RESTAURANT BRANDS NEW ZEALAND LIMITED

Directors' Report to Shareholders
For the 28 Weeks ended 12 September 2016
(1H 2017)

Group Sales up 22%. Major Acquisition of 82 Stores in Hawaii

Key Points

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

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

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

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

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

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

- After balance date, the company entered into a conditional agreement to purchase 100% of the shares in Pacific Island Restaurants Inc. (PIR) for a consideration of $US105 million. PIR is the largest operator of quick service restaurants in Hawaii with 82 Taco Bell and Pizza Hut stores.

Group Operating Results

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

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

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

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

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

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

KFC New Zealand

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

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

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

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

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

KFC Australia

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

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

Total sales to date were $A41.4 million, in line with the KFC market in New South Wales which is performing soundly.

Store EBITDA margins of $A6.9 million are also running ahead of initial expectations at 16.6% of sales, a satisfactory performance.

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

Pizza Hut New Zealand

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

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

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

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

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

Starbucks Coffee New Zealand

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

Note: all Starbucks Coffee stores are RBD owned

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

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

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

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

Carl's Jr. New Zealand

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

Note: all Carls' Jr. stores are RBD owned

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

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

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

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

Corporate & Other

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

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

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

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

Non-Trading Items

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

Cash Flow & Balance Sheet

The company's balance sheet has seen some fundamental changes following the Australian acquisition on 27 April. This transaction, which was for a total consideration of $NZ89.4 million (after settlement adjustments), was funded by the issue of five million shares (with a value of $25.5 million) to interests associated with the vendor, Stephen Copulos and the balance by $63.9 million in debt.

Bank debt at the end of the half year was consequently up to $72.7 million compared to $12.7 million at the previous year end. The company has a facility with Westpac for $NZ125 million for a three year term.

Operating cash flows were up $0.4 million to $30.7 million, assisted by improved profitability. Whilst not a significant increase on the FY16 half year, the previous year had enjoyed a working capital movement benefit $2.6 million higher than the current year. Furthermore the cash impact of QSR acquisition costs adversely impacted this year's operating cash flows by a further $2.3 million.

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

Dividend

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

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

Hawaiian Acquisition

RBD has announced its intention to acquire 100% of the shares in Pacific Island Restaurants Inc. (PIR) in Hawaii. PIR is the largest quick service restaurant operator in that state with 82 stores. This company operates all of the Taco Bell and Pizza Hut restaurants in Hawaii, Guam and Saipan. PIR has an annual turnover in excess of $US120 million and a store level EBITDA in excess of $US19 million.

The transaction is for a purchase price of $US105 million and will be funded by a combination of 40% debt and 60% equity, the latter through a renounceable entitlement offer.

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

Further details are contained in the ancillary release.

Outlook

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

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

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

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

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RESTAURANT BRANDS GROUP
Consolidated Income Statement
For the 28 week period ended 12 September 2016

Group **$NZ000's**	**(28 weeks) Unaudited 1st Half 2017 12 September 2016**		**vs Prior %**	**(28 weeks) Unaudited 1st Half 2016 14 September 2015**	
Sales					
KFC	157,417		*2.8*	153,171	
Pizza Hut	22,023		*(10.3)*	24,543	
Starbucks Coffee	13,784		*(0.9)*	13,910	
Carl's Jr.	19,338		*5.2*	18,388	
Total New Zealand sales	**212,562**		*1.2*	**210,012**	
KFC Australia	43,596		*100.0*	-	
Total sales	**256,158**		***22.0***	**210,012**	
Other revenue	10,703		*27.5*	8,392	
Total operating revenue	**266,861**		*22.2*	**218,404**	
Cost of goods sold	(216,559)		*(21.1)*	(178,862)	
Gross margin	**50,302**		*27.2*	**39,542**	
Distribution expenses	(1,510)		*(17.3)*	(1,287)	
Marketing expenses	(14,678)		*(35.5)*	(10,830)	
General and administration expenses	(10,885)		*(25.2)*	(8,696)	
EBIT before non-trading	**23,229**		*24.0*	**18,729**	
Non-trading	(2,379)		*(1,051.6)*	250	
EBIT	**20,850**		*9.9*	**18,979**	
Net financing expenses	(1,376)		*(123.4)*	(616)	
Net profit before taxation	**19,474**		*6.1*	**18,363**	
Taxation expense	(5,967)		*(20.5)*	(4,953)	
Total profit after taxation (NPAT)	**13,507**		*0.7*	**13,410**	
Total NPAT excluding non-trading	**15,935**		*21.7*	**13,093**	
		% sales			**% sales**
EBITDA before G&A					
KFC	33,117	*21.0*	*7.3*	30,855	*20.1*
Pizza Hut	2,413	*11.0*	*(14.9)*	2,836	*11.6*
Starbucks Coffee	2,209	*16.0*	*0.7*	2,193	*15.8*
Carl's Jr.	352	*1.8*	*266.7*	96	*0.5*
Total New Zealand	**38,091**	***17.9***	***5.9***	**35,980**	***17.1***
KFC Australia	7,230	*16.6*	*100*	-	-
Total	**45,321**	*17.7*	*26.0*	**35,980**	***17.1***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	14.1c			54.0c	

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

Restaurant Brands Group
Non-GAAP Financial Measures
For the 28 week period ended 12 September 2016

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

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

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

2. **EBIT before non-trading**. Earnings before interest and taxation ("EBIT") before non-trading is calculated by taking net profit before taxation and adding back (or deducting) net financing expenses and non-trading items.

3. **Non-trading items**. Non-trading items represent amounts the Group considers unrelated to the day to day operational performance of the Group. Excluding non-trading items enables the Group to measure underlying trends of the business and monitor performance on a consistent basis.

4. **EBIT after non-trading items**. The Group calculates EBIT after non-trading items by taking net profit before taxation and adding back net financing expenses.

5. **Total NPAT excluding non-trading**. Total Net Profit After Taxation ("NPAT") excluding non-trading items is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) non-trading items whilst also allowing for any tax impact of those items.

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

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

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

* Refers to the list of non-GAAP measures as listed above.
** Refer to Note 3 of the interim financial statements for an analysis of non-trading items