Reaching new heights

Restaurant Brands New Zealand Limited
Annual Report 2018

Contents—

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

Reaching new heights

We are moving the business up to a whole new level and making great progress in our growth strategy to become a 'billion dollar enterprise'.

After just one full year operating as a multi-brand, international company we are already achieving substantial and sustainable shifts in revenues and profitability.

For the first time, we report on the Group's performance market by market – New Zealand, Australia and Hawaii. And with each doing extremely well, these are truly uplifting times for Restaurant Brands.

Key year on year growth—

Total Group sales

$740.8m

Up from $497.2m

NPAT
(Excluding non-trading items)

$40.4m

Up from $30.6m

Total stores

314

Up from 212

Total assets

$452.4m

Up from $302.4m

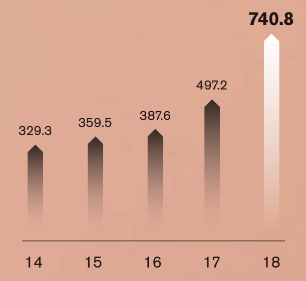
Financial highlights—

Historical summary

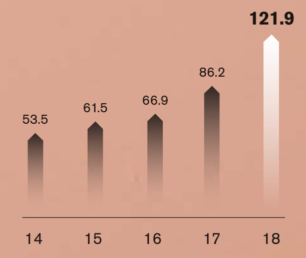
All figures in $NZ millions unless stated	2014	2015	2016	2017	**2018**
Financial performance					
Sales*					
KFC	241.5	265.0	282.5	296.5	**319.6**
Pizza Hut	48.4	48.4	44.9	40.5	**41.1**
Starbucks Coffee	25.0	26.1	26.8	26.7	**25.8**
Carl's Jr.	14.3	20.1	33.4	36.3	**34.9**
Total New Zealand sales	**329.3**	**359.5**	**387.6**	**400.0**	**421.4**
KFC	–	–	–	97.2	**151.8**
Total Australia sales	**–**	**–**	**–**	**97.2**	**151.8**
Taco Bell	–	–	–	–	**95.5**
Pizza Hut	–	–	–	–	**72.0**
Total Hawaii sales	–	–	–	–	**167.5**
Total Group sales	**329.3**	**359.5**	**387.6**	**497.2**	**740.8**
Concept EBITDA before G&A*					
KFC	44.5	50.8	57.2	61.4	**66.0**
Pizza Hut	5.5	6.4	4.9	4.1	**3.1**
Starbucks Coffee	3.5	4.3	4.4	4.8	**4.8**
Carl's Jr.	-	0.2	0.4	1.0	**2.0**
Total concept EBITDA New Zealand	**53.5**	**61.5**	**66.9**	**71.2**	**75.8**
KFC	–	–	–	15.0	**22.0**
Total concept EBITDA Australia	**–**	**–**	**–**	**15.0**	**22.0**
Taco Bell	–	–	–	–	**19.4**
Pizza Hut	–	–	–	–	**4.7**
Total concept EBITDA Hawaii	**–**	**–**	**–**	**–**	**24.1**
Total concept EBITDA	**53.5**	**61.5**	**66.9**	**86.2**	**121.9**
EBIT	28.2	33.4	34.1	39.4	**57.8**
NPAT (reported)	20.0	23.8	24.1	26.0	**35.5**
NPAT (excluding non-trading items)	18.9	22.5	24.2	30.6	**40.4**
Financial position/cash flow					
Share capital	26.8	26.8	26.8	143.4	**148.5**
Total equity	64.7	71.2	75.6	192.1	**201.6**
Total assets	108.3	144.6	139.8	302.4	**452.4**
Operating cash flows	32.2	36.5	44.3	47.9	**67.8**
Shares					
Shares on issue (year end)	97,871,090	97,871,090	97,871,090	122,843,191	**123,629,343**
Number of shareholders (year end)	6,112	6,019	6,018	6,294	**7,005**
Basic earnings per share (full year reported)	20.4c	24.3c	24.6c	24.1c	**28.8c**
Ordinary dividend per share	16.5c	19.0c	21.0c	23.0c	**28.0c**
Other					
Number of stores (year end)					
KFC	90	91	91	92	**94**
Pizza Hut	51	46	39	35	**36**
Starbucks Coffee	27	26	25	24	**22**
Carl's Jr.	8	18	18	19	**19**
Total stores – New Zealand	**176**	**181**	**173**	**170**	**171**
KFC	–	–	–	42	**61**
Total stores – Australia	**–**	**–**	**–**	**42**	**61**
Taco Bell	–	–	–	–	**37**
Pizza Hut	–	–	–	–	**45**
Total stores – Hawaii	**–**	**–**	**–**	**–**	**82**
Total stores	**176**	**181**	**173**	**212**	**314**
Employees (partners) – New Zealand	3,691	3,912	3,363	3,422	**3,596**
Employees (partners) – Australia	–	–	–	2,354	**3,275**
Employees (partners) – Hawaii	–	–	–	–	**2,185**
Total employees (partners)	**3,691**	**3,912**	**3,363**	**5,776**	**9,056**

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

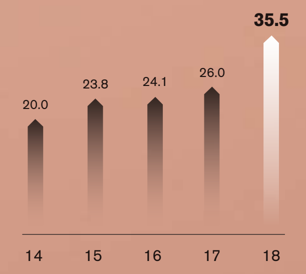
Total Group sales ($NZm)



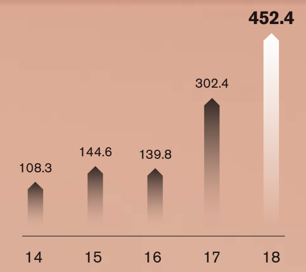
Total concept EBITDA ($NZm)



NPAT (reported) ($NZm)



Total assets ($NZm)



Total Group sales

of $740.8 million up 49.0%, with the bulk of this $243.6 million increase attributable to the PIR acquisition in Hawaii and the full year impact of the Australian operations which were acquired during FY17.

Total concept EBITDA

of $121.9 million, up 41.5% or $35.7 million with $24.1 million of the increase resulting from the PIR acquisition, with the Australian KFC business accounting for a further $7.0 million and the New Zealand businesses driving the remaining $4.6 million.

NPAT (reported)

at a new high of $35.5 million, up +36.6%.

NPAT (excluding non-trading items)

also reached a record high of $40.4 million, up +32.0%.

Successful completion

of the 82 store Pacific Island Restaurants Inc. (PIR) acquisition in Hawaii in March 2017 and a further 18 KFC stores acquired in Australia during the period.

A record final dividend

of NZ18.0 cents per ordinary share, up +33.3%. This makes a full year dividend of 28.0 cents (up 22% on the previous year).

Chairman's and Group Chief Executive Officer's report to shareholders

Ted van Arkel
Chairman

Russel Creedy
Group Chief Executive Officer

Overview

The past year has seen the successful execution of Restaurant Brands' major growth strategies as the company continued to expand its global reach through the acquisition of additional KFC stores in Australia and the settlement of the Hawaiian acquisition. That initiative not only added a new geography, but also a new brand with 37 Taco Bell stores (together with 45 Pizza Huts) being brought into the Restaurant Brands' network. The continued expansion into the Australian market with the acquisition of an additional 18 KFC stores in New South Wales brought total store numbers there to 61.

	2018 $NZm	2017 $NZm	Change $NZm	Change %
Total Group sales	**740.8**	497.2	+243.6	+49.0
NPAT (reported)	**35.5**	26.0	+9.5	+36.6
NPAT (excluding non-trading items)	**40.4**	30.6	+9.8	+32.0
Full year dividend (cps)	**28.0**	23.0	+5.0	+21.7

Note: Results are for the 52 weeks ended 26 February 2018.

Integration of the recently acquired Australian stores and the Hawaiian business into the wider Restaurant Brands Group has been relatively seamless with local management aligned with and actively pursuing the company's growth strategies in each of their individual markets.

The company's recent acquisitions are delivering additional diversification with nearly half of FY18 Group sales now generated offshore. Pleasingly, this expansion growth has been accomplished whilst also continuing to achieve significant sales and earnings growth in the New Zealand market and from existing stores in Australia.

Total Group sales

+49.0%

NPAT (excluding non-trading items)

+32.0%

Group operating results

Restaurant Brands has produced a net profit after tax (NPAT) for the period ended 26 February 2018 (FY18) of $35.5 million, up 36.6% on the reported NPAT of $26.0 million for the prior year.

After allowing for the impact of non-trading items, the underlying NPAT was $40.4 million, up $9.8 million or +32.0% on prior year. This sets a new record level of profitability for the company. More importantly however, the growth is not only coming out of new acquisitions, but existing operations are also delivering solid results.

Total sales for the Group were a record $740.8 million, up $243.6 million or +49.0% on FY17 with the benefit of $167.5 million in additional sales generated from PIR in Hawaii from 7 March 2017. KFC operations in Australia delivered a strong performance with sales up $54.7 million, from both organic growth and the acquisition of 18 stores during the year. The New Zealand business also delivered record sales of $421.4 million, up 5.4%. Other revenue (primarily sales to independent franchisees) totalled $25.5 million, bringing total operating revenue to $766.3 million, up $248.7 million on prior year.

With recent acquisitions and strong organic growth our sales have nearly doubled over the past two years and we are well on the way to achieving our stated target of $1 billion in annual revenues.

Total concept EBITDA of $121.9 million was up $35.7 million or +41.5% on prior year, with a $24.1 million contribution from the newly acquired Hawaiian operations.

Restaurant Brands' store numbers now total 314, comprising 171 in New Zealand, 82 in Hawaii and 61 in Australia.

New Zealand operations

New Zealand operating revenue was $446.8 million, up $26.4 million or +6.3% on FY17.

Total store sales were $421.4 million, an increase of $21.4 million or +5.4% on last year, delivering EBITDA of $75.8 million, a $4.6 million or +6.5% increase on FY17. This was largely as a result of the continued strong performance of the KFC business.

New Zealand operations produced earnings before interest and tax (EBIT) (before non-trading items) of $44.7 million, up 18.6% on the prior year.

KFC New Zealand

	2018 $NZm	2017 $NZm	Change $NZm	Change %
Network sales	**339.4**	314.9	+24.5	+7.8
Network store numbers	**100**	98		
RBD sales	**319.6**	296.5	+23.1	+7.8
RBD store numbers	**94**	92		
RBD EBITDA	**66.0**	61.4	+4.6	+7.4
EBITDA as a % of sales	**20.6**	20.7		

KFC New Zealand continues to be a key driver of overall performance and this brand has had another excellent year. Sales were up 7.8% to $319.6 million, with same store sales up 6.2%. Successful product promotions and the introduction of a delivery service in selected stores contributed to this strong sales performance.

Same store sales up

+6.2%

Despite some input cost pressures, margins remained strong, with an EBITDA margin of 20.6% of sales being delivered in the period. In dollar terms, EBITDA totalled $66.0 million, up 7.4% on last year's result.

KFC in New Zealand reached a new milestone of 100 total network stores with company-owned store numbers increasing by two to a total of 94.

The brand opened a new format store in Fort Street, Auckland in September. This new concept store design was customised for a central city environment with no drive-through facility. It has significantly outperformed expectations and is likely to be the prototype for a number of similar central city stores in both New Zealand and Australia. The other store opening during the year was at Christchurch Airport and this is also performing above expectations.

Pizza Hut New Zealand

	2018 $NZm	2017 $NZm	Change $NZm	Change %
Network sales	**100.7**	91.6	+9.1	+10.0
Network store numbers	**97**	93		
RBD sales	**41.1**	40.5	+0.6	+1.5
RBD store numbers	**36**	35		
RBD EBITDA	**3.1**	4.1	-1.0	-24.6
EBITDA as a % of sales	**7.4**	10.0		

Transformation of the Pizza Hut network in New Zealand to a master franchise model continues on plan. The commencement of an aggressive new store build programme during the year has progressed the expansion of the independent franchisee network.

Total Pizza Hut network sales

+10.0%

This continued growth saw total brand sales climb to $100.7 million for FY18, up $9.1 million or +10.0% on prior year.

During the period three new company stores were opened in Tamatea, Glenfield and Te Ngae and one new franchisee store opened in Howick. The company sold two existing stores to independent franchisees. The number of company owned stores therefore increased by one to 36 while the number of independent franchisee stores has increased to 61, bringing the total Pizza Hut network to 97 stores.

For company owned stores, sales were up $0.6 million to $41.1 million, with same store sales up 8.1%.

Restaurant Brands' Pizza Hut store earnings were $3.1 million (7.4% of sales), down $1.0 million or 24.6% on last year, reflecting some margin pressures, particularly in relation to increased labour rates and ingredient costs.

Starbucks Coffee New Zealand

The company's smallest brand, Starbucks Coffee, produced another consistent result.

	2018 $NZm	2017 $NZm	Change $NZm	Change %
Sales	**25.8**	26.7	-0.9	-3.3
Store numbers	**22**	24		
EBITDA	**4.8**	4.8	+0.0	+1.1
EBITDA as a % of sales	**18.6**	17.8		

Note: All Starbucks Coffee stores are RBD owned

Total sales were down marginally on FY17 to $25.8 million, reflecting the reduced store network of 22 stores, following the closure of the Newmarket and Botany stores in Auckland as a result of leases not being renewed because of landlord re-developments. Same store sales were positive at +6.3%.

Same store sales

+6.3%

Margins improved slightly with continuing sales leverage and store efficiencies. The brand achieved an EBITDA of $4.8 million (18.6% of sales), up slightly on FY17 despite the reduced number of stores.

Carl's Jr. New Zealand

	2018 $NZm	2017 $NZm	Change $NZm	Change %
Sales	**34.9**	36.3	-1.4	-3.9
Store numbers	**19**	19		
EBITDA	**2.0**	1.0	+1.0	+105.7
EBITDA as a % of sales	**5.7**	2.7		

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

Progress continues to be made in building Carl's Jr. into a profitable, sustainable brand in New Zealand; the focus for FY18 being on generating more profitable sales, rather than driving volume through discounting and promotional activity.

As a result of these efforts, EBITDA was $2.0 million (5.7% of sales), an increase of $1.0 million or just over double that in the prior year.

Store numbers remained stable at 19 stores and sales were down 3.9% (-2.6% on a same store basis), as a result of rolling over FY17 sales promotion activity as well as the opening of two new stores in Christchurch in that year.

EBITDA

+105.7%

Australia operations

In New Zealand Dollar ($NZ) terms, the Australian business (operating the KFC brand) contributed total sales of $NZ151.8 million, store EBITDA of $NZ22.0 million and EBIT of $NZ9.8 million. These results were significantly up on the prior year, primarily due to the fact that FY18 represented a full year's trading for QSR Pty Limited which was acquired only part way through the FY17 year, together with the impact of further subsequent acquisitions over the FY18 year.

KFC Australia

	2018 $Am	2017 $Am	Change $Am	Change %
Sales	**139.5**	92.5	+47.1	+50.9
Store numbers	**61**	42		
EBITDA	**20.2**	14.2	+6.0	+42.1
EBITDA as a % of sales	**14.5**	15.4		

In Australian Dollar ($A) terms, total sales for the KFC business in Australia were $A139.5 million, up $A47.1 million (or +50.9%) on last year, same store sales also increased +4.9%. Store EBITDA of $A20.2 million (14.5% of sales) was up $A6.0 million or +42.1% on last year.

A major part of the Australian market expansion strategy is growth by acquisition. Over the FY18 year Restaurant Brands acquired the business assets of 18 KFC stores in New South Wales at a total price of $A46.5 million. Five stores were acquired in March 2017 and the remainder were acquired between October 2017 and January 2018. With the successful completion of these transactions, together with the opening of one new store early in the third quarter, the company-owned KFC store network in Australia grew from 42 to 61 stores at balance date.

Total sales up

+50.9%

Hawaii operations

RBD acquired Pacific Island Restaurants in Hawaii effective 7 March 2017 and the reported trading results are from that date.

The Hawaiian business (which also includes operations in Guam and Saipan) operates 82 stores under the Taco Bell and Pizza Hut brands.

In New Zealand Dollar ($NZ) terms, the newly-acquired Hawaiian operations contributed $NZ167.5 million in revenues, $NZ24.1 million in concept EBITDA and an EBIT of $NZ9.7 million since acquisition.

Total sales in Hawaii in the period since acquisition were $US119.8 million with store level EBITDA of $US17.2 million. Taco Bell performed ahead of expectations at the time of purchase with Pizza Hut running slightly below expectations.

Taco Bell Hawaii

	2018 $USm	2017 $USm	Change $USm	Change %
Sales	**68.3**	–	+68.3	n/a
Store numbers	**37**	–		
EBITDA	**13.9**	–	+13.9	n/a
EBITDA as a % of sales	**20.3**	–		

Taco Bell is a new brand for the company and is performing very well with total sales to date of $US68.3 million and concept EBITDA of $US13.9 million (20.3% of sales). A strong promotional pipeline has helped drive a solid sales performance.

Restaurant Brands has embarked on a store rebuild and refurbishment strategy for these stores following the same successful programme undertaken for the KFC business in New Zealand. The one store that has been transformed to date has delivered same store sales growth of +60%, with a further three stores scheduled for major refurbishment over the next 18 months.

Total sales to date

$US68.3m↑

Pizza Hut Hawaii

	2018 $USm	2017 $USm	Change $USm	Change %
Sales	**51.5**	–	+51.5	n/a
Store numbers	**45**	–		
EBITDA	**3.3**	–	+3.3	n/a
EBITDA as a % of sales	**6.5**	–		

The Pizza Hut business in Hawaii has integrated well into the Group's operations.

Total sales were $US51.5 million with concept EBITDA of $US3.3 million (6.5% of sales). There has been some margin pressure from participating in US-wide value-led marketing promotions together with some higher commodity costs and rising direct labour expense.

As with Taco Bell, an asset refurbishment programme is planned for the Pizza Hut brand. This will see a move away from the larger style restaurants into smaller, more cost-effective delivery and carry out (delco) units. One new delco unit was opened at Pearl City in Honolulu just after balance date and this is trading ahead of expectations.

Total sales to date

$US51.5m↑

Corporate and other

General and administration (G&A) costs were $34.1 million, up $13.7 million from last year. The increase in the G&A cost base was due to the Hawaiian acquisition ($7.5 million), the full impact of Australian operations (purchased part way through FY17 ($1.2 million)), and the new corporate structure established during the period to meet the demands arising from the changes in size and geography of the Group's operations. G&A as a % of total revenue was 4.4%, up from 3.9% in the FY17 year. We remain focussed on controlling our above store costs and expect G&A as a % of sales to reduce to below 4% in the coming year.

Depreciation charges of $28.7 million for FY18 were $6.5 million higher than the prior year, of which the Hawaiian business accounted for $5.9 million.

Financing costs of $5.6 million were up $3.3 million on prior year reflecting the higher borrowings required to fund the Hawaiian and Australian acquisitions.

Tax expense was $16.7 million, up $5.6 million on the prior year due to higher reported profit levels. The effective tax rate of 32.0% reflects the increased proportion of profits that were generated off-shore, and the (one off) impact of non-trading items, with the average tax rate on earnings (excluding non-trading items) at 29.1%.

Non-trading items

Non-trading expenditure for the year was $4.8 million, a similar level to the prior year. The FY18 figure included transaction costs on the PIR acquisition and acquisitions in Australia, listing fees and legal costs relating to the listing of the company on the Australian Securities Exchange (ASX) and an impairment (primarily to goodwill) to Carl's Jr. carrying value in New Zealand. These costs were partially offset by a realised FX gain arising from the forward contracts used in the PIR Hawaiian acquisition and a gain on sale of assets in relation to the sale of New Zealand Pizza Hut businesses to independent franchisees and the sale and leaseback of a KFC store.

Cash flow and balance sheet

The composition of the Group's balance sheet has been impacted by two significant transactions over the year; the completion of the acquisition of PIR in Hawaii on 7 March 2017, together with the significant additional Australian KFC store acquisitions. These transactions, for a total purchase price of $NZ149.9 million and $NZ51.2 million respectively (before settlement adjustments), were funded primarily through cash raised from the issue of shares by a renounceable entitlement offer and private placement carried out in FY17, together with additional debt facilities.

Bank debt at the end of the year was consequently up to $166.8 million compared to $46.5 million at the previous year end. As at balance date, the Group had bank debt facilities totalling $253 million in place. We maintain excellent relationships with our bankers who are all strongly supportive of our growth aspirations.

Operating cash flows were up $19.9 million to $67.8 million reflecting the Group's increased profitability.

Net investing cash outflows at $173.3 million (versus $79.0 million last year) primarily reflected the impact of the Hawaii and Australian acquisitions with a cash impact of $147.5 million (net of bank loans assumed as part of the transaction). Investing cash inflows for the period were due to $3.8 million received from the sale of two Pizza Hut stores and the sale and leaseback of a KFC store.

Dividend

The board continues to have considerable confidence in the company's ability to grow both profit and cash flow and wishes to reward shareholders for what has been a very good year for Restaurant Brands.

Directors have therefore declared a fully imputed final dividend of NZ18.0 cents per ordinary share (prior year NZ13.5 cents), payable on 22 June 2018 to all shareholders on the register on 1 June 2018. A supplementary dividend of NZ3.17645 cents per share will be paid to all overseas shareholders at the same time.

The dividend reinvestment plan will apply to this dividend. For those participating in the plan, shares will be issued in lieu of dividend at a discount of 1.5% to the pre-closing 7-day NZX volume-weighted-average price (VWAP).

The company continues to see strong shareholder support for its expansion with more than 40% of shares on issue participating in the dividend reinvestment plan.

Listing on the ASX

In September 2017 Restaurant Brands dual-listed on the Australian Securities Exchange (ASX) under the ticker code RBD. This listing has allowed the Company to better engage with its Australian and other international investors and take the opportunity to access additional pools of capital that may be required as part of future acquisition strategies.

Non-financial outcomes

As the company expands into overseas geographies, we become increasingly aware of the importance of delivering not only strong financial results, but also meeting our responsibilities as a good corporate citizen and responding to the needs of all stakeholders.

We have enhanced our corporate governance processes and are fully compliant with best practice guidelines. We are also focussing strongly on social responsibility outcomes with particular emphasis on employee satisfaction and safety and community support.

"The board continues to have considerable confidence in the company's ability to grow both profit and cash flow and wishes to reward shareholders for what has been a very good year for Restaurant Brands."

Board

Restaurant Brands continues to operate with a small board of only five directors, which we believe encourages a more nimble and effective decision-making process. Although we have a small board the directors bring a wide range of skills and experience to its deliberations and directors work well together.

With pending retirements and an increasing need to widen the board's capabilities as we look to further overseas expansion, we will be looking to recruit at least one additional director over the coming months.

Company staff and structure

We announced last year a new management structure to better allow Restaurant Brands to manage the business across the growing geographical locations. This structure has now been in place for a year and is working effectively with each geographical location being ably led by their divisional CEO and senior management teams. A small corporate team has also been established and is working well to support the Group CEO and Group CFO.

With the Hawaiian acquisition and the continued expansion in Australia, Restaurant Brands now has over 9,000 employees. Those employees deliver a great service and product with over 125,000 transactions every day. We appreciate the passion and dedication put in by our staff at all levels in bringing these services and products to our customers.

Restaurant Brands rewards its staff for excellent performance with a number of short term incentive schemes in place. In August 2017 the board announced a long term incentive scheme for senior management which is triggered when the company's share price reaches $10 a share, aligning management and shareholder objectives.

Outlook

The full effects of two major acquisitions is evident in this year's financial results with sales almost doubling over the last two years and NPAT (excluding non-trading items) increasing from $24.2 million to $40.4 million over the two year period. The new management team structure established has created a strong leadership platform from which Restaurant Brands is well-positioned to pursue further international growth opportunities.

From a sound, established position in both the Australian and US (Hawaii) markets the company now has significant scope to expand further in both these geographies through acquisition, store refurbishments and organic growth. At the same time, organic growth opportunities within the New Zealand business will be pursued.

The company is not anticipating any significant change in the economic and competitive environment or unusual costs in the new financial year. With a consistent performance from the existing store network and the full year effect of the additional stores acquired in Australia in the second half of the 2018 financial year, directors expect the company will deliver a NPAT (excluding non-trading items) result for the new financial year of at least 10% above current year's results.

Conclusion

We thank you, our shareholders, for your continued support as the company has dramatically grown over the past year. We look forward to seeing a number of you at our forthcoming Annual Shareholders' Meeting which will be held in Wellington, New Zealand on Thursday 21 June 2018.

Ted van Arkel Chairman	Russel Creedy Group CEO

"The full effects of two major acquisitions is evident in this year's financial results with sales almost doubling over the last two years and NPAT (excluding non-trading items) increasing from $24.2 million to $40.4 million over the two year period."

Doing it different. Doing it better.

Innovation is a much-used word largely associated with the technology revolution of the past 15 years. But a company doesn't have to be in the technology industry to be innovative. In a constantly changing world, all businesses must constantly reinvent their processes, products and services if they are to maintain their competitive edge and stay relevant.

These days our customers are spoilt for choice, so staying relevant through innovation and creative thinking is something that Restaurant Brands takes very seriously. As a franchisee we are required to conform to prescribed processes, promotions and products laid down by our franchisors as a condition of keeping our franchise agreements. Within these parameters however, Restaurant Brands is constantly looking for opportunities to build on these brand foundations in new and exciting ways. Our brands must continue to surprise and delight their customers every day with the best QSR experiences.

Here we review some of the more recent exciting innovations that successfully make a big difference to our customers and, therefore, our business.

A new urban designed KFC in Auckland

A new KFC restaurant that is enjoying significant success can be found in the cool side streets of Auckland's CBD. It's KFC's first foray into the 'fast casual dining' space, and with Fort Street being predominantly pedestrianised, the restaurant relies almost totally on passing foot traffic.

The location and its surrounding architecture, together with the younger urban audience presented an opportunity to explore a very different design from the typical suburban KFC drive-thru.

For starters, KFC Fort Street offers customers the 'fast casual' option of table service – as yet untried in a KFC. The entrance-way also features new purpose-built digital kiosks for customers to order and pay for their meal without needing to queue up at the counter.

The design of the store balances an adventurous and innovative presentation of some of KFC's less familiar brand elements – the Colonel's signature in neon, a full scale mural of the man himself, plus an oversized wall-hung bow-tie – with a sensitivity and respect for the heritage character of the immediate neighbourhood.

The success of Fort Street is extremely encouraging, and we are currently exploring similar innovative approaches in Wellington and Christchurch and further afield with our Australian KFC business.

Easy-to-read outdoor digital menu boards

We have been delighted to partner with a young Kiwi company in developing weatherproof, non-glare digital menu boards and retro-fitting them to KFC drive-thrus. They ensure customers can easily view a consistently clear menu with high-definition imagery, whatever the weather.

A trial and error exercise worked to refine the technology that has since attracted the attention of KFC's brand owner, Yum! who is now looking forward to rolling out the technology in Australia and the US through our partner, Fingermark.

A highly engaging Super Rugby experience

KFC's consumer relationship-building and engagement got a monster boost last year with its tremendously popular *For the Fans* campaign. We captured the Super Rugby spirit with a bespoke mini 'grandstand' with seating that we built out of a converted shipping container. The container was taken to a game of each of the Super Rugby teams and opened up on the sidelines where consumers could win the chance to sit in the best seat in the house. Additionally, KFC buckets designed with team colours provided 'appropriate' headgear for all the supporters.

The success of the *For the Fans* campaign was a result of combining innovative and creative thinking with our already deep understanding of KFC's audience, which created a relevant and engaging experience for our customers.

Finger lickin' imagination goes international

Crazy but true. KFC New Zealand caught international news headlines and consumer imagination with some of its more 'out there' ideas. Boundless creative thinking gave rise to the *Finger Lickin' Goods* campaign which produced initiatives such as KFC Mother's Day chicken-flavoured chocolates (why not?), KFC Christmas decorations, and Valentine's Day KFC chicken-themed charm bracelets.

The brand stayed top of mind throughout peak sales periods as social media channels buzzed and news stories reached more than 400 million people in New Zealand and around the world.

Doing the double

KFC's hugely popular, limited-time-only *Double Down* turned out again in 2017, and just as sales were expected to tail off in the promotion's final week, we introduced the ***Bacon Lovers Double Down*** to give things a last week extra kick. Special Bacon Lovers vouchers and custom commemorative pins were distributed to coincide with the much celebrated National Fried Chicken Day (yes it's true – 6th July in the USA, where else).

The runaway success of this campaign hinged on the highly targeted marketing through Facebook and email campaigns, where we were able to talk directly to our customers.

And if a *Double Down* wasn't your thing, we brought out New Zealand's first ever *Kentucky Angus Burger* – an Original Recipe Chicken fillet stacked with a 100% Angus Beef patty coated in the Colonel's secret recipe. Deliciously innovative.

Personalised advertising brings results

Marketing creativity surged again last year to introduce Pizza Hut's new menu. We used YouTube's new Director Mix app to cost-effectively target video content to highly specified Pizza Hut audience groups based on their Google habits. Pizza Hut broadcast the videos across TrueView – YouTube's skippable ads facility – to continually optimise its new messaging by targeting relevant audiences contextually and behaviourally.

The campaign was deemed a major success by Google who acknowledged it at Advertising Week in New York.

We're all about the pizza

To promote the launch of Pizza Hut's new brand positioning platform, *We're all about the pizza*, Pizza Hut's creative agency, Ogilvy NZ, produced an integrated TV/online video that could be viewed on both broadcast television and the internet. The 30 second television commercial included a 'sped-up segment' that could be viewed on the internet in normal speed to provide more engaging, longer form digital content.

That's one way to get more bang for your conventional 30 second television ad slot.

International innovation

Being an international business – following our recent acquisitions in Australia and Hawaii – we recognise the power that innovative and creative thinking has to transform our operations wherever we do business. Granted our creativity tends to thrive where we are able to exercise the most control, but we remain focused on encouraging and applying new thinking to all aspects of our new and expanded business.

In Hawaii, for example, where our Pizza Hut and Taco Bell stores are closely aligned to the US run programmes (for operational efficiencies), we have run successful loyalty and voucher promotions. These include a special re-run of the Taco Bell Kalua Pork range, Pizza Hut/Taco Bell joint initiative 'lei gift' graduation promotion, as well as local community initiatives such as the 'Big Book' literacy programme.

Meanwhile in New South Wales, KFCs are trialling home delivery – where initial results are very promising – digital kiosks (similar to Fort Street), online ordering, and digital front counter menu boards to optimise menu efficiency across the different times of the day. In addition, we have implemented VentSmart technology to help reduce our electricity consumption and carbon footprint.

First in the industry with employee innovation

Restaurant Brands is proud to be the first in the industry here in New Zealand to move away from casual labour arrangements to structured employment contracts. Guaranteed minimum shifts specify fixed hours to give our employees the certainty they deserve and put confidence into our employee relationships. The move has since been supported by new sophisticated shift scheduling software making it easier for store managers to manage the new shift arrangements efficiently – making it a good move all round.

These examples are just a taste of the innovation we continually strive for. While innovation is more associated with technology businesses, the real strides forward come, as ever, from how we use technology. This is where creativity and the continuous challenge to 'do it different and do it better' comes into play – something that is a key ongoing part of how we work across all our brands and businesses. 'Watch this space', as innovative companies like to say.

"We're proud to be the first in the industry here in New Zealand to move away from casual labour arrangements to structured employment contracts. Guaranteed minimum shifts specify fixed hours to give our employees the certainty they deserve."

Q&A with Group Chief Executive Officer Russel Creedy

Restaurant Brands' transition to a new international group structure has meant a change of focus for the Group's CEO, Russel Creedy. No longer purely heading up a New Zealand business, he is now actively involved in building the business in Australia and Hawaii.

Here, Russel discusses the company's trajectory over the past several years and the strategic drivers that will take Restaurant Brands to yet higher levels of success.

Restaurant Brands has seen explosive growth in recent times. What sparked that growth?

For a number of years Restaurant Brands had delivered a consistent profit and dividend flow from its New Zealand business. We had domestic growth strategies in place that targeted a gradual increase with average annual sales over the previous few years of $300-350 million and an operating profit of $18-20 million. The share price had been sitting in the $2.00-4.00 range with a consequent market capitalisation of between $200-$400 million.

At a board strategic planning meeting with senior management in 2016, we were challenged to break out of this paradigm and transform Restaurant Brands into a "billion dollar company" in terms of both revenues and market capitalisation.

So how did you take up the challenge?

The first question we faced was how to achieve this in a relatively short time frame. The answer was that it had to be by acquisition. Current store by store build strategies would not deliver the major growth envisioned in the board's challenge. Grant Ellis (Group CFO) and I scanned the New Zealand market for potential acquisition targets that had sufficient scale and didn't breach our exclusivity agreements with existing brands. We concluded that the best viable alternative was to look at offshore expansion.

That presents a very large range of options – how do you narrow them down?

Yes, an offshore expansion strategy does open up a very large number of options. We therefore needed to develop criteria that generated a more targeted range of potential acquisitions. In doing this we established three fundamental principles:

- Firstly, any acquisition needed to be in a region or geography that we felt confident our operating experience and capability would result in success. Essentially this meant that there had to be an established infrastructure and familiar operating environment (no green-fields).
- Secondly, the target had to be a franchisee for a brand we either currently operated or were sufficiently familiar with to be able to apply our existing knowledge. It also needed to be a world-leading brand in terms of absolute size and consumer recognition.
- Finally, the acquisition had to be of sufficient size that it was able to operate on a standalone basis in the first instance, and provide a beachhead for further acquisitions or network growth in that region.

Where did that process take you in terms of offshore opportunities?

Once the evaluation criteria had been agreed, we first began looking across the Tasman for opportunities in Australia. We soon received word of the QSR Pty Limited opportunity – a 42-store KFC franchisee operating in New South Wales (the largest franchisee in that state). This potential target easily met the criteria and consequently we negotiated with Steve Copulos to complete this acquisition in fairly short order.

The Hawaiian prospect arose quite unexpectedly as we were still at the time focussing on the Australian market. However, Pacific Island Restaurants (PIR), as the sole franchisee in Hawaii for both the Taco Bell and Pizza Hut brands, also easily met our criteria. Whilst Taco Bell was not a brand we were currently operating, it is the third major brand (together with KFC and Pizza Hut) in the Yum! stable, and we had been evaluating bringing this brand to New Zealand previously.

We therefore undertook due diligence and submitted a bid with which we were ultimately successful.

"Whilst we recognise the need to ensure we are proactively adding value to both our Australian and Hawaiian businesses, there remain some very real and immediate strategic acquisition opportunities."

So where to from here?

We are still planning on further aggressive growth, primarily by acquisition, and are actively looking at replicating what we've achieved in Australia and Hawaii, into the continental USA. We've identified a number of large franchisees operating brands we are already familiar with and which, should we acquire them, would provide an initial beachhead for further US expansion.

With respect to our Australian business, we've been acquiring more KFC stores in New South Wales and plan to continue this strategy. We now operate 61 KFC stores, which is 45% up on the original 42 stores we purchased as part of the QSR acquisition less than two years ago.

Our growth strategy also includes new store builds (which incidentally generate the highest return on investment) and we have identified a number of sites in fast-growing areas of Sydney and greater New South Wales that will further boost store numbers.

Meanwhile in Hawaii, we've been concentrating on upgrading and developing the store network in that market as neither Taco Bell nor Pizza Hut stores have had much investment. We see substantial opportunities to increase sales by reinvesting in these stores. In particular, there are some strong similarities between the Taco Bell network in Hawaii as it is now, and the KFC network in New Zealand 12 years ago. The KFC store transformation process in New Zealand delivered major sales growth for that brand and I see no reason why we shouldn't achieve a similar performance with Taco Bell.

The Hawaii Pizza Hut network reinvestment strategy is primarily focussed on building new stores in areas previously not covered by the network together with closing the bigger and much more expensive dine-in sites. We'll look to replace these with smaller, much more efficient 'delivery and carry out' stores.

And what of New Zealand?

Whilst our domestic business represents a relatively smaller part of the total Restaurant Brands portfolio, it remains nevertheless a significant part of our growth strategy.

We see more store growth opportunities for the KFC brand, particularly with our new, more compact, CBD store design. Moving KFC into CBD locations on the back of the Fort Street model is one area where there is certainly room for further network growth.

Our domestic Pizza Hut strategy is focussed on moving to a master franchisee model with many more independent Pizza Hut operators, all supported by Restaurant Brands, and providing the company with a consistent royalty stream.

What are your key considerations for future acquisitions?

Apart from the three key criteria I mentioned earlier, we place emphasis on other factors such as the market itself – for example, levels of competition and friendliness to business – and of course financial viability.

We also look carefully at the existing management capability. Following acquisition our aim is to generally retain local management, provide them with guidance and support, and allow them to continue to run their businesses. Clearly, whilst we have considerable experience and capability in running our various brands, it is the teams on the ground in each of our three markets that have the necessary intimate market knowledge and understanding of how the brands best operate in that environment. We've been fortunate to date with the depth of experience and capability that the acquired management teams have brought to our business.

What are your future plans for the company?

Having nearly doubled the size of the business over the past 24 months, we feel that we have made great progress towards meeting our "billion dollar challenge". With revenues in excess of $750 million and a market capitalisation well over $800 million, the building blocks and capacity for ongoing growth have been well established.

It is not our intention to simply focus on consolidating the current acquisitions and settling back to a more normalised rate of growth. Whilst we recognise the need to ensure we are proactively adding value to both our Australian and Hawaiian businesses, there remain some very real and immediate strategic acquisition opportunities.

We'll continue to look for further growth by initiating bold strategies as these opportunities present themselves.

Operations reports

After a full year of operating as a group of independently managed international businesses, we have pleasure reporting for the first time on our operations by geographical region.

We believe this will give investors a clearer overview of the Group's performance.

Operations report—

New Zealand

KFC New Zealand

KFC produced another record year of sales and profit performance. A number of successful product promotions (including burger innovation), the ongoing benefit of store upgrades and higher levels of marketing activity all contributed to driving sales to an all-time high of $319.6 million. Same store sales growth remained very strong for the year, finishing up +6.2% (compared with +3.6% last year).

The brand successfully trialled a customer delivery service for selected KFC stores, and we expect to roll out the new service in the new financial year. Continued sponsorship of the New Zealand Super Rugby franchises also assisted in growing brand awareness and improving customer engagement.

Profitability was also up strongly, with EBITDA increasing by $4.6 million (+7.4% on the prior year) to $66.0 million. Continued sales leverage and relatively benign ingredient price pressure assisted in driving better margins. However, some of these benefits were offset by higher labour costs as KFC reinvested in providing staff with more certainty and stability in their hours which should help improve customer experience. As a % of sales, EBITDA was 20.6%, down slightly on last year's 20.7%.

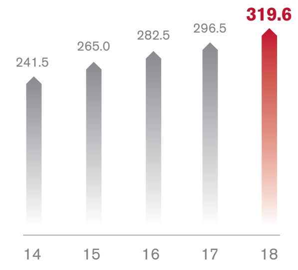
As part of the continuing reinvestment in the brand, 13 stores received major upgrades over the year.

Total company-owned stores increased to 94 with the opening of new stores at Fort Street, Auckland and Christchurch Airport.

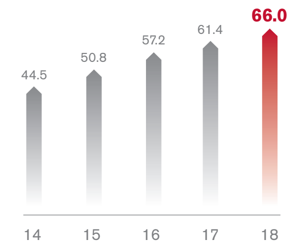
Staff turnover was 70%, up on the previous year's 67%, partly as a result of changes to rostering practices with a move to fixed shifts. Going forward, this will provide more stability and certainty for our workforce.

Lost time injuries per million hours decreased from ten in the prior year to five per million in the current year. There is a continued focus in the business to reduce injuries in store.

Total sales ($NZm)



EBITDA ($NZm)



Staff	Stores
2,250	94
	+6 Franchised

Earnings were up strongly, with EBITDA up $4.6 million or 7.4% on prior year to $66.0 million.

The strong sales and margin performance has been maintained into the FY19 financial year and KFC is expected to deliver another solid result. The brand will continue to reap the benefits of its now completed transformation programme. Meanwhile, the company's reinvestment will continue albeit at a more measured level. Continued high levels of marketing expenditure will also assist sales. Another two new stores are expected to be opened in the FY19 year.

KFC is the cornerstone of Restaurant Brands' New Zealand operations and continues to maintain its current momentum as the new year begins.

Pizza Hut New Zealand

Total sales from Pizza Hut stores operated by Restaurant Brands were up +1.5% over the year to $41.1 million. Sales for the total Pizza Hut brand were up 10% to $100.7 million.

Restaurant Brands' store numbers increased by one over the year with two stores sold to independent franchisees and three new company-owned stores built at Tamatea (Napier), Glenfield (Auckland) and Te Ngae (Rotorua).

Same store sales for company-owned stores grew 8.1% over the year.

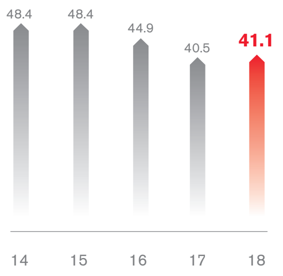
Earnings from company-owned stores were again adversely impacted by the sale of stores to independent franchisees along with increases in labour and ingredient costs. EBITDA for the year was $3.1 million, down $1.0 million on FY17. This represented 7.4% of sales versus 10.0% last year, but still within the company's expected margin range.

Staff turnover in company-owned stores was 77%, slightly down on the prior year's 78%, principally a reflection of store sell downs in the year.

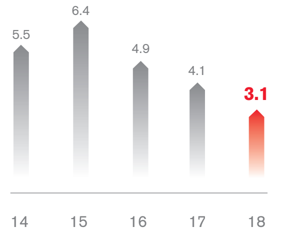
Lost time injuries in company-owned stores per million hours worked increased from four in the prior year, to five. Although it was disappointing to see this increase, the level remains low with a continuing strong focus on staff safety.

At year end, company-owned store numbers had increased to 36 (out of a total of 97 in the market) with independent franchisee owned stores up to 61. The brand has a short-term target of 100+ stores in the network with those under company ownership making up approximately 25% of that number.

Total sales ($NZm)



EBITDA ($NZm)



Staff	Stores
424	36

+61 Franchised

Sales for the total Pizza Hut brand were up 10% to $100.7 million.

The Pizza Hut business will see continued solid growth as Restaurant Brands continues to expand the store network, both with its own stores as well as those run by independent franchisees.

Starbucks Coffee New Zealand

The company's smallest brand continued to deliver a good return on investment.

Total sales were down slightly, mainly because of the closure of two Auckland stores due to lease expiries and subsequent landlord re-developments. Same store sales however improved by +6.3%.

Starbucks Coffee also saw another profitable year, generating an EBITDA of $4.8 million, up 1.1% on prior year, driven by further strong sales growth and continuing store efficiencies, despite some labour pressures. The net result was a slight increase in EBITDA margin, rising from 17.8% of sales to 18.6%.

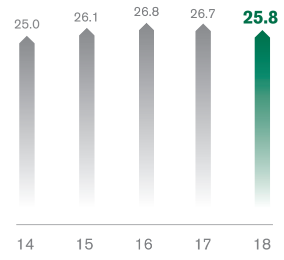
Staff turnover saw a decrease this year to 64% (70% in FY17), despite being affected by the closure of Newmarket and Botany during the year.

There were no lost time injuries during the period for the brand. This result will not reduce the focus on safety as the business aims to maintain this high safety level.

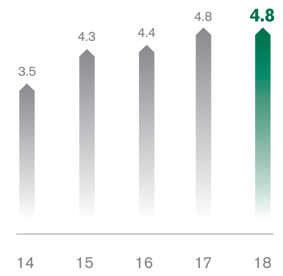
Same store sales growth is expected to remain stable this year and profitability at similar levels.

With the expiry of the 20 year franchise agreement this year, discussions are being held with Starbucks Coffee International about the future of the brand.

Total sales ($NZm)



EBITDA ($NZm)



Staff	Stores
266	22

Carl's Jr. New Zealand

The Carl's Jr. business continues to demonstrate solid improvement in its trading results. As a still relatively young brand there still remains significant scope for future improvement.

Total sales decreased to $34.9 million (-3.9%) with the closure of the store at Otahuhu, Auckland. However there was also a change in focus this year towards generating more profitable sales rather than driving sales through discounting and promotional activities. As a consequence EBITDA was up 105.7% to $2.0 million for the year with improving sales mix, better ingredient prices and improved controls over store operations. This represented 5.7% of sales (2.7% in FY17).

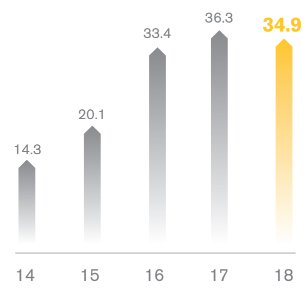
Store numbers were unchanged for the year to close at 19.

Staff turnover was 77%, up on the prior year's 71%, in part a reflection of the movement to fixed shifts.

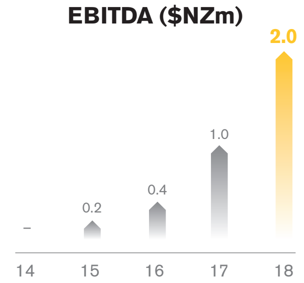
There were no lost time injuries during the period for the brand. This result will not reduce the focus on safety as the business aims to maintain this high safety level.

The Carl's Jr. brand has doubled its profitability every year over the past four years and is positioned to make further improvement in profitability in FY19. As with any new developing brand, there has been a settling in process for Carl's Jr., but now with increased experience and momentum in the brand, considerably better results are being delivered.

Total sales ($NZm)



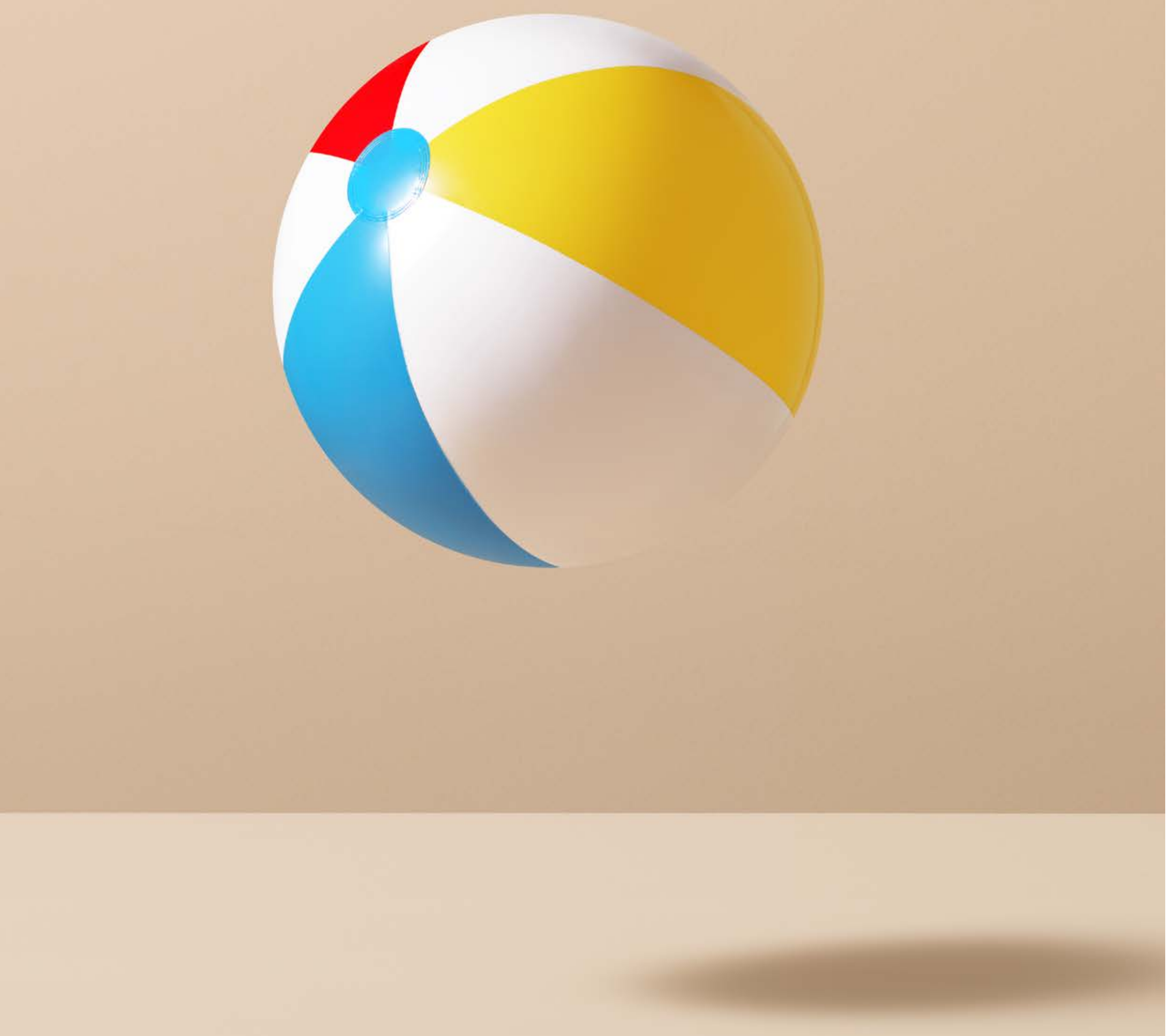
EBITDA ($NZm)



Staff	Stores
341	19

Operations report—

Australia



KFC Australia

In FY17 the Group commenced its international expansion strategy acquiring QSR Pty Limited with 42 stores in New South Wales, Australia. During the FY18 year an additional 18 stores were acquired which, along with the opening of one new store, brings the total stores now operating in Australia to 61.

With a full year's trading from the stores initially acquired from QSR plus the impact of the new stores acquired during FY18, sales increased by $54.6 million. Same store sales were up 8.6%. EBITDA was also up $7.0 million to $22.0 million reflecting the positive contribution from the acquisitions as well as the effect of organic growth.

Whilst the acquired QSR business has a young workforce, it is relatively stable by market norms. Staff turnover was 42% in the FY18 year, an improvement from 49% in the FY17 year.

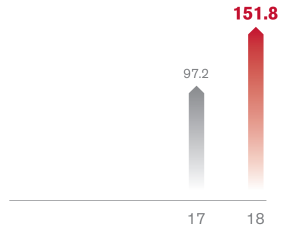
CEO Adrian Holness retired effective 1 March 2018, with CFO Ashley Jones taking over the position as CEO from that date. David Browne has been appointed as the CFO for the division.

The QSR business has a strong focus on accident prevention. The number of lost time injuries per million hours was 13 in the FY18 year, down from 19 in the FY17 year.

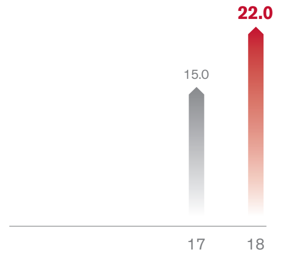
The positive results from the Australian operations are expected to continue into the new financial year. We will also continue to consider new opportunities to expand the network both through acquisitions and new store builds.

The new stores acquired during FY18 along with a full years' trading and organic growth increased sales by $54.6 million.

Total sales ($NZm)



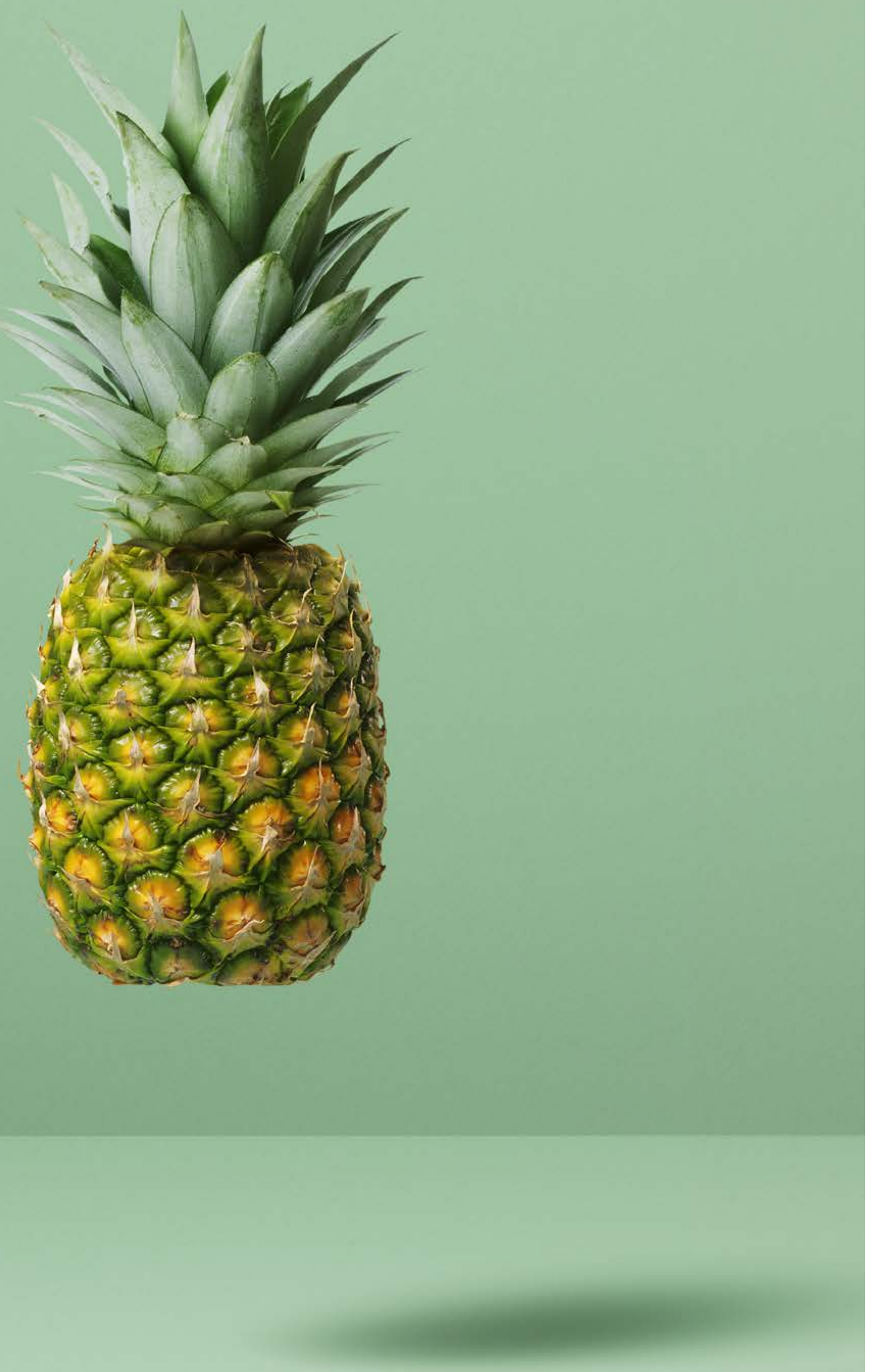
EBITDA ($NZm)



Staff	Stores
3,275	61

Operations report—

Hawaii



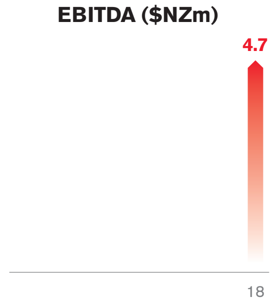
Pizza Hut Hawaii

Restaurant Brands acquired Pacific Island Restaurants Inc. (PIR) on 7 March 2017. This acquisition saw the purchase of 45 Pizza Hut stores primarily in Hawaii but with stores also operating in Guam and Saipan.

Pizza Hut contributed $4.7 million to the Group's EBITDA. The business came under margin pressure from Hawaii's rising direct labour costs and the required participation in US-wide value promotions. We have begun a process of refreshing the brand including a store refurbishment programme. As part of this programme we will be closing some of the very old "red-roof" dine-in restaurants and replacing them with smaller and more efficient delivery and carry-out (delco) style outlets, which will have a positive effect on future results and operations.

Staff turnover was 69% in the FY18 year. This reflects a very competitive labour market where retaining staff remains a key challenge.

Lost time injuries per million hours were three for the year with a total of 17 accidents, which reflects the good safety record from operations in Hawaii.



Staff	Stores
1,253	45

Taco Bell Hawaii

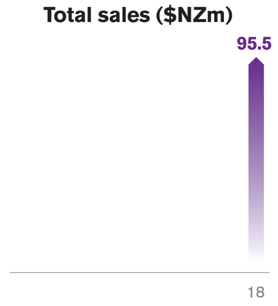
As part of the PIR acquisition the Group acquired 37 Taco Bell stores primarily in Hawaii, with stores also operating in Guam.

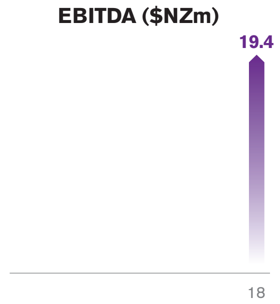
The introduction of the Taco Bell brand into the Restaurant Brands portfolio has been very successful, contributing $19.4 million to the Group's EBITDA for the year. This result was ahead of expectations at the time of acquisition. There is also a network refreshment strategy under way for the Taco Bell brand with a number of older stores targeted for a complete rebuild. The first store refurbishment of this nature has been delivering significant sales growth.

Staff turnover was 65% in the FY18 year, also reflecting a very competitive labour market. The above-store management team is very stable (with an average tenure of 20 years). There has been no significant turnover in this team in the 12 months since acquisition.

Lost time injuries per million hours were one for the year with a total of only six accidents, which reflects the good safety record for this brand from operations in Hawaii.

The positive post acquisition result from the Hawaiian Taco Bell operations from the first year of ownership is continuing into the new financial year.





Staff	Stores
932	37

Board of Directors—

Ted van Arkel
FNZIM

Chairman and Independent Non-Executive Director

Term of office
Appointed Director 24 September 2004 and appointed Chairman 21 July 2006. Last re-elected 2015 Annual Meeting.

Board committees
Member of the Audit and Risk Committee, Health and Safety Committee and Remuneration and Nominations Committee.

Profile
Mr van Arkel has been a professional director since retiring from the position of Managing Director of Progressive Enterprises Limited in November 2004. His NZX-listed company directorships are AWF Madison Group Limited and Abano Healthcare Group Limited. He is also a director of the Auckland Regional Chamber of Commerce & Industry Limited. Mr van Arkel is a director of a number of private companies including Philip Yates Family Holdings Limited and Danske Mobler Limited. Mr van Arkel was previously a director and chairman of The Warehouse Group Limited.

Core board skills
Governance, Strategy, Financial Acumen, Remuneration/People and Culture.

Skills related specifically to Restaurant Brands
Quick Service Restaurants, Marketing, Large Scale Procurement and Supply Chain.

Skills related to future strategy
Global Experience, Acquisition and Divestment.

Hamish Stevens
M.COM (HONS), MBA, CA

Independent Non-Executive Director

Term of office
Appointed Director 8 May 2014. Last re-elected 2017 Annual Meeting.

Board committees
Chairman of the Audit and Risk Committee and Member of the Remuneration and Nominations Committee and Health and Safety Committee.

Profile
After considerable experience in a number of senior corporate roles including both operational and financial management in large companies such as DB Breweries Limited and Heinz-Watties Limited, Mr Stevens became a professional director in 2010. He is currently Chairman of Bureau Veritas AsureQuality Pty Limited, East Health Services Limited, The Kennedys Limited and is the Independent Chairman of the Audit and Risk Committee of the Waikato Regional Council. Mr Stevens is a director of various other New Zealand companies including AsureQuality Limited and Counties Power Limited. A qualified chartered accountant, Mr Stevens also chairs the audit committees for a number of companies for which he serves as a director.

Core board skills
Governance, Strategy, Financial Acumen.

Skills related specifically to Restaurant Brands
Quick Service Restaurants.

Skills related to future strategy
Acquisition and Divestment.

Stephen Copulos

Non-Executive Director

Term of office
Appointed Director 27 April 2016. Last re-elected 2016 Annual Meeting.

Board committees
Member of Remuneration and Nominations Committee, Health and Safety Committee and Audit and Risk Committee.

Profile
Mr Copulos joined Restaurant Brands as a Non-Executive Director following the acquisition of QSR Pty Ltd in NSW, Australia. He has over 37 years' experience in a variety of businesses and investments across a wide range of industries including fast food and hospitality, manufacturing, property development and mining and has extensive experience as a company director of both listed and unlisted public companies in Australia, UK and USA. He is Managing Director of the Copulos Group of Companies as well as a director of over 50 private companies and trusts and is president of six USA LLCs. He is also chairman and major shareholder of ASX listed companies Consolidated Zinc Limited and Non-Executive Director of Black Rock Mining Limited.

Core board skills
Governance, Strategy, Financial Acumen, Remuneration/People and Culture.

Skills related specifically to Restaurant Brands
Quick Service Restaurants, Marketing, Australian Experience, USA Experience.

Skills related to future strategy
Global Experience, Acquisition and Divestment.

Vicky Taylor
B.COM

Independent Non-Executive Director

Term of office
Appointed Director 23 June 2016.

Board committees
Chairman of the Remuneration and Nominations Committee and Member of the Health and Safety Committee and the Audit and Risk Committee.

Profile
Ms Taylor is a business owner with experience from large corporates to small start-up businesses. She has worked in manufacturing and international business. Her background includes working in blue chip corporates such as Goodman Fielder Limited, Griffins Foods Limited and The Coca-Cola Company. She has also been involved in the science and environmental sector and not-for-profit governance, including the Museum of Transport and Technology, Vehicle Testing New Zealand, Landcare Research Limited and Enviro-Mark Solutions. Her current directorships include Real Journeys Limited and Ugly Duckling Trading Limited.

Core board skills
Strategy, Remuneration/People and Culture.

Skills related specifically to Restaurant Brands
Marketing.

Skills related to future strategy
Global Experience, Acquisition and Divestment.

David Beguely
BSC, BE, GAICD

Independent Non-Executive Director

Term of office
Appointed Director 1 April 2017. Last re-elected 2017 Annual Meeting.

Board committees
Chairman of the Health and Safety Committee and Member of the Remuneration and Nominations Committee and Audit and Risk Committee.

Profile
Mr Beguely has over 35 years' experience in the food and beverages industries, most recently as CEO of Asahi Beverages Australasia, having led the separation and sale of Schweppes from Cadbury Australia, and significantly developed the business through both organic and acquired growth.
Mr Beguely has been a member of the board of Beak & Johnston Pty Ltd since 2012 where he chairs the Nominations and Remuneration Committee. He is also on the board of B&J City Kitchen, a joint venture between Woolworths and Beak and Johnston in the development of the ready to heat meals category.
In addition, Mr Beguely is a member of the Board of the Alliance for Gambling Reform where he also acts as Treasurer.

Core board skills
Strategy, Financial Acumen, Remuneration/People and Culture.

Skills related specifically to Restaurant Brands
Marketing, Large Scale Procurement and Supply Chain, Australian Experience.

Skills related to future strategy
Global Experience, Acquisition and Divestment.

Note: The Restaurant Brands board has developed a skills matrix identifying the core skills each director brings to the board. The matrix is based on directors' self-assessment of their individual skills. The assessment rated each director's skills in various areas on a one to five scale. Where the rating was four or five the director was deemed to bring those expert skills to the board. These skills are listed under each director profile.

Corporate social responsibility—

Background

As a company Restaurant Brands recognises the increasing importance of a number of non-financial aspects of its business performance. This becomes even more relevant with the recent international expansion bringing into focus multiple areas of environmental, social and governance (ESG) activity in different geographical locations and legal and social jurisdictions.

The New Zealand business is more established in its pursuit of better performance outcomes in the area of ESG. There is a need to build on this and roll out the planning, activating and measuring of this activity in our overseas operations.

To that end we have begun a comprehensive review of our sustainability reporting. As part of that review we will create a new framework with more stringent management statements, we will set sustainability targets and report against these targets. We will work through this process over the next financial period with a long term aim to embed the new framework within our wider corporate culture.

"We are committed to doing business guided by principles of sustainability."

Our vision is to be a leading operator of enduring and innovative QSR brands in the jurisdictions in which we operate (New Zealand, Australia and Hawaii). That's why we're committed to doing business guided by principles of sustainability. These principles help form our menus and management practices and guide the actions of our people and the way we contribute to the communities we serve.

Four interdependent elements: **People, Food, Planet** and **Progress** comprise the core aspects of our ESG ethos and sustain the health and vitality of our company. We set out below our ESG KPIs and progress for the new financial year in relation to each of these elements.

People

Restaurant Brands depends on the support of consumers and on positive partnerships with our employees, suppliers, franchisors, franchisees and investors. We employ 9,056 people aged from 15-73 across the Group and serve over 125,000 customers every day. We:

- place the health and safety of our employees as our top priority. We have an excellent record for workplace health and safety and we continue to strive towards our target of zero workplace injuries across all our brands;
- are an equal opportunity employer and we embrace and reflect the diversity of the communities that we operate in. We are committed to a truly diverse work environment which is reflected by the many different nationalities represented across the business and more than half of our workforce (together with a significant proportion of senior management) are female;
- we are an important first job opportunity for many New Zealanders, Australians and Hawaiians. Around 46% of our employees are under 20 years of age. We therefore support our employees with the time and resources to build their competencies and skills across all our brands. The overall package of the terms and conditions of our employees compares favourably with our competitors in the sector and includes a faster pathway for new employees to acquire new skills and responsibilities and increase their pay rates. In New Zealand we:
  - have rolled out e-learning programs to a large proportion of our New Zealand staff and a classroom-style orientation has proven popular for new recruits to Carl's Jr.;
  - lead the fast food sector for guaranteed days, hours of permanent work and security of pay; and
  - were the first company in the sector to discontinue zero-hour contracts;
- continue our involvement with charitable and community organisations and review our efforts on an ongoing basis to ensure that they remain relevant and valuable to the communities we serve. Our commitment to our community is reflected by:
  - our long-serving partnership with Surf Life Saving New Zealand, with whom we have been a charity partner since 2012. In addition to raising funds for charity, we are committed to assisting Surf Life Saving New Zealand with educating people how to stay safe at the beach through a multi-lingual water safety education campaign;
  - raising funds in Australia to support both the Reach Foundation (a youth based organisation that inspires young people to follow their dreams) and the World Hunger Relief Program (an organisation that provides meals to the 2.6 billion people in need globally); and
  - raising funds in Hawaii to support the Literacy Foundation, a Hawaii programme that provides the Keiki (children) of Hawaii access to books, with programs and workshops to promote literacy with an aim to create lifetime learners through reading.

Number of lost time incidents in New Zealand

−50%

Staff turnover in Australia

42%↓

Total funds raised ($NZ)

$244,000

Food

Restaurant Brands serves high quality, great tasting food with predominantly locally sourced ingredients. We:

- continue to focus on improving the nutritional composition of our food, with an emphasis on sodium, sugar and saturated fat reduction;
- provide detailed nutritional information about our products online to enable our customers to make informed choices;
- ensure food safety and quality through continuous external and internal review programmes;
- support our trusted local suppliers and ensure that responsible industry practices are part of our ethical procurement strategy; and
- continue with our efforts to work with suppliers to eliminate palm kernel products and cage eggs from the ingredients used in our menus.

Planet

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

- continue to source all our packaging from sustainable timbers in New Zealand. Both Australia and Hawaii source their packaging through Yum! Brands who are committed to making sustainable packaging a priority;
- continue with initiatives that will see all cardboard and paper recycled and all cooking reprocessed for bio-diesel and soap;
- actively participate in energy saving initiatives including monitoring live power usage in our stores to reduce peak load;
- are a member of the Public Place Recycling Scheme (PPRS), a programme that helps New Zealanders to recycle and reduce litter while they're away from home;
- are currently trialling delivery optimisation software and alternative delivery vehicles to make deliveries more efficient and potentially reduce fossil fuel consumption across the Pizza Hut and KFC network; and
- are actively investigating the elimination of single-use plastic bags and straws from the store network.

Progress

Restaurant Brands continues to proactively and fairly reward all its stakeholders. We have:

- spent $26.4 million on property, plant and equipment across the Group during the FY18 year;
- paid our staff $211.3 million in salary and wages this year;
- paid $28.9 million in dividends to our investors this year; and
- as a responsible corporate citizen, this year we paid $15.8 million in company tax and $44.7 million in goods and services tax in Australia and New Zealand and Hawaii sales tax.

ESG performance measures

New Zealand

Category	Measure	Outcome FY2018	Outcome FY2017
Workplace safety	Number of lost time incidents per million hours worked	**4**	8
Staff turnover	As a % of average total staff on a rolling annual basis	**72%**	71%
Gender diversity	% of women employed at all levels	**56%**	54%
Community	Total funds raised for charitable and community organisations	**$106,000**	$178,000
Recycling	% of cardboard and paper waste from back of house operations recycled	**100%**	100%
	% of oil from back of house operations recycled	**100%**	100%
Energy conservation	Kilowatts of energy used in electricity and gas per $million of sales (excluding Restaurant Brands support centre)	**121,000kw**	137,000kw

Australia

Category	Measure	Outcome FY2018	Outcome FY2017
Workplace safety	Number of lost time incidents per million hours worked	**13**	19
Staff turnover	As a % of average total staff on a rolling annual basis	**42%**	49%
Gender diversity	% of women employed at all levels	**47%**	48%
Community	Total funds raised for charitable and community organisations	**$A63,000**	$A46,000
Recycling	% of cardboard and paper waste from back of house operations recycled	**100%**	100%
	% of oil from back of house operations recycled	**100%**	100%
Energy conservation	Kilowatts of energy used in electricity and gas per $million of sales (excluding Restaurant Brands support centre)	**111,000kw**	121,000kw

Hawaii

Category	Measure	Outcome FY2018
Workplace safety	Number of lost time incidents per million hours worked	**4**
Staff turnover	As a % of average total staff on a rolling annual basis	**65%**
Gender diversity	% of women employed at all levels	**56%**
Community	Total funds raised for charitable and community organisations	**$US50,000**
Recycling	% of cardboard and paper waste from back of house operations recycled	**66%**
	% of oil from back of house operations recycled	**100%**

Consolidated income statement

for the 52 week period ended 26 February 2018

$NZ000's	26 February 2018 52 weeks		vs Prior %	27 February 2017 52 weeks	
Sales					
KFC	**319,598**		*7.8*	296,465	
Pizza Hut	**41,111**		*1.5*	40,492	
Starbucks Coffee	**25,818**		*(3.3)*	26,694	
Carl's Jr.	**34,921**		*(3.9)*	36,347	
Total New Zealand sales	**421,448**		***5.4***	**399,998**	
KFC	**151,844**		*56.2*	97,181	
Total Australia sales	**151,844**		***56.2***	**97,181**	
Taco Bell	**95,487**		*n/a*	–	
Pizza Hut	**71,997**		*n/a*	–	
Total Hawaii sales	**167,484**		***n/a***	**–**	
Total sales	**740,776**		***49.0***	**497,179**	
Other revenue	**25,513**		*25.2*	20,370	
Total operating revenue	**766,289**		***48.1***	**517,549**	
Cost of goods sold	**(626,701)**		*48.6*	(421,872)	
Gross margin	**139,588**		***45.9***	**95,677**	
Distribution expenses	**(2,895)**		*4.7*	(2,764)	
Marketing expenses	**(40,095)**		*42.7*	(28,107)	
General and administration expenses	**(34,090)**		*67.4*	(20,364)	
EBIT before non-trading items	**62,508**		***40.7***	**44,442**	
Non-trading items	**(4,755)**		*(6.1)*	(5,063)	
EBIT	**57,753**		***46.7***	**39,379**	
Financing expenses	**(5,604)**		*144.6*	(2,291)	
Net profit before taxation	**52,149**		***40.6***	**37,088**	
Taxation expense	**(16,683)**		*49.9*	(11,133)	
Net profit after taxation (NPAT)	**35,466**		***36.6***	**25,955**	
NPAT excluding non-trading items	**40,361**		***32.0***	**30,567**	
		% sales			***% sales***
Concept EBITDA before G&A					
KFC	**65,954**	*20.6*	*7.4*	61,419	*20.7*
Pizza Hut	**3,060**	*7.4*	*(24.6)*	4,058	*10.0*
Starbucks Coffee	**4,815**	*18.6*	*1.1*	4,760	*17.8*
Carl's Jr.	**1,993**	*5.7*	*105.7*	969	*2.7*
Total New Zealand	**75,822**	***18.0***	***6.5***	**71,206**	***17.8***
KFC	**22,026**	*14.5*	*47.2*	14,964	*15.4*
Total Australia	**22,026**	***14.5***	***47.2***	**14,964**	***15.4***
Taco Bell	**19,420**	*20.3*	*n/a*	–	*n/a*
Pizza Hut	**4,681**	*6.5*	*n/a*	–	*n/a*
Total Hawaii	**24,101**	***14.4***	***n/a***	**–**	***n/a***
Total concept EBITDA before G&A	**121,949**	***16.5***	***41.5***	**86,170**	***17.3***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	**(36.1)**			87.7	

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

Non-GAAP financial measures

for the 52 week period ended 26 February 2018

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

1. **EBITDA before G&A.** The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A (general and administration expenses) by taking net profit before taxation and adding back (or deducting) financing expenses, non-trading items, depreciation, amortisation and G&A. The Group also refers to this measure as **Concept EBITDA before G&A**. The term **Concept** refers to the Group's seven operating divisions comprising the New Zealand divisions (KFC, Pizza Hut, Starbucks Coffee and Carl's Jr.), KFC Australia and the two Hawaii divisions (Taco Bell and Pizza Hut). The term **G&A** represents non-store related overheads.
2. **EBIT before non-trading.** Earnings before interest and taxation ("EBIT") before non-trading is calculated by taking net profit before taxation and adding back (or deducting) financing expenses and non-trading items.
3. **Non-trading items.** Non-trading items represent amounts the Group considers unrelated to the day to day operational performance of the Group. Excluding non-trading items enables the Group to measure underlying trends of the business and monitor performance on a consistent basis.
4. **EBIT after non-trading items.** The Group calculates EBIT after non-trading items by taking net profit before taxation and adding back financing expenses.
5. **NPAT excluding non-trading.** Net Profit After Taxation ("NPAT") excluding non-trading items is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) non-trading items whilst also allowing for any tax impact of those items.
6. **Capital expenditure including intangibles.** Capital expenditure including intangibles represents additions to property, plant and equipment and intangible assets.

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

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

$NZ000's	Note*	2018	2017
EBITDA before G&A	1	**121,949**	**86,170**
Depreciation		(28,683)	(22,152)
Net gain/(loss) on sale of property, plant and equipment (included in depreciation)		23	(32)
Amortisation (included in cost of sales)		(3,233)	(2,342)
General and administration costs - area managers, general managers and support centre		(27,548)	(17,202)
EBIT before non-trading	2	**62,508**	**44,442**
Non-trading items **	3	**(4,755)**	**(5,063)**
EBIT after non-trading items	4	**57,753**	**39,379**
Financing costs		(5,604)	(2,291)
Net profit before taxation		**52,149**	**37,088**
Income tax expense		(16,683)	(11,133)
Net profit after taxation		**35,466**	**25,955**
Add back non-trading items		4,755	5,063
Income tax on non-trading items		140	(451)
Net profit after taxation excluding non-trading items	5	**40,361**	**30,567**

* Refers to the list of non-GAAP measures as listed above.
** Refer to Note 2 of the financial statements for an analysis of non-trading items.

Financial statements 2018

Contents | **Page**

Restaurant Brands is pleased to present its financial statements.

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	1-5
Funding and equity	6-9
Working capital	10-13
Long term assets	14-15
Other notes	16-28

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 52 week period ended 26 February 2018

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 52 week period ended 26 February 2018 contained on pages 48 to 78.

Financial statements for each financial year 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 52 week period ended 26 February 2018.

For and on behalf of the Board of Directors:

E K van Arkel
Chairman

17 April 2018

H W Stevens
Director

Consolidated statement of comprehensive income

for the 52 week period ended 26 February 2018

$NZ000's	Note	2018	2017
Store sales revenue	1	**740,776**	497,179
Other revenue	1	**25,513**	20,370
Total operating revenue		**766,289**	517,549
Cost of goods sold		**(626,701)**	(421,872)
Gross profit		**139,588**	95,677
Distribution expenses		**(2,895)**	(2,764)
Marketing expenses		**(40,095)**	(28,107)
General and administration expenses		**(34,090)**	(20,364)
EBIT before non-trading items		**62,508**	44,442
Non-trading items	2	**(4,755)**	(5,063)
Earnings before interest and taxation (EBIT)	1	**57,753**	39,379
Financing expenses	6	**(5,604)**	(2,291)
Profit before taxation		**52,149**	37,088
Taxation expense	16	**(16,683)**	(11,133)
Profit after taxation attributable to shareholders		**35,466**	25,955
Other comprehensive income:			
Exchange differences on translating foreign operations		**(3,538)**	(2,575)
Share option reserve		**34**	–
Derivative hedging reserve		**1,651**	(1,303)
Income tax relating to components of other comprehensive income		**(303)**	367
Other comprehensive income for the full year, net of tax		**(2,156)**	(3,511)
Total comprehensive income for the full year attributable to shareholders		**33,310**	22,444
Basic earnings per share (cents)	4	**28.83**	24.08
Diluted earnings per share (cents)	4	**28.83**	24.08

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

Consolidated statement of changes in equity

for the 52 week period ended 26 February 2018

$NZ000's	Note	Share capital	Share option reserve	Foreign currency translation reserve	Derivative hedging reserve	Retained earnings	Total
For the 52 week period ended 27 February 2017							
Balance at the beginning of the period		**26,756**	**–**	**53**	**(238)**	**49,046**	**75,617**
Comprehensive income							
Profit after taxation attributable to shareholders		–	–	–	–	25,955	**25,955**
Other comprehensive income							
Movement in foreign currency translation reserve		–	–	(2,575)	–	–	**(2,575)**
Movement in derivative hedging reserve		–	–	–	(936)	–	**(936)**
Total other comprehensive income		**–**	**–**	**(2,575)**	**(936)**	**–**	**(3,511)**
Total comprehensive income		**–**	**–**	**(2,575)**	**(936)**	**25,955**	**22,444**
Transactions with owners							
Shares issued		119,369	–	–	–	–	**119,369**
Share issue costs		(2,739)	–	–	–	–	**(2,739)**
Net dividends distributed	5	–	–	–	–	(22,632)	**(22,632)**
Total transactions with owners		**116,630**	**–**	**–**	**–**	**(22,632)**	**93,998**
Balance at the end of the period	9	**143,386**	**–**	**(2,522)**	**(1,174)**	**52,369**	**192,059**
For the 52 week period ended 26 February 2018							
Balance at the beginning of the period		**143,386**	**–**	**(2,522)**	**(1,174)**	**52,369**	**192,059**
Comprehensive income							
Profit after taxation attributable to shareholders		–	–	–	–	35,466	**35,466**
Other comprehensive income							
Movement in share option reserve		–	34	–	–	–	**34**
Movement in foreign currency translation reserve		–	–	(3,538)	–	–	**(3,538)**
Movement in derivative hedging reserve		–	–	–	1,348	–	**1,348**
Total other comprehensive income for the year		**–**	**34**	**(3,538)**	**1,348**	**–**	**(2,156)**
Total comprehensive income		**–**	**34**	**(3,538)**	**1,348**	**35,466**	**33,310**
Transactions with owners							
Shares issued		5,168	–	–	–	–	**5,168**
Share issue costs		(63)	–	–	–	–	**(63)**
Net dividends distributed	5	–	–	–	–	(28,866)	**(28,866)**
Total transactions with owners		**5,105**	**–**	**–**	**–**	**(28,866)**	**(23,761)**
Balance at the end of the period	9	**148,491**	**34**	**(6,060)**	**174**	**58,969**	**201,608**

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

Consolidated statement of financial position

as at 26 February 2018

$NZ000's	Note	2018	2017
Non-current assets			
Property, plant and equipment	14	**157,211**	124,379
Intangible assets	15	**246,257**	84,361
Deferred tax asset	16	**14,955**	10,325
Total non-current assets		**418,423**	219,065
Current assets			
Inventories	10	**12,634**	8,659
Trade and other receivables	11	**8,819**	4,273
Cash and cash equivalents	12	**10,140**	70,390
Derivative financial instruments	7	**28**	–
Assets classified as held for sale		**2,396**	–
Total current assets		**34,017**	83,322
Total assets		**452,440**	302,387
Equity attributable to shareholders			
Share capital	9	**148,491**	143,386
Reserves		**(5,852)**	(3,696)
Retained earnings		**58,969**	52,369
Total equity attributable to shareholders		**201,608**	192,059
Non-current liabilities			
Provision for employee entitlements	17	**813**	676
Deferred income	18	**8,876**	5,153
Loans	6	**166,815**	46,482
Total non-current liabilities		**176,504**	52,311
Current liabilities			
Income tax payable		**4,167**	3,647
Creditors and accruals	13	**67,548**	50,370
Provision for employee entitlements	17	**1,683**	1,301
Deferred income	18	**930**	1,065
Derivative financial instruments	7	**–**	1,634
Total current liabilities		**74,328**	58,017
Total liabilities		**250,832**	110,328
Total equity and liabilities		**452,440**	302,387

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

Consolidated statement of cash flows

for the 52 week period ended 26 February 2018

$NZ000's	Note	2018	2017
Cash flows from operating activities			
Cash was provided by/(applied to):			
Receipts from customers		**763,573**	515,257
Payments to suppliers and employees		**(674,371)**	(451,560)
Interest paid		**(5,625)**	(2,318)
Payment of income tax		**(15,809)**	(13,471)
Net cash from operating activities		**67,768**	47,908
Cash flows from investing activities			
Cash was (applied to)/provided by:			
Acquisition of business	23	**(147,502)**	(63,905)
Payment for intangibles		**(4,772)**	(3,658)
Purchase of property, plant and equipment		**(26,353)**	(16,628)
Proceeds from disposal of property, plant and equipment		**4,064**	4,220
Landlord contributions received		**1,222**	961
Net cash used in investing activities		**(173,341)**	(79,010)
Cash flows from financing activities			
Cash was provided by/(applied to):			
Proceeds from non-current loans		**451,716**	446,116
Repayment of non-current loans		**(387,024)**	(415,365)
Share capital raised		**–**	93,869
Dividends paid to shareholders	5	**(23,700)**	(22,632)
Share issue costs		**(63)**	(2,739)
Net cash from financing activities		**40,929**	99,249
Net (decrease)/increase in cash and cash equivalents		**(64,644)**	68,147
Cash and cash equivalents at beginning of the period		**70,390**	1,093
Opening cash balances acquired on acquisition	23	**4,621**	1,457
Foreign exchange movements		**(227)**	(307)
Cash and cash equivalents at the end of the period		**10,140**	70,390
Cash and cash equivalents comprise:			
Cash on hand		**513**	310
Cash at bank		**9,627**	70,080
		10,140	70,390

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

Consolidated statement of cash flows (continued)

for the 52 week period ended 26 February 2018

$NZ000's	2018	2017
Reconciliation of profit after taxation with net cash from operating activities		
Total profit after taxation attributable to shareholders	**35,466**	25,955
Add items classified as investing/financing activities:		
Gain on disposal of property, plant and equipment	**(648)**	(1,607)
FX gain on investing	**(873)**	–
	(1,521)	(1,607)
Add/(less) non-cash items:		
Depreciation	**29,599**	22,152
Disposal of goodwill	**–**	306
(Decrease)/increase in provisions	**(797)**	526
Amortisation of intangible assets	**5,144**	2,923
Impairment on property, plant and equipment	**(60)**	672
Impairment of goodwill	**1,217**	–
Net increase in deferred tax asset	**(394)**	(2,035)
	34,709	24,544
Add/(less) movement in working capital:		
(Increase)/decrease in inventories	**(3,864)**	336
Increase in trade and other receivables	**(4,309)**	(1,091)
Increase in trade creditors and other payables	**5,723**	88
Increase/(decrease) in income tax payable	**1,564**	(317)
	(886)	(984)
Net cash from operating activities	**67,768**	47,908
Reconciliation of movement in term loans		
Balance as at 27 February 2017	**46,482**	
Net cash flow movement	**64,692**	
Acquisitions	**58,890**	
Foreign exchange movement	**(3,249)**	
Balance as at 26 February 2018	**166,815**	

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

Basis of preparation

for the 52 week period ended 26 February 2018

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 issuer in terms of the Financial Reporting Act 2013. 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 Group divides its financial year into 13 four-week periods. The 2018 full year results are for 52 weeks (2017: 52 weeks).

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, 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.

These audited consolidated financial statements were authorised for issue on 17 April 2018 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 52 week period ended 26 February 2018

PERFORMANCE

1. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. A new organisation structure was approved by the Board in March 2017, with the Group split into three geographically distinct operating divisions; New Zealand, Australia, and Hawaii. Leading these three geographic divisions is a new corporate support function consisting of Group Chief Executive Officer (Group CEO) and Group Chief Financial Officer (Group CFO), who are focussed on assessing and driving global growth strategies. They are supported by a small corporate team. Each geographic division operates on a stand-alone basis, with each country's CEO reporting to the Group CEO. The organisation restructure announced in March 2017 has resulted in a change in the chief operating decision maker, which affects the Group's segment reporting disclosure. Under the new structure the chief operating decision makers, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group CEO and Group CFO. The chief operating decision makers considers 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. Prior year comparatives have been aligned to the geographic operating segments.

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 non-trading items. EBITDA refers to earnings before interest, taxation, depreciation and amortisation. EBIT refers to earnings before interest and taxation.

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 evaluates performance and allocates resources purely on the basis of aggregated Group liabilities.

2018 $NZ000's	**New Zealand**	**Australia**	**Hawaii**	**Corporate support function**	**Consolidated full year**
Business segments					
Store sales revenue	421,448	151,844	167,484	–	**740,776**
Other revenue	25,325	–	188	–	**25,513**
Total operating revenue	**446,773**	**151,844**	**167,672**	**–**	**766,289**
EBITDA before general and administration expenses	**75,822**	**22,026**	**24,101**	**–**	**121,949**
General and administration expenses	(12,800)	(5,346)	(7,762)	(1,640)	**(27,548)**
EBITDA after general and administration expenses	**63,022**	**16,680**	**16,339**	**(1,640)**	**94,401**
Depreciation	(16,152)	(6,562)	(5,946)	–	**(28,660)**
Amortisation (included in cost of sales)	(2,182)	(333)	(718)	–	**(3,233)**
Segment result (EBIT) before non-trading items	**44,688**	**9,785**	**9,675**	**(1,640)**	**62,508**
Other non-trading items					**(4,755)**
Operating profit (EBIT) after non-trading items					**57,753**
Current assets	19,140	7,377	7,500	–	**34,017**
Non-current assets	115,552	148,063	154,808	–	**418,423**
Total assets	**134,692**	**155,440**	**162,308**	**–**	**452,440**
Capital expenditure including intangibles	19,907	5,198	6,298	–	**31,403**

2017 $NZ000's	New Zealand	Australia	Hawaii	Corporate support function	Consolidated full year
Business segments					
Store sales revenue	399,998	97,181	–	–	**497,179**
Other revenue	20,370	–	–	–	**20,370**
Total operating revenue	**420,368**	**97,181**	**–**	**–**	**517,549**
EBITDA before general and administration expenses	**71,206**	**14,964**	**–**	**–**	**86,170**
General and administration expenses	(13,742)	(3,460)	–	–	**(17,202)**
EBITDA after general and administration expenses	**57,464**	**11,504**	**–**	**–**	**68,968**
Depreciation	(17,597)	(4,587)	–	–	**(22,184)**
Amortisation (included in cost of sales)	(2,186)	(156)	–	–	**(2,342)**
Segment result (EBIT) before non-trading items	**37,681**	**6,761**	**–**	**–**	**44,442**
Other non-trading items					**(5,063)**
Operating profit (EBIT) after non-trading					**39,379**
Current assets	78,100	5,222	–	–	**83,322**
Non-current assets	121,524	97,541	–	–	**219,065**
Total assets	**199,624**	**102,763**	**–**	**–**	**302,387**
Capital expenditure including intangibles	16,803	2,456	–	–	**19,259**

1.1 Reconciliation between EBIT after non-trading items and net profit after tax

$NZ000's	2018	2017
EBIT after non-trading items	**57,753**	39,379
Financing expenses	**(5,604)**	(2,291)
Net profit before taxation	**52,149**	37,088
Income tax expense	**(16,683)**	(11,133)
Net profit after taxation	**35,466**	25,955
Add back non-trading items	**4,755**	5,063
Income tax on non-trading items	**140**	(451)
Net profit after taxation excluding non-trading items	**40,361**	30,567

2. Non-trading items

$NZ000's	2018	2017
Non-trading items		
Gain on sale of stores		
Net sale proceeds	**588**	1,555
Property, plant and equipment disposed of	**(95)**	(631)
Goodwill disposed of	**–**	(231)
	493	693
Amortisation of franchise rights acquired on acquisition of QSR Pty Limited (QSR) and Pacific Island Restaurants Inc. (PIR)	**(1,911)**	(580)
Acquisition costs	**(1,598)**	(3,864)
Store closure costs	**(325)**	(1,687)
ASX listing-related costs	**(608)**	–
FEC exchange gains	**873**	–
Impairment of assets	**(879)**	–
Impairment of goodwill	**(1,217)**	–
Store relocation and refurbishment (including insurance proceeds)	**–**	(63)
Gain on store sale and leaseback	**417**	438
Total non-trading items	**(4,755)**	(5,063)

Acquisition costs comprise the following:	2018	2017
QSR acquisition costs		
Stamp duty	**–**	(2,105)
Other	**–**	(241)
	–	(2,346)
PIR acquisition costs	**(334)**	(1,518)
Other acquisition costs	**(1,264)**	–
Total acquisition costs	**(1,598)**	(3,864)

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

3. Revenue and expenses

Operating revenue

Store sales revenue

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

Other revenue

Other revenue represents sales of goods and services to independent franchisees. Services revenue is recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the service provided as a proportion of the total services to be provided. Sales of goods are measured and recognised on a consistent basis with store sales revenue as already noted.

Operating expenses

Royalties paid

$NZ000's	2018	2017
Royalties paid	**43,830**	29,152

Royalties are recognised as an expense as revenue is earned.

Wages and salaries

$NZ000's	2018	2017
Wages and salaries	**211,327**	130,727
Increase in liability for long service leave	**189**	74
	211,516	130,801

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.

4. Earnings per share

	2018	2017
Basic earnings per share		
Profit after taxation attributable to shareholders ($NZ000's)	**35,466**	25,955
Weighted average number of shares on issue (000's)	**123,032**	107,797
Basic earnings per share (cents)	**28.83**	24.08
Diluted earnings per share		
Profit after taxation attributable to shareholders ($NZ000's)	**35,466**	25,955
Weighted average number of shares on issue (000's)	**123,032**	107,797
Diluted earnings per share (cents)	**28.83**	24.08

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.

5. Dividend distributions

$NZ000's	2018	2017
Final dividend of 13.5 cents per share paid for the 52 week period ended 27 February 2017 (2016: 12.5 cents per share)	**16,584**	12,859
Interim dividend 10.0 cents per share paid for the 52 week period ended 26 February 2018 (2017: 9.5 cents per share)	**12,282**	9,773
	28,866	22,632

FUNDING AND EQUITY

6. Loans

$NZ000's	2018	2017
Secured bank loans denominated in:		
NZD	**28,750**	5,000
AUD	**85,755**	41,482
USD	**52,310**	–
Secured bank loans	**166,815**	46,482

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 The Bank of Tokyo-Mitsubishi UFJ, 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 $US54.2 million loan facility with First Hawaiian Bank, of which $US13 million expires on 1 August 2019 with the remainder expiring 16 December 2023.

Interest rate swaps

On 16 April 2014 the Group entered into an interest rate swap to fix the interest rate on $5.0 million of NZD bank loans for five years. At balance date the interest rate applicable was 5.6% (2017: 5.5%) inclusive of bank margin. The swap matures on 16 April 2019.

On 22 January 2017 the Group entered into an interest rate swap to fix the interest rate on $10.0 million of NZD bank loans for five years. At balance date the interest rate applicable was 4.0% inclusive of bank margin. The swap matures on 28 January 2022.

On 25 January 2017 the Group entered into an interest rate swap to fix the interest rate on $A15.0 million of AUD bank loans for five years. At balance date the interest rate applicable was 3.4% (2017: 3.4%) inclusive of bank margin. The swap matures on 25 January 2022.

On 14 November 2017 the Group entered into an interest rate swap to fix the interest rate on $A20.0 million of AUD bank loans for five years. At balance date the interest rate applicable was 3.2% inclusive of bank margin. The swap matures on 14 November 2022.

On 22 May 2017 the Group entered into an interest rate swap to fix the interest rate on $US10.0 million of USD bank loans for five years. At balance date the interest rate applicable was 3.8% inclusive of bank margin. The swap matures on 1 June 2022.

On 29 June 2017 the Group entered into an interest rate swap to fix the interest rate on $US10.0 million of USD bank loans for five years. At balance date the interest rate applicable was 3.8% inclusive of bank margin. The swap matures on 1 July 2022.

Security

As security over the AUD and NZD loans, the banks hold the benefit of a negative pledge contained in a Common Terms Deed between Restaurant Brands New Zealand Limited and its New Zealand and Australian subsidiary companies. The Common Terms 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 is subject to a number of externally imposed bank covenants as part of the terms of its 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.

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

There have been no breaches of the covenants during the period (2017: 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 8.

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	2018	2017
Interest expense	**5,604**	2,291

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

7. Derivatives and hedge accounting

$NZ000's	2018 (Assets)/ liabilities	2017 (Assets)/ liabilities
Current		
Fair value of interest rate swaps	**(28)**	426
Fair value of forward exchange contracts	**–**	1,208
	(28)	1,634

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

There were no transfers between fair value levels during the period (2017: Nil). The fair values are classified as level two.

The fixed interest rates of the swaps used to hedge range between 2.02% and 4.69% (2017: 1.7% to 2.93%) and the variable rates of the loans are between 0.78% and 1.75% above the applicable bank bill rates.

Financial assets
The Group classifies its financial assets as loans and receivables. Management determines the classification of its financial assets at initial recognition.

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.

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 creditors and accruals which are initially recognised at fair value and subsequently measured at amortised cost.

Derivative financial instruments
The Group has various derivative financial instruments to manage the exposures that arise due to movements in foreign currency exchange rates and interest rates arising from operational, financing and investment activities. The Group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value through 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	2018	2017
Loans and receivables		
Trade receivables	**556**	621
Other debtors	**4,461**	1,355
Cash and cash equivalents	**10,140**	70,390
	15,157	72,366
Derivatives used for hedging		
Derivative financial instruments – (assets)/liabilities	**(28)**	1,634
	(28)	1,634
Financial liabilities at amortised cost		
Loans – non current	**166,815**	46,482
Creditors and accruals (excluding indirect and other taxes and employee benefits)	**46,524**	34,722
	213,339	81,204

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

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

Note 7 discusses in detail the Group's accounting treatment for derivative financial instruments.

As discussed in Note 6, the Group has an interest rate swap in place to fix the interest rate on $A35 million of Australian denominated bank loans to 2022 (2017: $A15 million), $NZ5 million of New Zealand denominated bank loans to 2019, $NZ10 million to 2022 (2017: $NZ5 million to 2019) and $US20 million to 2022. 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
2018				
Cash on hand	–	**513**	513	–
Cash at bank	0.73%	**9,627**	9,627	–
Bank term loan – principal	3.90%	**(28,750)**	–	(28,750)
Bank term loan – principal	2.93%	**(85,755)**	–	(85,755)
Bank term loan – principal	3.25%	**(52,310)**	–	(52,310)
Bank term loan – expected interest	3.27%	**(20,258)**	(5,458)	(14,800)
Derivative financial instruments	–	**28**	28	–
Creditors and accruals (excluding indirect and other taxes and employee benefits)	–	**(46,524)**	(46,524)	–
		(223,429)	**(41,814)**	**(181,615)**
2017				
Cash on hand	–	**310**	310	–
Cash at bank	0.41%	**5,135**	5,135	–
Short term deposits	1.70%	**64,945**	64,945	–
Bank term loan – principal	2.58%	**(41,482)**	–	(41,482)
Bank term loan – principal	5.51%	**(5,000)**	–	(5,000)
Bank term loan – expected interest	3.29%	**(3,301)**	(1,531)	(1,770)
Derivative financial instruments	–	**(1,634)**	(1,634)	–
Creditors and accruals (excluding indirect and other taxes and employee benefits)	–	**(34,722)**	(34,722)	–
		(15,749)	**32,503**	**(48,252)**

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 (2017: $125 million) available at variable rates. The amount undrawn at balance date was $86 million (2017: $79 million).

The Group has fixed the interest rate on $NZ15 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.

(d) Credit risk

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

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

There were no financial assets neither past due nor impaired at balance date (2017: nil).

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

(e) Fair values

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

Sensitivity analysis

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

At 26 February 2018 it is estimated that a general increase of one percentage point in interest rates would decrease the Group profit before income tax and equity by approximately $1.6 million (2017: $0.3 million). A one percentage point decrease in interest rates would increase the Group profit before income tax and equity by approximately $1.6 million (2017: $0.3 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.

9. Equity and reserves

Share capital

	2018 number	2018 $NZ000's	2017 number	2017 $NZ000's
Balance at beginning of year	**122,843,191**	**143,386**	97,871,090	26,756
Shares issued April 2016	**–**	**–**	5,000,000	25,500
Shares issued November 2016	**–**	**–**	19,972,101	93,869
Share issue costs	**–**	**(63)**	–	(2,739)
Shares issued November 2017	**786,152**	**5,168**	–	–
Balance at end of year	**123,629,343**	**148,491**	122,843,191	143,386

The issued capital of the Company represents ordinary fully paid up shares. The par value is nil (2017: 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 November 2017 were in relation to the Company's dividend reinvestment plan.

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

Foreign currency translation reserve

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

Derivative hedging reserve

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

WORKING CAPITAL

10. Inventories

$NZ000's	2018	2017
Raw materials and consumables	**12,634**	8,659

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 profit or loss in the statement of comprehensive income.

11. Trade and other receivables

$NZ000's	2018	2017
Trade receivables	**556**	621
Prepayments	**3,802**	2,297
Other debtors	**4,461**	1,355
	8,819	4,273

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

NZD	**5,066**	3,834
USD	**2,742**	–
AUD	**1,011**	439
	8,819	4,273

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.

12. Cash and cash equivalents

$NZ000's	2018	2017
Cash on hand	**513**	310
Cash at bank	**9,627**	5,135
Short term deposits	**–**	64,945
	10,140	70,390

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

NZD	**953**	65,989
USD	**3,420**	–
AUD	**5,767**	4,401
	10,140	70,390

13. Creditors and accruals

$NZ000's	2018	2017
Trade creditors	**28,873**	24,332
Other creditors and accruals	**17,651**	10,390
Employee benefits	**14,767**	10,109
Indirect and other taxes	**6,257**	5,539
	67,548	50,370

The carrying amount of the Group's creditors and accruals are denominated in the following currencies:

NZD	**43,353**	40,546
AUD	**13,999**	9,266
USD	**10,196**	551
GBP	**–**	7
	67,548	50,370

The carrying value of creditors 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

14. Property, plant and equipment

$NZ000's	Note	Land	Leasehold improvements	Plant, equipment and fittings	Motor vehicles	Leased plant and equipment	Capital work in progress	Total
Cost								
Balance as at 29 February 2016		**1,843**	**133,606**	**67,192**	**954**	**258**	**8,661**	**212,514**
Additions		1,680	–	1,410	452	–	12,057	15,599
Acquisition of business		–	24,181	10,571	413	–	89	35,254
Transfers from work in progress		–	12,430	6,559	–	–	(18,989)	–
Disposals		(485)	(4,870)	(3,574)	(264)	–	–	(9,193)
Movement in exchange rates		–	(1,222)	(538)	(20)	–	(5)	(1,785)
Balance as at 27 February 2017		**3,038**	**164,125**	**81,620**	**1,535**	**258**	**1,813**	**252,389**
Additions		–	5,461	3,834	384	–	16,905	26,584
Acquisition of business	23	–	28,702	12,580	42	–	–	41,324
Transfer from work in progress		–	7,077	7,263	226	–	(14,566)	–
Disposals		(2,380)	(2,456)	(3,297)	(283)	–	–	(8,416)
Movement in exchange rates		–	(898)	(459)	–	–	(25)	(1,382)
Balance as at 26 February 2018		**658**	**202,011**	**101,541**	**1,904**	**258**	**4,127**	**310,499**
Accumulated depreciation								
Balance as at 29 February 2016		**–**	**(65,860)**	**(44,017)**	**(700)**	**(251)**	**–**	**(110,828)**
Charge		–	(13,988)	(7,912)	(245)	(7)	–	(22,152)
Disposals		–	3,204	3,287	235	–	–	6,726
Movement in exchange rates		–	(59)	21	(1)	–	–	(39)
Balance as at 27 February 2017		**–**	**(76,703)**	**(48,621)**	**(711)**	**(258)**	**–**	**(126,293)**
Charge		–	(16,688)	(12,567)	(344)	–	–	(29,599)
Disposals		–	1,365	2,092	215	–	–	3,672
Movement in exchange rates		–	92	75	1	–	–	168
Balance as at 26 February 2018		**–**	**(91,934)**	**(59,021)**	**(839)**	**(258)**	**–**	**(152,052)**
Impairment provision								
Balance as at 29 February 2016		**–**	**(941)**	**(104)**	**–**	**–**	**–**	**(1,045)**
Charge		–	(605)	(67)	–	–	–	(672)
Balance as at 27 February 2017		**–**	**(1,546)**	**(171)**	**–**	**–**	**–**	**(1,717)**
Charge		–	841	98	–	–	–	939
Utilised/disposed		–	(430)	(28)	–	–	–	(458)
Balance as at 26 February 2018		**–**	**(1,135)**	**(101)**	**–**	**–**	**–**	**(1,236)**

The impairment charge/reversal recognised during the year relates to accelerated depreciation on leasehold improvements and plant, equipment and fittings on stores expected to be transformed or closed. Impairment charges incurred and utilised/disposed are recognised in non-trading items in the statement of comprehensive income (refer Note 2).

$NZ000's	Note	Land	Leasehold improvements	Plant, equipment and fittings	Motor vehicles	Leased plant and equipment	Capital work in progress	Total
Carrying amounts								
Balance as at 29 February 2016		1,843	66,805	23,071	254	7	8,661	100,641
Balance as at 27 February 2017		3,038	85,876	32,828	824	–	1,813	124,379
Balance as at 26 February 2018		**658**	**108,942**	**42,419**	**1,065**	**–**	**4,127**	**157,211**

Depreciation expense

$NZ000's	2018	2017
Depreciation expense	**28,683**	22,152

Sale of property, plant and equipment

$NZ000's	2018	2017
Net gain/(loss) on disposal of property, plant and equipment (included in depreciation expense)	**23**	(32)
Net gain on disposal of property, plant and equipment (included in non-trading items)	**671**	1,639

Property, plant and equipment are 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 income.

15. Intangibles

$NZ000's	Note	Goodwill	Franchise fees	Favourable leases	Concept development costs	Software costs	Total
Cost							
Balance as at 29 February 2016		**15,401**	**9,025**	**–**	**1,650**	**6,046**	**32,122**
Additions		–	1,295	–	–	2,365	3,660
Acquisition of business		63,488	3,382	–	–	–	66,870
Disposals		(306)	(1,547)	–	–	(172)	(2,025)
Movement in exchange rates		(3,221)	(350)	–	–	–	(3,571)
Balance as at 27 February 2017		**75,362**	**11,805**	**–**	**1,650**	**8,239**	**97,056**
Additions		–	2,446	–	693	1,680	4,819
Acquisition of business	23	153,177	13,849	4,297	–	–	171,323
Impairment		(1,217)	–	–	–	–	(1,217)
Disposals		(290)	(1,572)	–	(825)	(189)	(2,876)
Movement in exchange rates		(5,275)	(544)	–	–	(1)	(5,820)
Balance as at 26 February 2018		**221,757**	**25,984**	**4,297**	**1,518**	**9,729**	**263,285**
Accumulated amortisation							
Balance as at 29 February 2016		**(831)**	**(6,065)**	**–**	**(1,027)**	**(3,650)**	**(11,573)**
Charge		–	(1,577)	–	(86)	(1,260)	(2,923)
Disposals		–	1,489	–	–	151	1,640
Movement in exchange rates		–	161	–	–	–	161
Balance as at 27 February 2017		**(831)**	**(5,992)**	**–**	**(1,113)**	**(4,759)**	**(12,695)**
Charge		–	(3,028)	(718)	–	(1,398)	(5,144)
Disposals		–	766	–	55	123	944
Movement in exchange rates		–	(133)	–	–	–	(133)
Balance as at 26 February 2018		**(831)**	**(8,387)**	**(718)**	**(1,058)**	**(6,034)**	**(17,028)**

Impairment charges are recognised in non-trading in the statement of comprehensive income.

$NZ000's	Note	Goodwill	Franchise fees	Favourable leases	Concept development costs	Software costs	Total
Carrying amounts							
Balance as at 29 February 2016		14,570	2,960	–	623	2,396	20,549
Balance as at 27 February 2017		74,531	5,813	–	537	3,480	84,361
Balance as at 26 February 2018		**220,926**	**17,597**	**3,579**	**460**	**3,695**	**246,257**

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

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

Concept development costs and fees
Concept development costs and fees include certain costs, other than the direct cost of obtaining the franchise, associated with the establishment of quick service and takeaway restaurant concepts. These include, for example, professional fees and consulting costs associated with the establishment of a new brand or business acquisition. These costs are capitalised where the concept is proven to be commercially feasible and the related future economic benefits are expected to exceed those costs with reasonable certainty. These are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the period which future economic benefits are reasonably expected to be derived.

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	2018	2017
Amortisation of intangibles	**5,144**	2,923

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	2018	2017
KFC Australia	**97,340**	60,267
KFC New Zealand	**3,799**	3,799
Pizza Hut New Zealand	**8,958**	8,958
Carl's Jr. New Zealand	**–**	1,507
Taco Bell and Pizza Hut Hawaii	**110,829**	–
	220,926	74,531

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	2018 Sales growth 2019-2021 %	2018 EBITDA margin 2019-2021 %	2018 EBITDA margin terminal year %	2017 Sales growth 2018-2020 %	2017 EBITDA margin 2018-2020 %	2017 EBITDA margin terminal year %
KFC New Zealand	**3.0 – 3.5**	**20.0 – 20.7**	**20.0**	2.2 – 7.6	20.0 – 20.2	20.0
Pizza Hut New Zealand	**3.0 – 3.5**	**9.4 – 10.5**	**12.5**	1.0 – 2.5	10.0 – 10.5	10.0
Carl's Jr. New Zealand	**2.0**	**7.5 – 8.5**	**9.8**	1.7 – 3.5	5.0 – 9.0	11.5
KFC Australia	**4.0 – 4.5**	**15.7**	**16.0**	2.2 – 5.1	15.7	15.0
Taco Bell and Pizza Hut Hawaii	**3.0 – 5.0**	**6.8 – 20.0**	**10.5 – 20.0**	n/a	n/a	n/a

The terminal year sales growth is calculated based on the 2021 year and assumes a continuous sales growth of a minimum of projected inflation estimates of 2.5% (2017: 2.5%).

The discount rate applied to future cash flows for Carl's Jr. New Zealand is based on a 10.9% weighted average post-tax cost of capital (2017: 9.1%) applicable to a standalone CGU within the New Zealand segment. The discount rate for the remaining New Zealand CGU's was 8.9% weighted average post-tax cost of capital (2017: 9.1%). 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 (2017: 10.2%). The discount rate applied to future cash flows for the Taco Bell and Pizza Hut business in Hawaii is based on a 8.8% weighted average post-tax cost of capital.

The weighted average cost of capital calculation was reviewed in 2018 based on 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).

Following the closure of a store under the Public Works Act and the revision of certain key assumptions in relation to the Carl's Jr. CGU including sales growth, EBITDA margin improvement and the WACC rate, a recoverable value of $16.3 million was arrived at, resulting in a $1.2 million impairment of goodwill (2017: nil). Carl's Jr. forms part of the New Zealand operating segment.

In respect of the New Zealand brands of KFC, Starbucks Coffee 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 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.

In respect of the Carl's Jr. CGU, a reduction of more than 100 basis points in any of the key assumptions, taken in isolation, could result in recoverable value being less than the book value of the specific assets of the CGU.

OTHER NOTES

16. Taxation

Taxation – statement of comprehensive income

The total taxation charge is analysed as follows:

$NZ000's	Note		2018		2017
Total profit before income tax for the period	1		52,149		37,088
Total income tax expense	1		(16,683)		(11,133)
Net profit after income tax			**35,466**		25,955
Income tax using the Company's domestic tax rate		(28.0%)	(14,602)	(28.0%)	(10,385)
(Non-deductible expenses) and non-assessable income		(2.0%)	(1,051)	(2.6%)	(976)
Tax losses recognised		–	–	0.8%	283
Adjustments due to different rate in different jurisdictions		(2.0%)	(1,030)	(0.1%)	(55)
		(32.0%)	(16,683)	(30.0%)	(11,133)
Income tax expense comprises:					
Current tax expense			(17,077)		(13,168)
Deferred tax credit			394		2,035
Net tax expense			**(16,683)**		(11,133)

Imputation credits

$NZ000's	2018	2017
Imputation credits available for subsequent reporting periods	20,209	18,859

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 current income tax for the period was calculated using the rate of 28% for New Zealand, 30% for Australia and 21% USA (2017: 28% New Zealand and 30% Australia). 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 (2017: 28% New Zealand and 30% Australia).

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	2018	2017	2018	2017	2018	2017
Property, plant and equipment	7,317	4,735	–	–	7,317	4,735
Inventory	44	33	–	–	44	33
Debtors	–	–	(18)	(18)	(18)	(18)
Provisions	4,129	3,462	–	–	4,129	3,462
Intangibles	192	1,361	33	–	225	1,361
Other	1,993	461	–	(2)	1,993	459
Tax losses	1,265	293	–	–	1,265	293
	14,940	10,345	15	(20)	14,955	10,325

$NZ000's	Balance 29 February 2016	Opening balances on acquisition of QSR	Recognised in income statement	Recognised in equity	Foreign currency translation	Balance 27 February 2017
Property, plant and equipment	2,951	11	1,766	–	7	**4,735**
Inventory	33	–	–	–	–	**33**
Debtors	–	(26)	7	–	1	**(18)**
Provisions	2,795	786	(82)	–	(37)	**3,462**
Intangibles	124	1,248	53	–	(64)	**1,361**
Other	91	–	–	367	1	**459**
Tax losses	–	–	291	–	2	**293**
	5,994	2,019	2,035	367	(90)	**10,325**

$NZ000's	Balance 27 February 2017	Opening balances on acquisitions	Recognised in income statement	Recognised in equity	Foreign currency translation	Balance 26 February 2018
Property, plant and equipment	4,735	2,400	184	–	(2)	**7,317**
Inventory	33	–	11	–	–	**44**
Debtors	(18)	–	–	–	–	**(18)**
Provisions	3,462	668	(251)	–	250	**4,129**
Intangibles	1,361	(2,553)	1,097	–	320	**225**
Other	459	2,355	(422)	(337)	(62)	**1,993**
Tax losses	293	1,225	(225)	–	(28)	**1,265**
	10,325	4,095	394	(337)	478	**14,955**

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.

17. Provision for employee entitlements

$NZ000's	
Balance at 27 February 2017	**1,977**
Opening balance acquired on acquisition	511
Created during the period	527
Used during the period	(375)
Released during the period	(149)
Foreign exchange movements	5
Balance at 26 February 2018	**2,496**

2018	
Non-current	813
Current	1,683
Total	**2,496**

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.

18. Deferred income

$NZ000's	
Balance at 27 February 2017	**6,218**
Opening balance acquired on acquisition	4,598
Created during the period	1,222
Used during the period	(2,053)
Foreign exchange movements	(179)
Balance at 26 February 2018	**9,806**

2018	
Non-current	8,876
Current	930
Total	**9,806**

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

19. Leases

Lease payments

$NZ000's	2018	2017
Operating rental expenses	**40,452**	27,054

Rent expenses reported in these financial statements relates to non-cancellable operating lease rentals. The future commitments on these leases are as follows:

$NZ000's	2018	2017
Not later than one year	**39,199**	26,707
Later than one year but not later than two years	**32,905**	23,599
Later than two years but not later than five years	**62,439**	43,522
Later than five years	**66,166**	30,990
	200,709	124,818

The lease periods vary and many have an option to renew. Lease payments are increased in accordance with the lease agreements to reflect market rentals. The table below summarises the Group's lease portfolio.

	Right of renewal		No right of renewal	
	2018	2017	2018	2017
Number of leases expiring:				
Not later than one year	**38**	14	**24**	6
Later than one year but not later than two years	**62**	28	**23**	15
Later than two years but not later than five years	**56**	78	**27**	21
Later than five years	**73**	59	**32**	9

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

20. Related party transactions

Parent and ultimate controlling party

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

Transactions with entities with key management or entities related to them

During the period the Group made the following:

- Citywest Corp Pty Ltd of which Company director Stephen Copulos is a director, received rental payments of $74,000 (2017: $431,000) from the Group, under an agreement to lease premises in Alexandria and Tamworth South, New South Wales, Australia to Restaurant Brands Australia Pty Ltd and QSR Pty Ltd respectively. The Alexandria premises was sold to an unrelated party in May 2017.
- Acquired services totalling $30,239 (2017: $25,000) from AsureQuality Limited, a company of which Company director Hamish Stevens is a director. There was $517 owed at balance date (2017: $1,000 owing).

These transactions were at arm's length and performed on normal commercial terms.

Key management and director compensation

Key management personnel comprises the Group CEO, Group CFO and the three divisional CEO's.

$NZ000's	2018	2017
Key management – total benefits	**2,499**	3,329
Directors' fees	**398**	357

The comparative figure has been adjusted to reflect the new divisional reporting structure. Included in 2017 was the $1.5 million bonus payment to the Group CEO relating to the long term incentive scheme as disclosed in the 2016 financial statements.

Total Group CEO remuneration

$NZ000's	Salary	Short term incentives	Long term incentives	Total remuneration
2018	900	–	–	**900**
2017	768	185	1,493	**2,446**

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 Remuneration and Nominations committee. The maximum that can be received by the CEO is 50% of base salary.

Long term incentive scheme

On 14 August 2017, the Group established a Performance Rights Plan for the Group CEO, Russel Creedy, and Group CFO, Grant Ellis ("the executives").

Under the terms of the Plan if, in the five year period from the issue date of the performance rights, the Restaurant Brands closing share price is at or exceeds $NZ10.00 for 40 consecutive trading days the executives will be issued Restaurant Brands ordinary shares on a one-for-one basis on each performance right with no payment due to the Company. The executives must remain employed by Restaurant Brands until the share price target is achieved for the performance rights to vest.

The number of performance rights issued under the Plan are as follows:

	Number of performance rights
Russel Creedy	252,000
Grant Ellis	126,000
	378,000

The fair value of the performance rights at grant date is measured using the Monte Carlo valuation model, and on this basis each performance right is valued at $0.77.

Details of the long term incentive payment made in 2017 was disclosed in the 2016 financial statements.

21. Commitments

Capital commitments

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

$NZ000's	2018	2017
Store development	**4,293**	955

22. Contingent liabilities

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (2017: nil).

23. Business combinations

On 7 March 2017 the Group acquired 100% of the shares of Pacific Island Restaurants Inc. ("PIR") for consideration of $US105 million. PIR is the largest operator of quick service restaurants across Hawaii and also operates in Guam and Saipan. The business has 82 stores and operates under the Taco Bell and Pizza Hut brands.

The acquisition was a strategic move into the Hawaii market, buying a well run profitable company which will provide a solid base for future expansion opportunities.

The $US105 million purchase price was partially funded through the issue of shares by a renounceable entitlement offer and private placement which was undertaken in the previous financial year, with the remainder funded through bank debt.

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

$NZ000's	
Purchase price	**149,936**
Less bank loans assumed	(58,890)
Plus settlement adjustment	4,859
Total net consideration	**95,905**
Net consideration made up as follows:	
Cash paid	97,101
Completion refund due	(1,196)
Total net consideration	**95,905**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	27,320
Intangibles	17,140
Deferred tax asset	4,095
Stock	890
Cash	4,562
Other receivables	284
Bank loans	(58,890)
Current liabilities	(10,539)
Term liabilities	(4,598)
Other liabilities	(54)
Total identifiable assets and liabilities	**(19,790)**
Goodwill	**115,695**

The valuation of intangibles is an area where estimates and judgments have a significant risk of causing a material adjustment to the fair value of the recognised amounts of identifiable assets acquired and liabilities assumed. The Group have engaged a third party to value the intangible assets related to the franchise agreement and favourable leases. The valuation was determined based on discounted cash flow models. The Group have prepared the cash flows both with and without the existing franchise agreement factored into the model to assess the value attributable to the existing franchise agreement.

PIR contributed $167.5 million in sales revenue and $3.9 million in profit after taxation attributable to shareholders in the period ended 26 February 2018. Had PIR been consolidated for the 52 week period ended 26 February 2018, PIR would have contributed $170.4 million in sales revenue and profit after taxation attributable to shareholders of $4.1 million.

On 21 March 2017 the Group acquired the business assets of five KFC stores located in New South Wales, Australia. Two KFC stores were purchased from Samesa Pty Limited for a total purchase price of $A2.2 million, while the other three KFC stores were purchased from Oshamma Pty Limited for a total purchase price of $A6.4 million. The stores contributed $11.8 million in sales revenue and $0.5 million in profit after taxation attributable to shareholders in the period ended 26 February 2018. Had they been consolidated for the 52 week period ended 26 February 2018, they would have contributed $12.7 million in sales revenue and profit after taxation attributable to shareholders of $0.5 million.

On 17 July 2017 the Group entered into a conditional agreement with Vida Rica Pty Limited to acquire the business assets of three KFC stores located in Sydney, Australia for a total purchase price of $A10.4 million. Two stores settled on 13 November 2017 and one store on 15 January 2018. The stores contributed $2.1 million in sales revenue and $0.2 million in profit after taxation attributable to shareholders in the period ended 26 February 2018. Had they been consolidated for the 52 week period ended 26 February 2018, they would have contributed $9.3 million in sales revenue and profit after taxation attributable to shareholders of $0.7 million.

On 28 August 2017 the Group entered into three conditional agreements with Kentucky Fried Chicken Pty Limited, a subsidiary of Yum! Restaurants International, to acquire the assets of ten KFC stores located in New South Wales, Australia for a total purchase price of $A27.5 million. Seven stores settled on 16 October, one store settled on 23 October 2017 and the final two stores settled on 30 November and 5 December 2017 respectively. The stores contributed $11.3 million in sales revenue and $0.9 million in profit after taxation attributable to shareholders in the period ended 26 February 2018. Had they been consolidated for the 52 week period ended 26 February 2018, they would have contributed $32.4 million in sales revenue and profit after taxation attributable to shareholders of $2.6 million.

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

$NZ000's	
Purchase price	**51,223**
Plus settlement adjustment	374
Total net consideration	**51,597**
Recognised amounts of identifiable assets acquired and liabilities assumed	
Property, plant and equipment	14,004
Intangibles	1,006
Deferred tax asset	223
Other receivables	83
Stock	232
Cash	59
Other liabilities	(1,492)
Total identifiable assets	**14,115**
Goodwill	**37,482**

24. Subsequent events

Dividends

The directors have declared a fully imputed final dividend of 18.0 cents per share for the 52 week period ended 26 February 2018 (2017: 13.5 cents).

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

25. 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

- **NZ IFRS 16 Leases** (effective for periods beginning on or after 1 January 2019) replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group intends to adopt NZ IFRS 16 on its effective date being for the year ended February 2020, and has yet to assess its full impact. However based on preliminary assessments the Group has determined that NZ IFRS 16 will have a significant impact on the Group's balance sheet and income statement disclosures. The balance sheet will be impacted by the recognition of a right to use asset and a corresponding lease liability. The income statement will be impacted by the recognition of an interest expense and amortisation expense and the removal of the current rental expense. The full impact on these statements has yet to be finalised.
- **NZ IFRS 15 Revenue from contracts with customers** (effective from periods beginning on or after 1 January 2018) deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces NZ IAS 18 'Revenue' and NZ IAS 11 'Construction contracts' and related interpretations. The Group will apply NZ IFRS 15 from 27 February 2018. It is not expected to significantly impact the Group as all store sales revenue is settled in cash at the point of sale.
- **NZ IFRS 9 Financial Instruments** (effective for periods beginning on or after 1 January 2018) addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of NZ IFRS 9 was issued in September 2014. It replaces the guidance in NZ IAS 39 that relates to the classification and measurement of financial instruments. The Group will apply NZ IFRS 9 from 27 February 2018. It is not expected to materially impact the Group.

There are various other standards, amendments and interpretations which were assessed as having an immaterial impact on the Group. There are no NZ IFRS, NZ IFRIC interpretations or other applicable IFRS that are effective for the first time for the financial year beginning on or after 28 February 2017 that had a material impact on the financial statements.

26. Fees paid to auditor

$NZ000's	2018	2017
Audit of financial statements		
Audit and review of financial statements – PwC	**405**	228
Other services - Performed by PwC		
Specified procedures on landlord certificates	**4**	1
Review of Starbucks Coffee division report and Yum! Advertising Co-operative report	**7**	8
ASX listing assurance	**18**	–
Executive remuneration benchmarking	**71**	23
Total other services	**100**	32
Total fees paid to auditor	**505**	260

27. Donations

$NZ000's	2018	2017
Donations	**244**	115

28. Deed of Cross Guarantee

Pursuant to the Australian Securities and Investment Commission (ASIC) Class Order 98/1418, the wholly owed 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 52 week period ended 26 February 2018 of the closed group consisting of RBNZ, QSR, Restaurant Brands Australia Holdings Pty Limited and Restaurant Brands Australia Pty Limited.

$NZ000's	2018	2017
Financial information in relation to:		
(i) Statement of profit and loss and other comprehensive income		
Operating revenue	**180,713**	119,813
Earnings before interest and taxation (EBIT)	**35,896**	26,708
Financial expenses	**(3,744)**	(2,285)
Profit before taxation	**32,152**	24,423
Taxation expense	**(1,744)**	(1,097)
Profit after taxation	**30,408**	23,326
Items that may be reclassified subsequently to the statement of comprehensive income:		
Exchange differences on translating foreign operations	**388**	(2,575)
Share option reserve	**34**	–
Derivative hedge reserve	**(83)**	(95)
Income tax relating to components of other comprehensive income	**24**	28
Other comprehensive income net of tax	**363**	(2,642)
Total comprehensive income	**30,771**	20,684
(ii) Summary of movements in retained earnings		
Retained earnings at the beginning of the period	**70,475**	(44,207)
Total comprehensive income	**30,771**	20,684
Net dividends	**(28,868)**	(22,632)
Share capital issued	**5,105**	116,630
Retained earnings at the end of the year	**77,483**	70,475

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

for the 52 week period ended 26 February 2018

$NZ000's	2018	2017
(iii) Statement of financial position		
Non-current assets		
Property, plant and equipment	**43,298**	31,067
Intangible assets	**100,168**	62,861
Deferred tax asset	**4,596**	3,614
Investment in subsidiaries	**231,790**	150,396
Total non-current assets	**379,852**	247,938
Current assets		
Inventories	**769**	468
Trade and other receivables	**17,092**	434
Cash and cash equivalents	**5,988**	68,757
Total current assets	**23,849**	69,659
Total assets	**403,701**	317,597
Equity attributable to shareholders		
Share capital	**148,491**	143,386
Reserves	**(2,467)**	(2,829)
Retained earnings	**(68,541)**	(70,082)
Total equity attributable to shareholders	**77,483**	70,475
Non-current liabilities		
Provision for employee entitlements	**274**	221
Amounts payable to subsidiaries	**44,522**	44,522
Loans	**114,505**	46,482
Total non-current liabilities	**159,301**	91,225
Current liabilities		
Income tax payable	**360**	861
Creditors and accruals	**14,261**	8,925
Provision for employee entitlements	**1,322**	939
Amounts payable to subsidiaries	**150,464**	144,745
Derivative financial instruments	**510**	427
Total current liabilities	**166,917**	155,897
Total liabilities	**326,218**	247,122
Total equity and liabilities	**403,701**	317,597

Independent auditor's report

To the shareholders of Restaurant Brands New Zealand Limited

The financial statements comprise:

– the consolidated statement of comprehensive income for the 52 week period ended 26 February 2018;

– the consolidated statement of changes in equity for the 52 week period ended 26 February 2018;

– the consolidated statement of financial position as at 26 February 2018;

– the consolidated statement of cash flows for the 52 week period ended 26 February 2018;

– the basis of preparation; and

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

Our opinion

In our opinion, the 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 26 February 2018, its financial performance and its cash flows for the 52 week period ending 26 February 2018 in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

Basis for opinion

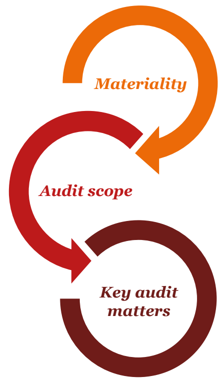
We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs NZ) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section 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, review of Yum! Advertising Co-operative report and Starbucks Coffee division report, ASX listing assurance, and executive remuneration benchmarking. 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: $2.7 million, which represents 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 Carl's Jr. assets

– Valuation of identifiable intangible assets arising from the acquisition of Pacific Island Restaurants Inc.

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.

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 one 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 year. 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 Carl's Jr. assets As disclosed in note 15 of the financial statements, management has performed an impairment assessment of the carrying value of the assets of the Carl's Jr. cash generating unit (CGU). An impairment charge of $1.2 million has been recognised against the Carl's Jr. goodwill. Our audit has focused on the assets associated with the Carl's Jr. CGU as there is an impairment risk associated with the CGU, given the sensitivity of the judgements made and the closure of a store under the Public Works Act. Management assesses impairment annually by performing a value in use assessment using a discounted future cash flow model based on forecast future performance. The recoverability of the assets is therefore dependent on achieving sufficient future cash flows. The preparation of forecast future cash flows requires the application of significant judgement over key assumptions such as sales growth, EBITDA margins and WACC. Management has performed sensitivity analysis over these assumptions.	We performed the following audit procedures in relation to the Carl's Jr. impairment assessment: – Held discussions with management and understood the process undertaken and basis for determining the key assumptions in preparing forecasted future performance; – Engaged our auditor's valuation expert to assist us in evaluating the assumptions, and methodology used; and – Challenged management on key assumptions, including the sales growth, EBITDA margins and WACC. In relation to the forecast performance, we performed the following procedures: – Tested the arithmetical accuracy of the discounted cash flow model used to determine the value in use of the cash generating unit; – Reviewed historical years' actual performance for Carl's Jr. against the original budgeted performance to determine the reliability of the budgeting process; – Assessed forecast cash flows and key assumptions against historical trading performance; – Performed sensitivity analysis over key assumptions to determine whether reasonably possible changes would result in impairment of assets; and – Reviewed the financial statements to ensure appropriate identification and disclosure of key assumptions and the sensitivity of the value in use to those assumptions. We assessed the impairment recognised against the procedures we performed and concluded the impairment charge fell within the possible outcomes we considered. The related disclosures in the financial statements are appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of identifiable intangible assets arising from the acquisition of Pacific Island Restaurants Inc. As disclosed in note 23 of the financial statements, the Group acquired 100% of the shares of Pacific Island Restaurants Inc. (PIR), on 7 March 2017, for net consideration of NZ$96 million. The purchase price included identifiable tangible and intangible assets acquired and liabilities assumed. Management undertook a process to identify and determine the fair value of these assets and liabilities. Identifiable intangible assets relating to franchise rights and favourable leases held by PIR were identified and valued at a total of $17.1 million by third parties. Our audit focused on this area because significant judgements and assumptions are involved in determining fair value of the identifiable intangible assets.	In responding to the significant judgements involved in identifying and valuing the identifiable intangible assets our audit procedures included: – We met with management and obtained an understanding of the business process undertaken to identify and value the assets acquired and liabilities assumed; – Reviewed the sale and purchase agreement and other key contracts and documents related to the acquisition to identify intangible assets that had been acquired; – Considered whether identification and recognition of intangible assets was consistent with the requirements of the accounting standards; – Challenged key assumptions used in the valuation models; and – Considered whether the relevant disclosures were appropriate. The results of our audit procedures were consistent with management's calculations and conclusion.

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 Jonathan Skilton.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants

Auckland

17 April 2018

Other information

Contents	Page

Shareholder information

as at 16 April 2018

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	1,601	22.57%	787,874	0.64%
1,000 to 4,999	3,552	50.08%	7,747,832	6.27%
5,000 to 9,999	972	13.70%	6,584,881	5.33%
10,000 to 49,999	868	12.24%	15,853,202	12.82%
50,000 to 99,999	58	0.82%	3,760,383	3.04%
100,000 to 499,999	30	0.42%	5,767,425	4.66%
500,000+	12	0.17%	83,127,746	67.24%
	7,093	**100.00%**	**123,629,343**	**100.00%**

Geographic distribution				
New Zealand	6,859	96.70%	122,501,139	99.09%
Australia	130	1.83%	583,396	0.47%
Rest of world	104	1.47%	544,808	0.44%
	7,093	**100.00%**	**123,629,343**	**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	67,129,947	54.30%
FNZ Custodians Limited	4,647,009	3.76%
Investment Custodial Services Limited <A/C C>	2,257,870	1.83%
Forsyth Barr Custodians Limited <1-Custody>	1,527,577	1.24%
PT (Booster Investments) Nominees Limited	1,293,342	1.05%
Custodial Services Limited <A/C 4>	1,250,942	1.01%
Custodial Services Limited <A/C 3>	1,146,568	0.93%
JA Hong Koo & Pyung Keum Koo	1,029,000	0.83%
New Zealand Depository Nominee Limited <A/C 1> cash account	921,342	0.75%
Custodial Services Limited <A/C 2>	745,251	0.60%
Matthew Charles Goodson & Dianna Dawn Perron & Goodson & Perron Independent Trustee Limited <Goodson & Perron Family A/C>	601,506	0.49%
Custodial Services Limited <A/C 18>	577,392	0.47%
FNZ Custodians Limited <DTA Non Resident A/C>	498,335	0.40%
David Mitchell Odlin	335,277	0.27%
Russel Ernest George Creedy	319,601	0.26%
Custodial Services Limited <A/C 1>	318,694	0.26%
Investment Custodial Services Limited <A/C R>	316,282	0.26%
Custodial Services Limited <A/C 16>	272,933	0.22%
David George Harper & Karen Elizabeth Harper	230,771	0.19%
Antony Richard Kerr & Peter Michael Clerk <A R Kerr Family A/C>	210,000	0.17%
	85,629,639	**69.26%**

New Zealand Central Security Depository Limited (NZCSD) is a depository system which allows electronic trading of securities to its members. As at 16 April 2018, the NZCSD holdings in Restaurant Brands were:

	Number of ordinary shares	Percentage of ordinary shares
HSBC Nominees (New Zealand) Limited	17,999,580	14.56%
Citibank Nominees (New Zealand) Limited	17,087,612	13.82%
Tea Custodians Limited Client Property Trust Account	9,364,852	7.57%
HSBC Nominees A/C NZ Superannuation Fund Nominees Limited	4,209,861	3.41%
BNP Paribas Nominees (NZ) Limited	4,012,947	3.25%
National Nominees New Zealand Limited	3,130,782	2.53%
Accident Compensation Corporation	2,799,560	2.26%
JPMorgan Chase Bank NA NZ Branch-Segregated Clients Acct	2,770,275	2.24%
HSBC Nominees (New Zealand) Limited A/C State Street	1,639,597	1.33%
ANZ Wholesale Australasian Share Fund	1,335,026	1.08%
BNP Paribas Nominees (NZ) Limited	949,975	0.77%
Mint Nominees Limited	562,493	0.45%
New Zealand Permanent Trustees Limited	389,745	0.32%
BNP Paribas Nominees (NZ) Limited	349,268	0.28%
ANZ Wholesale NZ Share Fund	260,885	0.21%
ANZ Custodial Services New Zealand Limited	152,188	0.12%
New Zealand Permanent Trustees Limited	64,283	0.05%
Public Trust Class 10 Nominees Limited	51,018	0.04%
	67,129,947	**54.30%**

4. Substantial product holders

The following persons had given notices as at 26 February 2018, in accordance with subpart 5 of part 5 of the New Zealand Financial Markets 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
Stephen Copulos	4 December 2017	10,648,610	8.62%
Fisher Funds Management Limited	28 August 2017	10,158,653	8.22%

The number of ordinary shares listed above are as per the last substantial product holder notice filed as at 26 February 2018. As this 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 of 20 largest holdings of quoted equity securities on page 84.

5. Shares on issue

As at 26 February 2018, the total number of ordinary shares of the company was 123,629,343.

6. Directors' security holdings

As at 26 February 2018:

	Equity securities held	
	2018	**2017**
E K van Arkel	160,609	158,366
D Beguely	50,000	–
S Copulos	10,648,610	10,461,813

7. NZX waivers

No waivers have been granted by the NZX during the financial year ended 26 February 2018.

Statutory information

For the 52 week period ended 26 February 2018

1. Directorships

The names of the directors of the Company as at 26 February 2018 are set out on pages 38 and 39 of this annual report.

E K van Arkel is a director of all of the Group's subsidiary companies.

H W Stevens is a director of all of the Group's subsidary companies except for Restaurant Brands Australia Pty Limited.

S Copulos is a director of Restaurant Brands Australia Pty Limited, Restaurant Brands Australia Holdings Pty Limited and QSR Pty Limited.

G R Ellis is a director of Restaurant Brands Australia Pty Limited.

2. Directors and remuneration

NZ$000's	Board Fees	Audit and Risk Committee	Health and Safety Committee	Remuneration and Nominations Committee	Total Remuneration
E K van Arkel	125				125
H W Stevens	65	10			75
V Taylor	65			5	70
S Copulos	65				65
D Beguely[1]	60		3		63
	380	**10**	**3**	**5**	**398**

1. Appointed as a director on 1 April 2017.

3. Entries recorded in the interests register

The follow entries were recorded in the interests register of the Company and its subsidiaries during the year ended 26 February 2018:

(a) Share dealings of Directors

	Purchase date	Number of shares purchased
D Beguely	25 October 2017	25,000
D Beguely	1 November 2017	25,000
E K van Arkel[1]	30 November 2017	2,243
S Copulos[1]	30 November 2017	186,797

1. Shares acquired as part of the Company's DRP.

No shares were sold by directors during the 52 week period ended 26 February 2018.

(b) Loans to Directors

There were no loans to directors during the 52 week period ended 26 February 2018.

(c) General disclosure of interest

During the 52 week period ending 26 February 2018 and in accordance with section 140 (2) of the Companies Act 1993, directors of the Company have made general disclosures of interest in writing to the board of positions held in other named companies or parties as follows:

Name	Position	Party
E K van Arkel	Director and Shareholder	Lang Properties Limited
	Director and Shareholder	Van Arkel & Co Limited
	Director	AWF Madison Group Limited
	Director	Danske Mobler Limited
	Director	Auckland Regional Chamber of Commerce & Industry Limited
	Director	Abano Healthcare Group Limited
	Director	Philip Yates Family Holdings Limited (and subsidiaries)
H W Stevens	Chairman	The Kennedys Limited
	Chairman	East Health Services Limited (and subsidiaries)
	Chairman	Bureau Veritas AsureQuality Pty Limited (and subsidiaries)
	Independent Chairman	Audit and Risk Sub-Committee, Waikato Regional Council
	Director	Counties Power Limited (and subsidiaries)
	Director	AsureQuality Limited
	Director	Smart Environmental Holdings Limited (and subsidiaries)
	Director	Ormiston Health Properties Limited
	Director and Shareholder	Governance & Advisory Limited
	Director	Pharmaco (N.Z.) Limited (and subsidiaries)
	Director	Botany Health Hub Limited
S Copulos	Managing Director	Copulos Group of Companies
	Director	Citywest Corp Pty Ltd
	Director	Eyeon no 2 Pty Ltd
	Director	Eyeon QSR Pty Ltd
	Director	Over 50 private companies and trusts within the Copulos Group
	Chairman and Major Shareholder	Crusader Resources Limited*
	Director and Major Shareholder	Black Rock Mining Limited
	Chairman and Major Shareholder	Consolidated Zinc Limited
	Director	Shepparton Art Museum Foundation
	Director	Copulos Foundation Private Ancillary Fund
V Taylor	Director	Real Journeys Limited
	Director and Shareholder	Ugly Duckling Trading Limited
	General Manager and Shareholder	Smartfoods Limited
D Beguely	Advisory Board Member	Beak & Johnston Pty Ltd
	Director	Tiakarete Pty Ltd
	Board member	Alliance for Gambling Reform

* S Copulos resigned as chairman and director subsequent to balance date.

(d) Directors' indemnity and insurance

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

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

4. Employees' remuneration

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

	Number of employees	
	2018	2017
$100,000 – $109,999	**17**	5
$110,000 – $119,999	**8**	6
$120,000 – $129,999	**6**	5
$130,000 – $139,999	**9**	7
$140,000 – $149,999	**5**	2
$150,000 – $159,999	**3**	3
$160,000 – $169,999	**1**	–
$170,000 – $179,999	**1**	–
$180,000 – $189,999	**4**	4
$210,000 – $219,999	**2**	2
$220,000 – $229,999	**1**	2
$230,000 – $239,999	**2**	2
$240,000 – $249,999	**2**	1
$250,000 – $259,999	**3**	–
$260,000 – $269,999	**1**	–
$270,000 – $279,999	**–**	2
$360,000 – $369,999	**2**	–
$370,000 – $379,999	**1**	–
$410,000 – $419,999	**–**	1
$420,000 – $429,999	**1**	–
$430,000 – $439,999	**1**	–
$890,000 – $899,999	**1**	–
$2,440,000 – $2,449,999	**–**	1
	71	**43**

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 52 week period ended 26 February 2018

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 26 February 2018, the corporate governance practices it has adopted are in compliance with the NZX Code.

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 Group (i.e. New Zealand, Australia and Hawaii) (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 (next review scheduled for December 2019).

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 eight 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.

Principle 2 – Board composition and 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 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 17 April 2018, the board is comprised of five non-executive directors (including the Chairman). Profiles of the current directors, together with a summary of skill sets, are included in the "Board of Directors" section of this annual report and on the Company's website.

As at 26 February 2018, Ted van Arkel, David Beguely, Hamish Stevens and Vicky Taylor were considered by the board to be independent under the NZX Main Board Listing Rules. Stephen Copulos was considered not to be independent as he represents a significant shareholding.

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

The roles of Chairman of the board and Group CEO 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, although some do hold shares in the Company (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 26 February 2018, the gender balance of the Company's directors, officers and all employees is as follows:

	Directors				Officers*				Employees			
	2018		2017		**2018**		2017		**2018**		2017	
Female	**1**	**20%**	1	25%	**–**	**0%**	5	38%	**4,274**	**47%**	2,913	50%
Male	**4**	**80%**	3	75%	**5**	**100%**	8	62%	**4,782**	**53%**	2,863	50%
Total	**5**	**100%**	4	100%	**5**	**100%**	13	100%	**9,056**	**100%**	5,776	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. Following the Company's corporate restructure in 2017, the Group CEO is the only direct report to the board and the Group CFO 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, Remuneration and Nominations Committee and management are in the process of finalising these goals for FY19.

Board appraisal and training

The board has adopted a performance appraisal programme by which it biennially monitors and assesses individual and board performance. A 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 in January 2018.

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 2018 financial year, no director sought their own independent professional advice, but the board sought external advice and/or assistance with respect to:

- market levels of director and senior executive remuneration;
- structure of the senior executive long term incentive scheme;
- business valuation considerations; and
- board performance evaluations.

Re-election

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

Meetings

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

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

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

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 26 February 2018 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	Remuneration and Nominations Committee meetings held	Remuneration and Nominations Committee meetings attended
E K van Arkel	10	9	2	2	1	1	1	1
H W Stevens	10	10	2	2	1	1	1	1
S Copulos	10	10	2	2	1	1	1	1
V Taylor	10	8	2	–	1	1	1	1
D E Beguely *	10	9	2	2	1	1	1	1

* Appointed 1 April 2017.

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

The members of the Audit and Risk Committee are Hamish Stevens (Chair), Ted van Arkel, David Beguely, Stephen Copulos and Vicky Taylor. 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

The members of the Remuneration and Nominations Committee are Vicky Taylor (Chair), Ted van Arkel, David Beguely, Stephen Copulos and Hamish Stevens. 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

The members of the Health and Safety Committee are David Beguely (Chair), Ted van Arkel, Stephen Copulos, Hamish Stevens and Vicky Taylor. 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 develop and adopt a formal environmental, social and governance reporting framework for the 2019 annual report.

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 22 July 2016 is $400,000 per annum.

On 22 July 2016, the board approved an increase in directors' fees from $60,000 to $65,000 for each non-executive director and from $100,000 to $125,000 per annum for the Chairman. In addition, the board approved annual fees of $10,000 to the Chair of the Audit and Risk Committee and $5,000 to the Chairs of each of the Remunerations and Nominations Committee and the Health and Safety Committee. Refer to the Statutory Information section of this annual report for more detail.

The Notice of Annual Meeting circulated to shareholders at the time of publication of this annual report includes a proposal for shareholder consideration to increase the pool of director fees from $400,000 per annum to $475,000 per annum to provide for increases in:

- the base director fee from $65,000 to $75,000 per director per annum;
- the fee for the board Chairman from $125,000 to $145,000 per annum;
- the additional fee for the Chair of the Audit and Risk Committee from $10,000 to $15,000 per annum; and
- the additional fees for the respective Chairs of the Remuneration and Nominations Committee and Health and Safety Committee from $5,000 per annum to $7,500 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 2017 and 2018 financial years) are set out in Note 20 in the 2018 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 under the Company's environmental, social and governance framework.

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 and 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 Main Board 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 28 days prior to the date of the meeting.

The Company rotates the location of its Annual Shareholders' Meeting between Auckland, Wellington and Christchurch as a reflection of the Company's diverse shareholder base. Shareholders not attending the Annual Shareholders' Meeting are encouraged to appoint proxies on their behalf. Results of proxy votes are summarised and disclosed at the meeting.

Voting at the Annual Shareholders' Meeting is usually by a show of hands to encourage shareholders to participate fully in the discussions at the meeting. If the voting in the meeting is inconsistent with the results of proxies the Chairman of the meeting will (and the shareholders at the meeting can) request a poll on the basis of one share, one vote.

Corporate directory

Directors
E K (Ted) van Arkel (Chairman)
Vicky Taylor
Stephen Copulos
Hamish Stevens
David Beguely

Registered office
Level 3
Building 7
Central Park
666 Great South Road
Penrose
Auckland 1051
New Zealand

Share registrar
New Zealand
Computershare Investor Services Limited
Level 2
159 Hurstmere Road
Takapuna
Private Bag 92 119
Auckland 1142
New Zealand
T: 64 9 488 8700
E: enquiry@computershare.co.nz

Australia
Computershare Investor Services Limited
Yarra Falls
452 Johnston Street
Abbotsford, VIC 3067
GPO Box 3329
Melbourne, VIC 3001
Australia
T: 1 800 501 366 (within Australia)
T: 61 3 9415 4083
F: 61 3 9473 2500
E: enquiry@computershare.co.nz

Auditors
PricewaterhouseCoopers

Solicitors
Bell Gully
Harmos Horton Lusk
Meredith Connell

Bankers
Westpac Banking Corporation
First Hawaiian Bank
MUFG Bank, Ltd

Contact details
Postal Address:
P O Box 22 749
Otahuhu
Auckland 1640
New Zealand
Telephone: 64 9 525 8700
Fax: 64 9 525 8711
Email: investor@rbd.co.nz

Financial calendar

Annual meeting
21 June 2018

Close of register for final dividend
1 June 2018

Final dividend paid
22 June 2018

Financial year end
25 February 2019

Annual profit announcement
April 2019