditional agreement with a KFC US franchisee to acquire the assets of 70 stores in Southern California, USA. The purchase comprises 59 KFC stores and 11 combined KFC Taco Bell stores, together with a head office facility. The purchase is conditional on Yum! approval and the assignment of property leases.

The Group continues to work with Yum!, to obtain its approval for the acquistion, and also work with various property owners on lease assignments to allow the acquisition to proceed.

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

Bank facilities

On 24 February 2020 the Group announced they had entered into a new loan facility agreement for $370 million. The agreement has been reached with the following banks; Westpac Banking Corporation, J.P. Morgan, Rabobank and Bank of China. The facilities are split between NZD, USD and AUD tranches and are provided on similar terms to the Group's previous banking arrangements. Most of the tranches are for three year terms with the remainder expiring in four years.

The events disclosed above are non-adjusting events therefore the financial impact has not been recognised in the financial statements for the period ended 31 December 2019.

There are no other subsequent events that would have a material effect on these accounts.

28. New standards and interpretations

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

There are various standards, amendments and interpretations which were assessed as having an immaterial impact on the Group. Other than NZ IFRS 16 leases, 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 26 February 2019 that had a material impact on the financial statements.

NZ IFRS 16 leases is effective for the period ending 31 December 2019, refer Notes 14 through 19 for the impact on these financial statements.

29. Fees paid to auditor

$NZ000's	31 Dec 2019	25 Feb 2019
Audit of financial statements		
Audit and review of financial statements – PwC	515	553
Other services – Performed by PwC		
Executive rewards services	–	14
Specified procedures on landlord certificates	2	4
Review of Yum! Advertising Co-operative report	6	5
Total other services	8	23
Total fees paid to auditor	523	576

Included in the 25 February 2019 period end audit and review of financial statements fee is $0.1 million relating to additional fees incurred in the completion of the FY18 audit.

30. Donations

$NZ000's	31 Dec 2019	25 Feb 2019
Donations	310	251

31. Deed of Cross Guarantee

Pursuant to the Australian Securities and Investment Commission (ASIC) Class Order 98/1418, the wholly owned subsidiary, QSR Pty Limited (QSR), is relieved from the Corporations Act 2001 requirement for the preparation, audit and lodgement of financial reports.

It is a condition of that class order that Restaurant Brands New Zealand Limited (RBNZ) and QSR enter into a Deed of Cross Guarantee (Deed). On 9 February 2017 a Deed was executed between RBNZ, QSR, Restaurant Brands Australia Pty Limited and Restaurant Brands Australia Holdings Pty Limited under which each company guarantees the debts of the others.

Set out below is the consolidated information for the 44 week period ended 31 December 2019 of the closed group consisting of RBNZ, QSR, Restaurant Brands Australia Holdings Pty Limited and Restaurant Brands Australia Pty Limited.

$NZ000's	31 Dec 2019	25 Feb 2019
Financial information in relation to:		
(i) Statement of profit and loss and other comprehensive income		
Operating revenue	169,105	213,800
Earnings before interest and taxation (EBIT)	7,410	76,007
Financing expenses	(7,570)	(3,328)
Profit before taxation	(160)	72,679
Taxation expense	(415)	(2,462)
Profit after taxation	(575)	70,217
Items that may be reclassified subsequently to the statement of comprehensive income:		
Exchange differences on translating foreign operations	(217)	(1,822)
Share option reserve	–	(34)
Derivative hedge reserve	(725)	(606)
Taxation expense relating to components of other comprehensive income	217	182
Other comprehensive income net of tax	(725)	(2,280)
Total comprehensive income	(1,300)	67,937
(ii) Summary of movements in retained earnings		
Retained earnings at the beginning of the period	129,241	77,483
NZ IFRS opening balance adjustment	(5,812)	–
Total comprehensive income	(1,300)	67,937
Net dividends	–	(22,254)
Share capital issued	–	6,075
Retained earnings at the end of the year	122,129	129,241

Notes to and forming part of the financial statements (continued)

for the 44 week period ended 31 December 2019

$NZ000's	31 Dec 2019	25 Feb 2019
(iii) Statement of financial position		
Non-current assets		
Property, plant and equipment	**54,884**	44,006
Lease right of use assets	**111,226**	–
Intangible assets	**97,291**	97,021
Deferred tax asset	**9,199**	4,593
Investment in subsidiaries	**231,790**	231,790
Total non-current assets	**504,390**	377,410
Current assets		
Inventories	**1,082**	607
Trade and other receivables	**2,666**	2,627
Income tax receivable	**1,119**	–
Amounts receivable from subsidiaries	**16,181**	15,714
Cash and cash equivalents	**23,068**	5,838
Total current assets	**44,116**	24,786
Total assets	**548,506**	402,196
Equity attributable to shareholders		
Share capital	**154,565**	154,565
Reserves	**(5,472)**	(4,747)
Retained earnings	**(26,964)**	(20,577)
Total equity attributable to shareholders	**122,129**	129,241
Non-current liabilities		
Provision for deferred income and employee entitlements	**274**	560
Lease liabilities	**116,152**	–
Loans	**–**	90,121
Derivative financial instruments	**1,842**	1,100
Total non-current liabilities	**118,268**	91,781
Current liabilities		
Income tax payable	**–**	55
Trade and other payables	**17,120**	15,989
Provision for employee entitlements	**1,889**	1,160
Loans	**97,522**	–
Lease liabilities	**7,920**	–
Amounts payable to subsidiaries	**183,658**	163,970
Total current liabilities	**308,109**	181,174
Total liabilities	**426,377**	272,955
Total equity and liabilities	**548,506**	402,196

Independent auditor's report

To the shareholders of Restaurant Brands New Zealand Limited

We have audited the financial statements which comprise:

– the consolidated statement of financial position as at 31 December 2019;

– the consolidated statement of comprehensive income for the 44 week period then ended;

– the consolidated statement of changes in equity for the 44 week period then ended;

– the consolidated statement of cash flows for the 44 week period then ended;

– the basis of preparation; and

– the notes to the financial statements, which include significant accounting policies.

Our opinion

In our opinion, the accompanying financial statements of Restaurant Brands New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2019, its financial performance and its cash flows for the 44 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

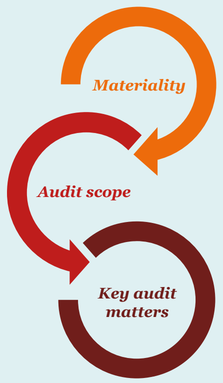
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements section* of our report.

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

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of specified procedures on landlord certificates and review of Yum! Advertising Co-operative report. The provision of these other services has not impaired our independence as auditor of the Group.

Our audit approach



Overview

An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: $2.2 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there are two key audit matters:

– Carrying value of Pizza Hut New Zealand assets

– Adoption of the accounting standard NZ IFRS 16 Leases

Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Independent auditor's report (continued)

Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Audits at each location are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

The operating segments, as defined in Note 1 of the financial statements, were subject to audit procedures that were considered appropriate for the size and nature of those segments.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current 44 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Carrying value of Pizza Hut New Zealand assets may not be recoverable As disclosed in Note 20 there is goodwill of $9.1 million relating to the acquisition of Pizza Hut New Zealand. Management performed an annual impairment assessment using a discounted cash flow model to determine whether the carrying value of assets held by the Pizza Hut New Zealand cash generating unit (CGU) exceeds the recoverable amount which is based on the value in use. This involves the application of judgement about future business performance which includes certain key assumptions such as sales growth, earnings before interest, tax, depreciation and amortisation (EBITDA) margin, terminal year sales growth and the discount rate, which has increased from the prior period as a result of applying a small business risk premium. The impairment assessment completed by management at 31 December 2019 calculated the value in use of the Pizza Hut New Zealand CGU as higher than the carrying value of applicable net assets. No impairment charge has been recorded against these assets in the current financial year. Reasonably possible changes in key assumptions relating to terminal year sales growth, discount rate, EBITDA as a percentage of sales and sales growth were identified as resulting in impairment which has been disclosed in Note 20. This matter is significant to our audit because of the sensitivity of the impairment model to key assumptions.	In addressing the sensitivity to judgements regarding the future performance of the Pizza Hut New Zealand business our audit procedures included: – Gaining an understanding of the business process applied by management in determining whether there is any indication of impairment in the carrying value of the assets; – Testing the mathematical accuracy of the discounted cash flow model used to determine the value in use of the segment; – Reviewing historical years' actual store sales and profitability against the original budgeted performance to determine the reliability of the budgeting process; – Agreeing forecast future performance to budgets reviewed and approved by the Board of Directors; – Challenging key assumptions used in the value in use model in relation to sales growth and EBITDA margins and assessing whether these are reasonable by understanding strategic and operational initiatives underway, along with reviewing monthly performance trends to assess whether profitability initiatives have been successful to date; – With the assistance of our auditor's valuation expert, assessing the appropriateness of the terminal growth and discount rates; – Testing the calculation of the carrying value of the segment assets; – Performing a sensitivity analysis over key assumptions to determine whether reasonably possible changes would result in impairment of goodwill; – Reviewing the financial statements to ensure appropriate identification and disclosure of key assumptions and the sensitivity of the value in use calculation to changes in these assumptions. We have no matters to report.

Key audit matter	How our audit addressed the key audit matter
Adoption of the accounting standard NZ IFRS 16 Leases The Group adopted NZ IFRS 16 Leases on 26 February 2019. The standard requires the recognition of a right of use asset and lease liability on the balance sheet for all leases. Previously operating leases were not recognised on the balance sheet. The adoption of the standard has resulted in the recognition of a right of use asset of $346 million and a lease liability of $411 million. As outlined in Note 14, a number of key estimates and judgements have been made by management in establishing these opening values. These comprise: – incremental borrowing rates at the time of adoption. Management engaged an independent valuation expert to establish these rates – lease terms, including any rights of renewal expected to be exercised – foreign exchange conversion rates, and – application of practical expedients in respect of low value assets and short term lease exemptions. This was considered an area of focus for our audit due to the complexity, number of leases and number of significant judgements inherent in the calculation.	We have performed the following audit procedures: – held discussions with management to understand the implementation process, including the basis for key assumptions used in the calculation of opening balances and management's process including controls; – performed testing, on a sample basis, of the accuracy of information included in the calculations by comparing them to the terms in the underlying lease contract; – tested completeness of the identified lease contracts by checking that all leased stores and other major leased assets were included in the calculation; – on a sample basis, recalculated the right-of-use asset and lease liability for individual leases; – recalculated the expected deferred tax impact on date of adoption; – challenged management on renewal assumptions used to determine the lease term and assessed whether they were supported by past practice and current business plans; – reviewed the appropriateness of practical expedients applied for exclusion of low value and short term lease exemptions; and – reviewed the appropriateness of disclosures in the financial statements. In relation to the incremental borrowing rates, we performed the following procedures: – engaged our auditor's valuation expert to assess the appropriateness of the discount rates used. This process included challenging the data sources and credit ratings and spreads for each location established by management's expert; – tested management's sensitivity analysis calculations pertaining to the incremental borrowing rate. We have no matters to report.

Independent auditor's report (continued)

Information other than the financial statements and auditor's report

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

Responsibilities of the Directors for the financial statements

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants — Auckland

28 February 2020

Other information

Contents	Page

Shareholder information

As at 25 February 2020 (unless otherwise stated)

1. Stock exchange listings

The Company's ordinary shares are dual listed on the main board equity securities markets operated by the NZX and ASX.

2. Distribution of security holders and security holdings

Size of Holding	Number of security holders		Number of securities	
1 to 999	3,697	61.61%	1,268,840	1.02%
1,000 to 4,999	1,863	31.04%	3,810,967	3.05%
5,000 to 9,999	257	4.28%	1,686,931	1.35%
10,000 to 49,999	161	2.68%	2,853,130	2.29%
50,000 to 99,999	10	0.17%	592,156	0.47%
100,000 to 499,999	9	0.15%	1,979,407	1.59%
500,000+	4	0.07%	112,567,092	90.23%
	6,001	**100.00%**	**124,758,523**	**100.00%**

Geographic distribution				
New Zealand	5,782	96.35%	124,379,326	99.70%
Australia	124	2.07%	173,488	0.14%
Spain	1	0.01%	206	0.00%
Rest of world	94	1.57%	205,503	0.16%
	6,001	**100.00%**	**124,758,523**	**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	110,383,658	88.48%
Investment Custodial Services Limited <A/C C>	917,403	0.74%
Custodial Services Limited <A/C 4>	638,865	0.51%
New Zealand Depository Nominee Limited <A/C 1 Cash Account>	627,166	0.50%
FNZ Custodians Limited	465,181	0.37%
Custodial Services Limited <A/C 3>	368,485	0.30%
Custodial Services Limited <A/C 2>	285,793	0.23%
Ja Hong Koo & Pyung Keum Koo	189,276	0.15%
Custodial Services Limited <A/C 18>	187,259	0.15%
Custodial Services Limited <A/C 16>	131,744	0.11%
Custodial Services Limited <A/C 1>	128,309	0.10%
David Mitchell Odlin	117,291	0.09%
Russel Ernest George Creedy	106,069	0.09%
Antony Richard Kerr & Philip Jack Bexley <The A R Kerr Family A/C>	80,000	0.06%
Forsyth Barr Custodians Limited <1-Custody>	62,839	0.05%
Margarete Freeland	61,084	0.05%
Barry John Eagle & Verena Turner <S G Turner Family A/C>	59,708	0.05%
Louis Keith Falkner	59,708	0.05%
Leveraged Equities Finance Limited	58,497	0.05%
Graham Paul Vincent & Barbara Margaret Vincent	54,000	0.04%
	114,982,335	**92.17%**

New Zealand Central Security Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to its members. As at 25 February 2020, the NZCSD holdings in Restaurant Brands were:

	Number of ordinary shares	Percentage of ordinary shares
HSBC Nominees (New Zealand) Limited – NZCSD[1]	98,034,064	78.58%
Citibank Nominees (New Zealand) Limited – NZCSD	3,476,201	2.79%
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct – NZCSD	3,393,205	2.72%
National Nominees Limited – NZCSD	2,455,788	1.97%
HSBC Nominees (New Zealand) Limited A/C State Street – NZCSD	1,022,032	0.82%
BNP Paribas Nominees (NZ) Limited – NZCSD	643,140	0.52%
Accident Compensation Corporation – NZCSD	385,793	0.30%
BNP Paribas Nominees (NZ) Limited – NZCSD	363,545	0.29%
BNP Paribas Nominees (NZ) Limited – NZCSD	321,034	0.26%
Public Trust <NZCSD>	115,010	0.09%
ANZ Custodial Services New Zealand Limited – NZCSD	72,850	0.06%
TEA Custodians Limited Client Property Trust Account – NZCSD	72,759	0.06%
Public Trust RIF Nominees Limited – NZCSD	13,154	0.01%
Public Trust Class 10 Nominees Limited – NZCSD	9,467	0.01%
Queen Street Nominees ACF Hobson Wealth – NZCSD	4,055	0.00%
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited – NZCSD	1,305	0.00%
Queen Street Nominees ACF Koura Wealth Ltd – NZCSD	256	0.00%
	110,383,658	88.48%

1. Included in HSBC Nominees (New Zealand) Limited is 93,568,919 shares owned by Global Valar, S.L.

4. Substantial product holders

The following person had given notices as at 27 March 2019, in accordance with subpart 5 of part 5 of the New Zealand Finance Market Conduct Act 2013 that they were substantial product holders in the Company and held a relevant interest in the number of ordinary shares shown below.

	Date of Notice	Number of ordinary shares	Percentage of voting securities
Global Valar, S.L.	27 March 2019	93,568,892	75.00%

The number of ordinary shares listed above are as per the notice of unconditional offer filed as at 27 March 2019. Substantial product holder notice is required to be filed only if the total holding of a shareholder changes by 1% or more since the last notice filed, the number noted in this table may differ from that shown in the list above.

5. Shares on issue

As at 31 December 2019, the total number of ordinary shares of the company was 124,758,523.

6. Directors' security holdings

As at 31 December 2019 no directors held individual shareholdings in the Group.

7. NZX waivers

No waivers have been granted by the NZX during the financial year ended 31 December 2019.

Statutory information

For the 44 week period ended 31 December 2019

1. Directorships

The names of the directors of the Company as at 31 December 2019 are set out on pages 50 and 51 of this annual report.

Grant Ellis and Russel Creedy are Directors of all subsidiary companies.

Arif Khan is a Director of Restaurant Brands Limited, RB Holdings Limited, RBDNZ Holdings Limited, Restaurant Brands Properties Limited, RBP Holdings Limited, Restaurant Brands Pizza Limited, RBN Holdings Limited and Restaurant Brands Nominees Limited.

Ashley Jones is a Director of Restaurant Brands Australia Pty Limited, Restaurant Brands Australia Holding Pty Limited and QSR Pty Limited.

Kevin Kurihara is a Director of Restaurant Brands Hawaii Limited, Pacific Island Restaurant Inc., TD Foods Group Inc., Taco Aloha Inc., Hawaii Pizza Hut Inc. Pizza Hut of Guam, Inc., Pizza Hut of Saipan, Inc. and TB Guam, Inc.

2. Directors and remuneration

NZ$000's	Board Fees	Audit and Risk Committee	Health and Safety Committee	Appointments and Remuneration Committee	Total Remuneration
E K van Arkel[1]	56				56
H W Stevens[1]	29	6			35
V Taylor[2]	7			1	8
S Copulos[2]	7				7
D Beguely[2]	7		1		8
J Parés[3]	56				56
E Fullaondo[3]	68				68
C Fernández[4]	–				–
LM Álvarez[4]	36				36
H M Lim[4]	43				43
S Ward[4]	43				43
	352	**6**	**1**	**1**	**360**

1. E K van Arkel and H Stevens retired from the Restaurant Brands Board of Directors on 10 July 2019.
2. V Taylor, S Copulos and D Beguely retired from the Restaurant Brands Board of Directors on 1 April 2019.
3. J Parés and E Fullaondo were appointed to the Restaurant Board of Directors on 1 April 2019.
4. C Fernández, LM Álvarez, H M Lim and S Ward were appointed to the Restaurant Brands Board of Directors on 10 July 2019.

3. Entries recorded in the interests register

The follow entries were recorded in the interest register of the Company and its subsidiaries during the period ended 31 December 2019.

(a) Share dealings of Directors

	Sale date	Number of shares sold
D Beguely	01 April 2019	40,721
E K van Arkel	01 April 2019	130,806
S Copulos	01 April 2019	8,658,075
S Copulos	29 April 2019	53,820
S Copulos	30 April 2019	240,405
S Copulos	01 May 2019	393,020
S Copulos	02 May 2019	1,285,499

With the successful completion of the take over process on 1 April 2019 S Copulos sold 8,658,075 shares, T van Arkel 130,806 shares and D Beguely 40,721 shares to Global Valar, S.L. Between 29 April 2019 and 2 May 2019 S Copulos sold a further 1,972,744 shares.

No other shares were brought or sold by directors during the period ended 31 December 2019.

(b) Loans to Directors

There were no loans to directors during the period ended 31 December 2019.

(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
J Parés	Chairman	AmRest Holdings SE
	Director	Grupo Finaccess S.A.P.I de C.V
	Director	Global Beverage Team
	President	Finaccess Capital
E Fullaondo	Director	AmRest Holdings SE
C Fernández	Chairman	Grupo Finaccess S.A.P.I de C.V
	Director	AmRest Holdings SE
	Director	Inmobiliaria Colonial, S.A.
LM Álvarez	Founder and CEO	Compitalia, S.A. de C.V.
	Director	Finaccess, S.A.P.I. de C.V.
	Director	AmRest Holdings SA
H M Lim	Director	Auckland University of Technology
	Director	Auckland Regional Amenities Funding Board
	Director	General Capital Limited
S Ward	Director	Sydney Airport Limited
	Chairman	SecureFuture Wiri Limited
	Director	TCF Commercial Finance New Zealand Limited
	Chairman	Advisory Council to the Financial Dispute Resolution Service
	Board member	National Provident Fund
	Director	Windoma Holdings Limited
	Deputy chairman	Life Flight Trust
	Board member	Wellington Free Ambulance
	Trustee	Wellington Free Ambulance Trust
	Consultant	Simpson Grierson

(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.

Statutory information (continued)

For the 44 week period ended 31 December 2019

4. Employees' remuneration

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

	Number of employees	
	Dec 2019	Feb 2019
$100,000 – $109,999	**9**	19
$110,000 – $119,999	**6**	8
$120,000 – $129,999	**4**	5
$130,000 – $139,999	**5**	5
$140,000 – $149,999	**2**	3
$150,000 – $159,999	**3**	8
$160,000 – $169,999	**1**	–
$170,000 – $179,999	**4**	1
$180,000 – $189,999	**1**	2
$190,000 – $199,999	**2**	1
$200,000 – $209,999	**2**	2
$210,000 – $219,999	**1**	1
$220,000 – $229,999	**2**	3
$230,000 – $239,999	**2**	–
$240,000 – $249,999	**–**	1
$250,000 – $259,999	**1**	1
$260,000 – $269,999	**–**	2
$270,000 – $279,999	**–**	1
$280,000 – $289,999	**–**	2
$290,000 – $299,999	**1**	–
$340,000 – $349,999	**–**	1
$370,000 – $379,999	**1**	–
$380,000 – $389,999	**–**	1
$390,000 – $399,999	**2**	–
$400,000 – $409,999	**1**	–
$410,000 – $419,999	**–**	1
$450,000 – $459,999	**–**	1
$460,000 – $469,999	**–**	1
$800,000 – $809,999	**1**	–
$1,030,000 – $1,039,999	**–**	1
	51	71

Note that the December 2019 period is for a 10 month period. The disclosure above therefore represents the amounts employees received during this 10 month period.

5. Subsidiary company directors

No employee of the Company appointed as a director of the Company or its subsidiaries receives, or retains any remuneration or benefit, as a director. The remuneration and other benefits of such employees, received as employees, are included in the relevant bandings for remuneration disclosure under Note 4 above.

Statement of corporate governance

For the 44 week period ended 31 December 2019

Overview

Restaurant Brands New Zealand Limited (the **Company**) is listed on the NZX Main Board and as a Foreign Exempt Listing on the ASX (both under the ticker code "RBD").

The board is committed to having best-practice governance structures and principles and to following the guiding values of the Company: integrity, respect, continuous improvement and service. In this part of the annual report, we provide an overview of the Company's corporate governance framework. It is structured to follow the recommendations set out in the NZX Corporate Governance Code 2017 (the **"NZX Code"**) and discloses how the Company is applying these recommendations.

The board considers that as at 31 December 2019, the corporate governance practices it has adopted are in compliance with the NZX Code other than:

- Recommendation 2.8 (stating that a majority of the board should be independent directors); and
- Recommendation 2.9 (stating that an issuer should have an independent chair of the board).

An explanation as to why these recommendations have not been adopted is provided under Principle 2 on page 104.

Principle 1 – Code of ethical behaviour

"Directors should set high standards of ethical behaviour, model this behaviour and hold management accountable for these standards being followed throughout the organisation."

Group Ethical Conduct Policy

The Company's Group Ethical Conduct Policy sets out the ethical standards the board expects all directors, officers, employees, contractors and agents to adhere to when they represent the Company and its subsidiaries. The policy covers a wide range of areas including: standards of professional behaviour, compliance with laws and policies, conflicts of interest, gifts and entertainment and proper use of Company assets and information. The policy requires the reporting of breaches (or suspected breaches) of the policy.

In addition, each geographic business unit of the Company (ie New Zealand, Australia and United States) (referred to as a **Local Operating Division**) is empowered to adopt specific policies and/or procedures that complement, enhance or supplement the general standards set out in the Group Ethical Conduct Policy if appropriate for that Local Operating Division.

The Group Ethical Conduct Policy is available on the Company's website and is subject to biennial reviews.

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.

Group Securities (Insider Trading) Policy

The Group Securities (Insider Trading) Policy details the Company's securities trading policy and includes restrictions on and procedures for directors and employees trading in the Company's financial products. In particular, the policy:

- prohibits trading by an individual holding non-public material information about the Company;
- requires all directors, officers, employees and contractors of the Company to obtain permission before trading can occur; and
- prohibits directors, the Group CEO, Group CFO and direct reports to the Group CEO and Group CFO from trading outside of set 8 week trading windows that follow:
  - the release of half and full year results; or
  - the issuance of a "cleansing statement" under the Financial Markets Conduct Act 2013.

Statement of corporate governance (continued)

For the 44 week period ended 31 December 2019

Principle 2 – Board composition & performance

"To ensure an effective Board, there should be a balance of independence, skills, knowledge, experience and perspectives."

Responsibilities of the board

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. The board has adopted a formal Board Charter detailing its authority, responsibilities, membership and operation. The Board Charter is available for viewing on the Company's website.

The key responsibilities of the Board under the Board Charter 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 Group Chief Executive Officer (**Group CEO**) who is required to do so in accordance with board direction. The Group 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

The Company's constitution prescribes a minimum of three directors and, as at 31 December 2019, the board comprised six non-executive directors (including the Chairman). As at the date of publication of this annual report, the board comprises six non-executive directors (including the Chairman).

Profiles of the current directors, together with a summary of skill sets included in the "Board of Directors" section of this annual report and on the Company's website.

As at 31 December 2019, Emilio Fullaondo, Huei Lyn Lim and Stephen Ward were considered by the board to be independent under the NZX Listing Rules as they are not executives of the Company and do not have any direct or indirect interests or relationships that could reasonably influence, in a material way, their decisions in relation to the Company. José Parés, Carlos Fernández and Luis Miguel Álvarez were considered to not be independent as they represent a significant shareholding. Per the Company's Constitution, in the case of an equality of votes when a resolution of the board is tabled, the chair of the board has a casting vote.

The board does not have a policy on a minimum number of independent directors.

The board has elected to not adopt Recommendation 2.8 (stating that a majority of the board should be independent directors) and Recommendation 2.9 (stating that an issuer should have an independent chair of the board) of the NZX Corporate Governance Code on the basis that it is appropriate for a shareholder holding 75% of the Company's shares (i.e. Finaccess) to be represented by a majority of the board. With the board comprising of six directors, such majority representation is achieved by the chair of the board being a
non-independent director with the ability to exercise a casting vote. The board is of the opinion that this arrangement is preferable (from both governance and cost perspectives) to implementing a majority by adding a fourth non-independent director to the board. The chairs of all sub-committees of the board (being the Audit & Risk, Health & Safety and Remuneration & Nominations Committees) are independent directors.

The roles of Chairman and Group Chief Executive Officer are exercised by separate persons. In addition to committee responsibilities (below), individual board members work directly with management in major initiatives such as acquisitions and asset rationalisations.

Shareholding

There is no prescribed minimum shareholding for directors, refer to the "Shareholder Information" section of this annual 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 Group Securities (Insider Trading) Policy (see above).

Nomination and appointment

The board has adopted a Director Nomination and Appointment Procedure. This procedure is administered by the Remuneration and Nominations Committee and includes guidelines relating to board composition, considerations for new director appointments and the process by which potential directors are nominated and assessed.

Written agreement

The Director Nomination and Appointment Procedure requires the terms of appointment for all new directors to be set out in a formal letter of appointment and also stipulates that new directors are to receive induction training regarding the Company's values and culture, governance framework, the Group Ethical Conduct Policy, Board and Committee policies, processes and key issues, financial management and business operations.

Diversity

The Company and the board are committed to promoting a diverse and inclusive workplace. This is outlined in the Group Diversity Policy which is available on the Company's website. The Company endeavours to ensure diversity at all levels of the organisation to ensure a balance of skills and perspectives are available in the service of its shareholders and customers.

As at 31 December 2019, the gender balance of the Company's directors, officers and all employees is as follows:

	Directors				**Officers***				**Employees**			
	Dec 2019		Feb 2019		**Dec 2019**		Feb 2019		**Dec 2019**		Feb 2019	
Female	**1**	**17%**	1	20%	**1**	**17%**	2	29%	**5,032**	**52%**	4,463	50%
Male	**5**	**83%**	4	80%	**5**	**83%**	5	71%	**4,567**	**48%**	4,388	50%
Total	**6**	**100%**	5	100%	**6**	**100%**	7	100%	**9,599**	**100%**	8,851	100%

* "Officers" is defined in the NZX Listing Rules as only including those members of management who report directly to the board or report directly to a person who reports to the board. As at 31 December 2019, the Group CEO is the only direct report to the board and the Group CFO, CPO, and three Local Operating Division CEOs are the only direct reports to the Group CEO.

The Group Diversity Policy requires the Remuneration and Nominations Committee to develop and recommend to the board a set of measurable goals for the Company to drive achievement of the objectives of the policy. The board considers that the performance of the Company during the period ended 31 December 2019 in relation to most of the systemic elements of the Group Diversity Policy was satisfactory.

Board appraisal and training

The board has adopted a performance appraisal programme by which it biennially monitors and assesses individual and board performance. The most recent review covering the performance of the board, the board committees and individual directors against the relevant charters, corporate governance policies and agreed goals and objectives was carried out with the assistance of an external facilitator.

The Company does not impose any specific training requirements on its directors but does expect all directors to carry out appropriate training to enable them to effectively perform their duties. New directors complete an induction programme with company senior management.

Access to resources and advice

Directors may seek their own independent professional advice to assist with their responsibilities. During the 2019 financial year, no director sought their own independent professional advice, but the board sought external advice and/or assistance with respect to:

- vesting of the senior executive long term incentive scheme; and
- business valuation considerations.

Re-election

Pursuant to the requirements of the NZX Listing Rules, directors of the Company must not hold office (without re-election) past the third Annual Shareholders' Meeting following their appointment or three years (whichever is later) but may seek re-election at that meeting.

Statement of corporate governance (continued)

For the 44 week period ended 31 December 2019

Meetings

The board normally meets eight to ten 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.

The Group CEO and Group CFO are regularly invited to attend board meetings and participate in board discussion. Directors also meet with other senior executives on items of particular interest.

Board and committee meeting attendance for the period ended 31 December 2019 was as follows:

Name	Board meetings held	Board meetings attended	Audit and Risk Committee meetings held	Audit and Risk Committee meetings attended	Health and Safety Committee meetings held	Health and Safety Committee meetings attended	Appointments and Remuneration Committee meetings held	Appointments and Remuneration Committee meetings attended
E K van Arkel[1]	9	3	2	1	n/a	n/a	2	n/a
H W Stevens[1]	9	4	2	1	n/a	n/a	2	1
L M Álvarez[2]	9	5	2	n/a	1	1	2	1
J Parés[3]	9	9	2	2	1	1	2	1
E Fullaondo[3]	9	9	2	2	1	1	2	2
C Fernández[2]	9	5	2	n/a	1	1	2	n/a
S Ward[2]	9	5	2	1	1	1	2	1
H M Lim[2]	9	5	2	1	1	1	2	1

[1] E K van Arkel and H W Stevens retired from the board on 10 July 2019.

[2] C Fernández, L M Álvarez, H M Lim and S Ward were elected to the board on 10 July 2019.

[3] J Parés and E Fullaondo were appointed to the Restaurant Board of Directors on 1 April 2019, retired in accordance with Listing Rule 2.7.1 and were re-elected on 10 July 2019.

D Beguely, V Taylor and S Copulos retired from the board on 1 April 2019. There were no board meetings during the period prior to their retirement.

Principle 3 – Board committees

"The Board should use committees where this will enhance effectiveness in key areas, while retaining board responsibility."

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

Audit and Risk Committee

As at 31 December 2019, the members of the Audit and Risk Committee were Emilio Fullaondo (Chair), José Parés, Stephen Ward and Huei Lyn Lim. This committee is constituted to monitor the veracity of the financial data produced by the Company, ensure controls are in place to minimise the opportunities for fraud or for material error in the accounts and to oversee the operation of the Company's Risk Management Framework (discussed in more detail in the "Risk Management Framework" section under Principle 6). A majority of the committee's members must be independent directors and executive directors may not be members of the committee.

The Audit and Risk Committee meets two to three times a year. External auditors of the Company, senior management and executives performing internal audit management from within the Company attend by invitation. The external auditors also meet separately with the Audit and Risk Committee with no members of management present.

The Audit and Risk Committee has adopted a charter setting out the parameters of its relationship with internal and external audit functions. The charter (which is available on the Company's website) requires, among other things, five yearly reviews of the external audit relationship and audit partner rotation.

Remuneration and Nominations Committee

As at 31 December 2019, the members of the Remuneration and Nominations Committee were Stephen Ward (Chair), Huei Lyn Lim, Emilio Fullaondo and Luis Miguel Álvarez. This committee is constituted to administer the Director Nomination and Appointment Procedure, approve appointments of senior executives of the Company (principally the Group CEO and those reporting directly to the Group CEO) and make recommendations to the board in relation to terms of remuneration for non-executive directors and senior executives. It also reviews any company-wide incentive and share option schemes as required and recommends remuneration packages for directors to the shareholders.

The Remuneration and Nominations Committee has adopted a written charter which is available on the Company's website.

Health and Safety Committee

As at 31 December 2019, the members of the Health and Safety Committee were Huei Lyn Lim (Chair), Stephen Ward and Emilio Fullaondo. This committee is constituted to assist the board to provide leadership and policy in discharging its health and safety governance duties. In particular, the Health and Safety Committee is responsible for administering the Company's Health and Safety Framework, monitoring and assessing the Company's Health and Safety performance and developing Health and Safety targets/objectives for the business.

The Terms of Reference for the Health and Safety Committee are set out in the Board Health and Safety Charter which is available on the Company's website.

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

Takeover protocols

The board has adopted a set of Takeover Procedures and Protocols to be followed if there is a takeover offer for the Company. The Takeover Procedures and Protocols provides for the formation of a committee of independent directors to consider and manage a takeover offer in accordance with the Takeovers Code.

Principle 4 – Reporting and disclosure

"The Board should demand integrity in financial and non-financial reporting and in the timeliness and balance of corporate disclosures."

Continuous Disclosure Policy

The board and Company are committed to promoting shareholder and market confidence through open, timely and accurate communication in compliance with the Company's continuous disclosure obligations under the NZX and ASX Listing Rules and the Financial Markets Conduct Act 2013. The Company's Group Continuous Disclosure Policy contains processes and procedures for ensuring that there is full and timely disclosure of market sensitive information to all shareholders and other market participants and also outlines the responsibilities in relation to the identification, reporting, review and disclosure of material information. The board has appointed a Disclosure Officer to administer this policy.

Charters and policies

Copies of the Company's key governance documents (including the Board Charter, Committee Charters, Group Diversity Policy, Group Continuous Disclosure Policy, Group Director and Senior Executive Remuneration Policy, Group Code of Ethical Conduct and Group Securities (Insider Trading) Policy are available in the "Governance" section of the Company's website.

Financial reporting

The board is committed to ensuring integrity and timeliness in its financial reporting and providing information to shareholders and the wider market which reflects a considered view on the present and future prospects of the Company.

The Audit and Risk Committee oversees the quality and integrity of the Company's external financial reporting including the accuracy, completeness, balance and timeliness of financial statements. It reviews the Company's full and half year financial statements and makes recommendations to the board concerning the application of accounting policies and practice, areas of judgement, compliance with accounting standards, stock exchange and legal requirements as well as the results of the external audit.

While the Audit and Risk Committee ultimately oversees the quality of the Company's external financial reporting, the Company's management also provides confirmation in writing to the board that the Company's external financial reports represent a true and fair representation of the financial performance of the Company.

Non-financial reporting

The Company's Environmental, Social and Governance Report is set out earlier in this annual report. The Company recognises that it is in the early stages of reporting on non-financial information and intends to continue to develop the environmental, social and governance reporting framework adopted for this annual report.

Statement of corporate governance (continued)

For the 44 week period ended 31 December 2019

Principle 5 – Remuneration

"The remuneration of directors and executives should be transparent, fair and reasonable."

Board remuneration

The Company's approach to the remuneration of directors and senior executives is set out in the Company's Director and Senior Executives Remuneration Policy. The board's Remuneration and Nominations Committee reviews director and senior executive remuneration and makes recommendations to the board after taking into account the requirements of the policy. The Remuneration and Nominations Committee's membership and role are set out in more detail under Principle 3 above.

The current total pool of director fees authorised at the Annual Shareholders' Meeting on 21 June 2018 is $475,000 per annum.

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. Directors do not receive additional remuneration or benefits in connection with any directorship they may hold of subsidiaries of the Company.

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

The Company has insured all of 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.

Group Chief Executive Officer remuneration

The remuneration arrangements in place for the Group CEO consist of a base salary, short term incentive scheme and a long term incentive scheme. Details of the Group CEO remuneration arrangements (including the amounts paid in February 2019 and December 2019 financial periods) are set out in Note 24 to the 31 December 2019 financial statements in this annual report.

Principle 6 – Risk management

"Directors should have a sound understanding of the material risks faced by the issuer and how to manage them. The Board should regularly verify that the issuer has appropriate processes that identify and manage potential and material risks."

Risk management framework

The Company has a Risk Management Framework for identifying, monitoring, managing and controlling the material risks faced by the business. While the board is ultimately responsible for the effectiveness of the Company's Risk Management Framework, the Risk and Audit Committee administers the Risk Management Framework and:

- receives and reviews regular risk reporting from management;
- provides recommendations to the board in relation to:
  - key/material risk identification and appetite levels;
  - whether the Company's processes for managing risks are sufficient; and
  - incidents involving serious fraud or other material break-down/failing of the Company's internal controls;
- periodically reviews:
  - key/material risks that have been identified and the controls in place to manage them; and
  - the Company's business activities to identify likely sources of new risks; and
- confirms the robustness of the Risk Management Framework to the board on an annual basis.

The Committee is required to review the Risk Management framework at least biennially and conducts regular deep dive assessments of each key/material risk to the Company's business and the associated business controls management have put in place to manage/mitigate these risks.

In managing the Company's business risks, the board approves and monitors additional policies and processes 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.

Health and safety

The Company's Health and Safety Committee is responsible for reviewing and making recommendations to the board in respect of the Company's health and safety policies, procedures and performance. The Committee's primary responsibility is to ensure that the systems used to identify and manage health and safety risks are fit for purpose and are being effectively implemented, reviewed and continuously improved. The Committee is also responsible for developing health and safety targets/objectives for the business.

Management and the Committee receive detailed reporting on lead and lag indicators of health and safety performance including health and safety incidents, injury rates by severity and mechanism, identified hazards and outputs from local, area and regional employee health and safety forum meetings. The Company has dedicated health and safety experts who investigate incidents, analyse hazard/incident trends to identify and mitigate potential health and safety risks and review, develop and monitor compliance with health and safety processes and procedures.

At an individual store level, comprehensive policies and procedures for carrying out tasks in a safe manner are in place and regularly reviewed to ensure they remain fit-for-purpose. Staff are trained in these policies and procedures as part of their induction. Registers are kept of potential hazards at each store and regular reviews/audits of compliance with health and safety processes and procedures are carried out by internal staff and external providers.

Reporting of lag indicators of Health and Safety performance is contained in the Environmental, Social and Governance Section of this annual report. It is expected that more comprehensive reporting on the Company's health and safety performance will be provided in the future as the Company's environmental, social and governance framework continues to develop.

Statement of corporate governance (continued)

For the 44 week period ended 31 December 2019

Principle 7 – Auditors

"The board should ensure the quality and independence of the external audit process."

External auditor

Oversight of the Company's external audit arrangements is the responsibility of the Audit and Risk Committee. The Committee operates under the Audit and Risk Committee Charter which (among other things) requires the Committee to:

- recommend the appointment of the external auditor;
- set the remuneration and review the performance of the external auditor;
- ensure the relationship with the external auditor is reviewed every five years and that the audit partner is rotated after five years;
- set the scope and work plan of the annual audit and half year review (along with the external auditor and management);
- ensure that no unreasonable restrictions are placed on the external auditor by the board or management;
- ensure that open lines of communication are maintained between the board, internal audit, management and the external auditor; and
- ensure the independence of the external auditor by:
  - reviewing the nature and scope of professional services outside of the external statutory audit role proposed to be provided by the external auditor and approving or declining their use in light of the requirement for external auditor independence;
  - monitoring any approved services outside of the external statutory audit role provided by the external auditors to ensure that the nature and scope of such professional services does not change in a manner that could be perceived as impacting on the external auditor's independence;
  - reviewing the nature and scope of professional audit services proposed to be provided by firms other than the external auditor and approving or declining their use in light of the requirement for external auditor independence; and
  - reviewing and approving or declining any proposed employment by the Company or its subsidiaries of any former audit partner or audit manager.

The Audit and Risk Committee receives an annual confirmation from the external auditor as to their independence from the Company. The external auditor regularly meets with the Committee (including meetings without management present) and attends the Company's Annual Shareholders' Meeting where the lead audit partner is available to answer questions from shareholders.

Internal audit

The Audit and Risk Committee is responsible for the integrity and effectiveness of the Company's internal audit function. The Company has an internal audit team that performs assurance and compliance reviews across the Company's operations as part of an annual programme of work agreed with the Audit and Risk Committee. While the internal audit function has historically focussed on loss-prevention and fraud, it also carries out reviews of the wider control environment within the Company.

Principle 8 – Shareholder rights & relations

"The Board should respect the rights of shareholders and foster constructive relationships with shareholders that encourage them to engage with the issuer."

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, profiles of directors and key members of management, key governance documents and copies of investor presentations. From time to time the board may communicate with shareholders outside this regular reporting regime.

Shareholders are provided with the option of receiving communications from the Company electronically.

Consistent with best practice and of the Company's continuous disclosure obligations under the NZX Listing Rules, external communications that may contain market sensitive data are released through NZX and ASX 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 meetings

Shareholder attendance at annual meetings is encouraged and the board allows extensive shareholder debate on all matters affecting the Company. The Company complies with its obligations under the Companies Act 1993 and the NZX Listing Rules in relation to obtaining shareholder approval for major decisions/actions that may change the nature of the company shareholders have invested in.

Notice of the Company's Annual Shareholders' Meeting will be available at least 20 working days prior to the date of the meeting.

In accordance with the requirements of Rule 6.1.1 of the NZX Listing Rules, voting at the Annual Shareholders' Meeting will be carried out by way of a poll on the basis of one share, one vote.

Corporate directory

Directors
José Parés (Chairman)
Emilio Fullaondo
Carlos Fernández
Luis Miguel Álvarez
Stephen Ward
Huei Min (Lyn) Lim

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Harmos Horton Lusk
Meredith Connell

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Financial calendar

Annual meeting
28 May 2020

Financial year end
31 December 2020

Annual profit announcement
February 2021

www.restaurantbrands.co.nz