# Restaurant Brands New Zealand Limited
## Financial statements
## For the year ended 31 December 2021

# Directors' statement

for the year ended 31 December 2021

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 year ended 31 December 2021 contained on pages 1 to 36.

Financial statements for each financial period fairly present the financial position of the Group and its financial performance and cash flows for that period and have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and all relevant consolidated 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 year ended 31 December 2021.

For and on behalf of the Board:

**José Parés**
Chairman
28 February 2022

**Emilio Fullaondo**
Director
28 February 2022

## Consolidated statement of comprehensive income

for the year ended 31 December 2021

| $NZ000's | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| Store sales revenue | 1,2 | 1,068,246 | 892,359 |
| Other revenue | 1,2 | 46,195 | 32,369 |
| **Total operating revenue** | | **1,114,441** | **924,728** |
| Cost of goods sold | | (912,359) | (766,054) |
| **Gross profit** | | **202,082** | **158,674** |
| Distribution expenses | | (8,555) | (7,138) |
| Marketing expenses | | (55,841) | (48,344) |
| General and administration expenses | | (49,974) | (45,595) |
| Government grants | 2 | 7,165 | 22,013 |
| Loan forgiveness | 2 | 11,419 | - |
| Other income | 2 | 945 | 405 |
| Other expenses | 2 | (5,164) | (5,231) |
| **Operating profit** | | **102,077** | **74,784** |
| Financing expenses | | (36,284) | (30,220) |
| **Profit before taxation** | | **65,793** | **44,564** |
| Taxation expense | 16 | (13,912) | (13,920) |
| **Profit after taxation attributable to shareholders** | | **51,881** | **30,644** |
| Other comprehensive income: | | | |
| Exchange differences on translating foreign operations | | 6,558 | (7,874) |
| Derivative hedging reserve | | 1,820 | (596) |
| Income tax relating to components of other comprehensive income | | (370) | 10 |
| **Other comprehensive income for the period, net of tax** | | **8,008** | **(8,460)** |
| **Total comprehensive income for the period attributable to shareholders** | | **59,889** | **22,184** |
| **Basic and diluted earnings per share (cents)** | **3** | **41.58** | **24.56** |

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

# Consolidated statement of changes in equity

for the year ended 31 December 2021

| $NZ000's | Note | Share capital | Foreign currency translation reserve | Derivative hedging reserve | Retained earnings | Total |
|---|---|---|---|---|---|---|
| **For the year ended 31 December 2020** | | | | | | |
| **Balance at 1 January 2020** | | **154,565** | **(164)** | **(1,736)** | **54,999** | **207,664** |
| Comprehensive income | | | | | | |
| Profit after taxation attributable to shareholders | | - | - | - | 30,644 | 30,644 |
| Other comprehensive income | | | | | | |
| Movement in foreign currency translation reserve | | - | (7,874) | - | - | (7,874) |
| Movement in derivative hedging reserve | | - | - | (586) | - | (586) |
| **Total other comprehensive income** | | **-** | **(7,874)** | **(586)** | **-** | **(8,460)** |
| **Total comprehensive income** | | **-** | **(7,874)** | **(586)** | **30,644** | **22,184** |
| **Balance as at 31 December 2020** | **7** | **154,565** | **(8,038)** | **(2,322)** | **85,643** | **229,848** |
| **For the year ended 31 December 2021** | | | | | | |
| **Balance at 1 January 2021** | | **154,565** | **(8,038)** | **(2,322)** | **85,643** | **229,848** |
| Comprehensive income | | | | | | |
| **Profit after taxation attributable to shareholders** | | **-** | **-** | **-** | **51,881** | **51,881** |
| Other comprehensive income | | | | | | |
| Movement in foreign currency translation reserve | | - | 6,558 | - | - | 6,558 |
| Movement in derivative hedging reserve | | - | - | 1,450 | - | 1,450 |
| **Total other comprehensive income** | | **-** | **6,558** | **1,450** | **-** | **8,008** |
| **Total comprehensive income** | | **-** | **6,558** | **1,450** | **51,881** | **59,889** |
| **Balance as at 31 December 2021** | **7** | **154,565** | **(1,480)** | **(872)** | **137,524** | **289,737** |

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

## Consolidated statement of financial position

as at 31 December 2021

| $NZ000's | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 13 | 276,748 | 228,709 |
| Right of use assets | 14 | 576,527 | 517,085 |
| Sub-lease receivable | | 993 | 1,144 |
| Other receivables | | 765 | - |
| Intangible assets | 15 | 348,216 | 320,986 |
| Deferred tax asset | 16 | 38,711 | 39,911 |
| **Total non-current assets** | | **1,241,960** | **1,107,835** |
| Current assets | | | |
| Inventories | 8 | 22,261 | 16,607 |
| Trade and other receivables | 9 | 11,012 | 11,394 |
| Income tax receivable | | 9,452 | 5,271 |
| Cash and cash equivalents | 10 | 45,155 | 35,666 |
| Held for sale – assets | 11 | - | 551 |
| Held for sale – assets for store developed for sale | 11 | - | 2,833 |
| **Total current assets** | | **87,880** | **72,322** |
| **Total assets** | | **1,329,840** | **1,180,157** |
| Equity attributable to shareholders | | | |
| Share capital | 7 | 154,565 | 154,565 |
| Reserves | 7 | (2,352) | (10,360) |
| Retained earnings | | 137,524 | 85,643 |
| **Total equity attributable to shareholders** | | **289,737** | **229,848** |
| Non-current liabilities | | | |
| Provisions | 17 | 4,479 | 3,711 |
| Deferred income | 18 | 173 | 250 |
| Loans | 4 | 246,887 | 227,581 |
| Lease liabilities | 14 | 643,072 | 571,788 |
| Deferred tax liabilities | 16 | 1,136 | - |
| Derivative financial instruments | 5 | - | 2,698 |
| **Total non-current liabilities** | | **895,747** | **806,028** |
| Current liabilities | | | |
| Loans | 4 | - | 8,058 |
| Income tax payable | | 5,280 | 6,681 |
| Trade and other payables | 12 | 110,476 | 101,589 |
| Provisions | 17 | 1,304 | 1,608 |
| Lease liabilities | 14 | 25,609 | 23,826 |
| Deferred income | 18 | 770 | 538 |
| Derivative financial instruments | 5 | 917 | - |
| Held for sale – liabilities | 11 | - | 230 |
| Held for sale – liabilities for stores developed for sale | 11 | - | 1,751 |
| **Total current liabilities** | | **144,356** | **144,281** |
| **Total liabilities** | | **1,040,103** | **950,309** |
| **Total equity and liabilities** | | **1,329,840** | **1,180,157** |

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

## Consolidated statement of cash flows

for the year ended 31 December 2021

| $NZ000's | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| Cash flow from operating activities | | | |
| **Cash was provided by / (applied to):** | | | |
| Receipts from customers | | 1,114,474 | 924,910 |
| Receipts from Government grants | 2 | 7,165 | 22,013 |
| Payments to suppliers and employees | | (940,494) | (787,575) |
| Interest paid | | (6,701) | (6,525) |
| Interest paid on leases | 14 | (29,450) | (23,752) |
| Payment of income tax | | (18,619) | (17,909) |
| **Net cash from operating activities** | | **126,375** | **111,162** |
| Cash flow from investing activities | | | |
| **Cash was (applied to) / provided by:** | | | |
| Acquisition of business | 26 | (27,992) | (122,002) |
| Payments for intangibles | | (2,889) | (1,265) |
| Purchase of property, plant and equipment | | (82,564) | (58,589) |
| Proceeds from the disposal of property, plant and equipment | | 2,620 | 4,451 |
| Landlord contributions received | | 1,257 | 125 |
| **Net cash used in investing activities** | | **(109,568)** | **(177,280)** |
| Cash flow from financing activities | | | |
| **Cash was provided by / (applied to):** | | | |
| Proceeds from loans | | 370,529 | 710,217 |
| Repayment of loans | | (356,046) | (615,443) |
| Payments for lease principal | 14 | (24,543) | (21,167) |
| **Net cash from financing activities** | | **(10,060)** | **73,607** |
| | | | |
| **Net increase in cash and cash equivalents** | | **6,747** | **7,489** |
| | | | |
| Cash and cash equivalents at beginning of the year | | 35,666 | 34,965 |
| Opening cash balances acquired on acquisition | | 1,264 | 147 |
| Foreign exchange movements | | 1,478 | (6,935) |
| **Cash and cash equivalents at the end of the year** | | **45,155** | **35,666** |
| | | | |
| Cash and cash equivalents comprise: | | | |
| Cash on hand | 10 | 640 | 612 |
| Cash at bank | 10 | 44,515 | 35,054 |
| | | 45,155 | 35,666 |

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

## Consolidated statement of cash flows (continued)

For the year ended 31 December 2021

| $NZ000's | Note | 31 December 2021 | 31 December 2020 |
|---|---|---|---|
| **Reconciliation of profit after taxation with net cash from operating activities:** | | | |
| **Total profit after taxation attributable to shareholders** | | **51,881** | **30,644** |
| Add items classified as investing activities: | | | |
| Loss on disposal of property, plant and equipment | | 2,673 | 1,958 |
| | | 2,673 | 1,958 |
| Add/(less) non-cash items: | | | |
| Depreciation | | 75,931 | 64,855 |
| Loan forgiveness | 2 | (11,419) | - |
| Lease termination | | (233) | (210) |
| (Decrease)/increase in provisions | | (145) | 124 |
| Amortisation | | 9,231 | 5,516 |
| Net (decrease) / increase in deferred tax asset | | 536 | (4,444) |
| | | 73,901 | 65,841 |
| Add/(less) movement in working capital: | | | |
| Increase in inventories | | (5,526) | (3,633) |
| Decrease / (increase) in trade and other receivables | | 1,094 | (74) |
| Increase in trade and other payables | | 7,597 | 15,971 |
| (Decrease) / increase in income tax payable | | (5,245) | 455 |
| | | (2,080) | 12,719 |
| **Net cash from operating activities** | | **126,375** | **111,162** |

| | | | |
|---|---|---|---|
| **Reconciliation of movement in term loans** | | | |
| **Opening balance** | | **235,639** | **154,326** |
| Net cash flow from financing activities | | 14,483 | 94,775 |
| Decrease / (increase) in prepaid facility costs | | 256 | (759) |
| Loan forgiveness | | (11,419) | - |
| Foreign exchange movement | | 7,928 | (12,703) |
| **Closing balance** | | **246,887** | **235,639** |

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

# Notes to and forming part of the financial statements

For the year ended 31 December 2021

# Basis of preparation

For the year ended 31 December 2021

## 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, California, and Hawaii (including Saipan and Guam).

Restaurant Brands New Zealand Limited is registered under the Companies Act 1993 and is a 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"). 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 |
| RBD California Restaurants Limited | Restaurant operating |
| RBD US Holdings 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 |
| TPH Group Pty Limited | Non-trading |

## Basis of preparation

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

- New Zealand Generally Accepted Accounting Practices (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 principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes including 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 periods presented, unless otherwise stated.

# Basis of preparation (continued)

For the year ended 31 December 2021

## Restatement of prior period balances

To ensure consistency and comparability with the current period and the last annual financial statements, comparative figures have been reclassified where appropriate. These changes are detailed below:

- The consolidated statement of financial position at 31 December 2020 excluded lease modifications of $4.9 million and lease additions of $3.6 million in error from both lease liabilities and right of use assets. This has been corrected by increasing both non-current lease liabilities and right of use assets by $8.5 million at 31 December 2020.

- The consolidated statement of financial position at 31 December 2020 included prepaid facility fees of $0.8 million within trade and other receivables in error, this should have been included in the non-current loans balance. This has been corrected by restating trade and other receivables and non-current loans by $0.8 million at 31 December 2020. The reconciliation of movement in term loans within the consolidated statement of cash flows have also been corrected by this amount, including a new disclosure for decrease / (increase) in prepaid facility costs.

## New standards and amendments

There are various standards, amendments and interpretations which are published but not yet effective and 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 1 January 2021 that had a material impact on the financial statements.

## Change in accounting policy

### Software as a service

The Group previously capitalised costs incurred in configuring or customising certain suppliers' application software in certain cloud computing arrangements as intangible assets, as the Group considered that it would benefit from those costs to implement the cloud-based software over the expected terms of the cloud computing arrangements. Following the IFRS interpretations Committee (IFRIC) agenda discussion on Configuration or Customisation Costs in a Cloud Computing Arrangement in March 2021 (ratified by International Accounting Standards Board (IASB) in April 2021), the Group has reconsidered its accounting treatment and adopted the guidance set out in the IFRIC agenda decision, which is to recognise those costs as intangible assets only if the activities create an intangible asset that the Group controls and the intangible asset meets the recognition criteria. Costs that do not result in an intangible asset are expensed as incurred, unless they are paid to the suppliers of the cloud-based software to significantly customise the cloud-based software for the Group, in which case the costs paid upfront are recorded as prepayments for services and amortised over the expected terms of the cloud computing arrangements.

As a result of this change in accounting policy, the Group has determined that certain costs relating to the implementation of cloud-based software would need to be expensed when they were incurred, as the amounts were paid to third parties who were not subcontracted by the supplier of the cloud-based software and did not create separate intangible assets controlled by the Group, or significantly customise the cloud-based software for the Group.

The change in policy has been applied retrospectively and comparative information has been adjusted. The impact on the consolidated financial statements is as follows:

- Cost of goods sold in the consolidated statement of comprehensive income for the year ended 31 December 2020 has increased by $0.4 million
- Taxation expense in the consolidated statement of comprehensive income for the year ended 31 December 2020 has decreased by $0.1 million. The deferred tax asset in the consolidated statement of financial position at 31 December 2020 has increased by $0.1 million.
- Intangible assets in the consolidated statement of financial position at 31 December 2020 have reduced by $0.9 million.
- Retained earnings in the consolidated statement of financial position at 31 December 2020 has reduced by $0.5 million.
- Payments to suppliers and employees in the consolidated statement of cash flows for the year ended 31 December 2020 has increased by $0.7 million. Payment for intangibles in the consolidated statement of cash flows for the year ended 31 December 2020 has reduced by $0.7 million.
- Earnings per share for the year ended 31 December 2020 has reduced from 24.80 cents per share to 24.56 cents per share.

### Other expenses

The Group has reviewed the expenses included in other expenses in the consolidated statement of comprehensive income and determined that amortisation of franchise rights, relocation and refurbishment costs, store closure costs, utilisation of depreciation provision, and make good on acquisition would be more appropriately included within cost of goods sold.

The change in policy has been applied retrospectively and comparative information has been adjusted. The impact on the consolidated financial statements is as follows:

- Other expenses in the consolidated statement of comprehensive income for the year ended 31 December 2020 has reduced by $4.2 million.
- Cost of goods sold in the consolidated statement of comprehensive income for the year ended 31 December 2020 has increased by $4.2 million.

# Basis of preparation (continued)

For the year ended 31 December 2021

**Use of non-GAAP measures within the financial statements**

The financial statements include non-GAAP financial measures that are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in the financial statements are referenced below along with an explanation as to why these measures provide relevant and reliable information for investors and how the Group uses the information internally:

- Operating profit before NZ IFRS 16 - Operating profit before NZ IFRS 16 is used by the Group to review the underlying operating profit without the non-cash adjustment relating to NZ IFRS 16 - Leases. This is how many of the external users of the financial statements also view the performance of the business.

- EBITDA - Earnings Before Interest, Tax, Depreciation and Amortisation is a key business measure that provides information on the business on a cash basis before funding and tax costs. This is a key measure used by the banks, with the Group's debt covenants based on this figure, and also is a key assumption within the impairment testing because it reflects how management evaluate and manages the performance of its cash generating units.

- EBITDA before general and administration expenses, NZ IFRS 16 and other items - The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A (general and administration expenses) and other items by taking net profit before taxation and adding back (or deducting) financing expenses, other items, depreciation, amortisation and G&A. The Group also refers to this measure as Concept EBITDA before G&A and other items. This measure provides the results of the Group's core operating business and excludes those costs not directly attributable to stores. This is believed to be a useful measure to assist in the understanding of the financial performance of the Group.

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

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

- Other items – These relate to non core business items disclosed as other income and other expenses as set out in note 2.

References to EBITA, EBITDA and EBITDAL within note 4 relate to the debt covenants specified by the banks and therefore these do not constitute non-GAAP measures used by the Group within the financial statements.

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 NZ IFRS. The non-GAAP measures presented do not have a standardised meaning prescribed by GAAP and therefore may not be comparable to similar financial information presented by other entities. These non-GAAP measures are used by the key management in making the business decisions for the Group as shown in note 1.

These audited financial statements were authorised for issue on 28 February 2022 by the Board of Directors who do not have the power to amend afterwards.

Significant accounting policies and critical estimates and assumptions are disclosed in the relevant notes to the consolidated financial statements and identified using coloured boxes.

# Notes to and forming part of the financial statements

For the year ended 31 December 2021

## PERFORMANCE

### 1. Segmental reporting

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

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

The Group evaluates performance and allocates resources to its operating segments on the basis of segment assets, segment revenues, concept EBITDA before general and administration expenses, NZ IFRS 16 and operating profit before other items. EBITDA refers to earnings before interest, taxation, depreciation and amortisation. Operating profit refers to earnings before interest and taxation. Operating revenue is from external customers.

Segment assets include items directly attributable to the segment (i.e. property, plant and equipment, intangible assets and inventories). Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The Group has not disclosed segment liabilities as the chief operating decision makers evaluate performance and allocate resources purely on the basis of aggregated Group liabilities.

| 31 December 2021<br>$NZ000's | New Zealand | Australia | Hawaii | California | Corporate support function | **Total** |
|---|---|---|---|---|---|---|
| Business segment | | | | | | |
| Store sales revenue | 461,120 | 244,104 | 206,506 | 156,516 | - | **1,068,246** |
| Other revenue | 46,195 | - | - | - | - | **46,195** |
| **Total operating revenue** | **507,315** | **244,104** | **206,506** | **156,516** | **-** | **1,114,441** |
| **EBITDA before general and administration expenses, NZ IFRS 16 and other items** | **76,154** | **31,614** | **33,932** | **23,849** | **-** | **165,549** |
| Government grants | 7,165 | - | - | - | - | **7,165** |
| General and administrative expenses | (13,853) | (10,870) | (8,940) | (8,146) | (2,417) | **(44,226)** |
| | **69,466** | **20,744** | **24,992** | **15,703** | **(2,417)** | **128,488** |
| Other income | 945 | - | 11,419 | - | - | **12,364** |
| Other expenses | 95 | (726) | - | (641) | (3,892) | **(5,164)** |
| Depreciation | (18,446) | (10,357) | (7,779) | (3,643) | (17) | **(40,242)** |
| Amortisation | (1,707) | (1,198) | (1,266) | (5,060) | - | **(9,231)** |
| **Operating profit before NZ IFRS 16** | **50,353** | **8,463** | **27,366** | **6,359** | **(6,326)** | **86,215** |
| Adjustment for NZ IFRS 16 | 8,187 | 4,279 | 1,860 | 1,536 | - | **15,862** |
| **Operating profit** | **58,540** | **12,742** | **29,226** | **7,895** | **(6,326)** | **102,077** |
| Financing expenses | (12,470) | (10,921) | (4,854) | (8,295) | 256 | (36,284) |
| Taxation expenses | (12,200) | (447) | (3,423) | 458 | 1,700 | (13,912) |
| Net profit after taxation (NPAT) | **33,870** | **1,374** | **20,949** | **58** | **(4,370)** | **51,881** |
| Current assets | 49,606 | 12,608 | 14,901 | 10,765 | - | **87,880** |
| Non-current assets | 155,956 | 213,672 | 179,764 | 115,048 | - | **664,440** |
| Non-current lease assets (excluding lease deferred tax) | 184,393 | 151,659 | 78,643 | 162,825 | - | **577,520** |
| **Total assets** | **389,955** | **377,939** | **273,308** | **288,638** | **-** | **1,329,840** |
| **Capital expenditure including intangibles** | **40,312** | **21,518** | **17,706** | **5,798** | **-** | **85,334** |

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

For the year ended 31 December 2021

| 31 December 2020<br>$NZ000's | New Zealand | Australia | Hawaii | California | Corporate support function | Total |
|---|---|---|---|---|---|---|
| Business segment | | | | | | |
| Store sales revenue | 410,399 | 214,923 | 215,113 | 51,924 | - | 892,359 |
| Other revenue | 32,108 | - | 261 | - | - | 32,369 |
| **Total operating revenue** | **442,507** | **214,923** | **215,374** | **51,924** | **-** | **924,728** |
| **EBITDA before general and administration expenses, NZ IFRS 16 and other items** | **54,291** | **28,623** | **32,553** | **8,516** | **-** | **123,983** |
| Government grants | 22,013 | - | - | - | - | 22,013 |
| General and administrative expenses | (15,045) | (8,786) | (10,002) | (2,529) | (5,116) | (41,478) |
| | **61,259** | **19,837** | **22,551** | **5,987** | **(5,116)** | **104,518** |
| Other expenses | (366) | (594) | - | (3,711) | (155) | (4,826) |
| Depreciation | (15,727) | (8,684) | (6,254) | (2,728) | (11) | (33,404) |
| Amortisation | (1,955) | (453) | (1,402) | (1,705) | - | (5,515) |
| **Operating profit before NZ IFRS 16** | **43,211** | **10,106** | **14,895** | **(2,157)** | **(5,282)** | **60,773** |
| Adjustment for NZ IFRS 16 | 8,147 | 3,572 | 1,801 | 491 | - | 14,011 |
| **Operating profit** | **51,358** | **13,678** | **16,696** | **(1,666)** | **(5,282)** | **74,784** |
| Financing expenses | **(12,133)** | **(9,809)** | **(5,496)** | **(2,782)** | **-** | **(30,220)** |
| Taxation expenses | **(9,822)** | **(3,164)** | **(2,069)** | **1,135** | **-** | **(13,920)** |
| Net profit after taxation (NPAT) | **29,403** | **705** | **9,131** | **(3,313)** | **(5,282)** | **30,644** |
| Current assets | 32,094 | 10,708 | 23,316 | 6,204 | - | 72,322 |
| Non-current assets | 136,829 | 177,485 | 164,125 | 111,167 | - | 589,606 |
| Non-current lease assets (excluding lease deferred tax) | 179,314 | 126,642 | 63,397 | 148,876 | - | 518,229 |
| **Total assets** | **348,237** | **314,835** | **250,838** | **266,247** | **-** | **1,180,157** |
| **Capital expenditure including intangibles** | **23,952** | **22,183** | **14,997** | **2,912** | **-** | **64,044** |

### 1.1 Reconciliation between operating profit and net profit after taxation excluding NZ IFRS 16

| $NZ000's | 31 December 2021 | 31 December 2020 |
|---|---|---|
| **Operating profit** | **102,077** | **74,784** |
| Finance expense | (36,284) | (30,220) |
| **Net Profit before taxation** | **65,793** | **44,564** |
| Taxation expense | (13,912) | (13,920) |
| **Net profit after taxation** | **51,881** | **30,644** |
| Add back net financing impact of NZ IFRS 16 | 13,586 | 9,741 |
| Less taxation expense on NZ IFRS 16 | (3,985) | (2,737) |
| **Net profit after taxation excluding NZ IFRS 16** | **61,482** | **37,648** |

## 2. Revenue and expenses

### OPERATING REVENUE

#### Store sales revenue

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

#### Other revenue

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

Also included in other revenue is revenue related to the sale of new stores developed and constructed under contract to franchisees. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of stores is therefore recognised over time using a cost-to-cost method i.e. based on the portion of the contracted costs incurred for work performed to date relative to the estimated total cost.

### OPERATING EXPENSES

#### Royalties paid

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| **Royalties paid** | **62,533** | **52,796** |

Royalties are recognised as an expense as revenue is earned.

#### Wages and salaries

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Wages and salaries | 310,654 | 254,840 |
| Decrease/(increase) in liability for long service leave | 259 | 16 |
| | **310,913** | 254,856 |

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.

#### Government grants

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| **Government grants** | **7,165** | **22,013** |

As part of the New Zealand Government's response to COVID-19 the Group received a Government wage subsidy of $7.2 million (Dec 2020: $22.0 million) due to an Alert Level 4 lockdown initiated in August 2021. This has been included as a separate line item on the consolidated statement of comprehensive income. The Group views these as a credit against wage and salaries costs, however due to the material nature of the subsidy it has been disclosed separately. It has been included as receipts from Government grants in the consolidated statement of cash flows.

Government grants are recognised when there is reasonable assurance that the company will comply with the conditions attached to the grant and the grant will be received. A forgivable loan from the government is treated as a government grant when there is reasonable assurance that the company will meet the terms for forgiveness of the loan.

The Group will recognise a grant using the income approach with the grant recognised in profit and loss over the period in which the company recognises as expenses the related costs for which the grant is intended to compensate.

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

For the year ended 31 December 2021

### Lease expense

| $NZ000's | **31 Dec 2021** | 31 Dec 2020 |
|---|---|---|
| **Lease expenses** | **5,222** | 4,877 |

This relates to short term and variable lease costs included in the consolidated statement of comprehensive income not included in NZ IFRS 16 costs. Included in the above is rent relief of $0.5 million (Dec 2020: $1.3 million) which has been received during the year and has been included as a negative variable rent within the consolidated statement of comprehensive income. Contracts with abatement clauses total $0.3 million (Dec 2020: $0.5 million) whilst those without abatement clauses total $0.2 million (Dec 2020: $0.8 million).

### Other income

| $NZ000's | **31 Dec 2021** | **31 Dec 2020** |
|---|---|---|
| Net gain on the sale of stores | **945** | 405 |
| Loan forgiveness | **11,419** | - |
| | **12,364** | 405 |

#### Net gain on the sale of stores

During 2021 the Group sold five Pizza Hut stores to independent franchisees resulting in a gain of $0.9 million (Dec 2020: $0.4 million).

#### Loan forgiveness

In June 2021 the Hawaii Paycheck Protection Programme loan was forgiven by the US Small Business Association. This amount is shown on a separate line in the consolidated statement of comprehensive income due to its material nature. The loan forgiveness has been shown as a non-cash item in the cash flow reconciliation of profit after taxation with net cash from operating activities.

### Other expenses

| $NZ000's | **31 Dec 2021** | **31 Dec 2020** |
|---|---|---|
| Acquisition costs | **(715)** | (4,332) |
| IT system implementation | **(4,189)** | - |
| Unused franchise rights | **(260)** | - |
| Leave remediation | **-** | (49) |
| Calendar realignment | **-** | (50) |
| Impairment of assets | **-** | (542) |
| Yum! GST charge | **-** | (87) |
| Yum! royalty claim | **-** | (171) |
| **Total other expenses** | **(5,164)** | **(5,231)** |

#### IT system implementation

Due to a change in the accounting policy in regards to SaaS arrangements the IT system the group is implementing has been expensed during the period. A further $1.3 million relating to other SaaS arrangements has been included in G&A costs during 2021. These costs would have been capitalised and amortised over the life of the software in previous reporting periods.

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

For the year ended 31 December 2021

## 3. Earnings per share

| | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Basic earnings per share | | |
| Profit after taxation attributable to the shareholders ($NZ000's) | **51,881** | 30,644 |
| Weighted average number of shares on issue (000's) | **124,759** | 124,759 |
| Basic earnings per share (cents) | **41.58** | 24.56 |
| Diluted earnings per share | | |
| Profit after taxation attributable to the shareholders ($NZ000's) | **51,881** | 30,644 |
| Weighted average number of shares on issue (000's) | **124,759** | 124,759 |
| Basic earnings per share (cents) | **41.58** | 24.56 |

Basic earnings per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS reflects any commitments the Company has to issue shares in the future that would decrease EPS.

## FUNDING AND EQUITY

## 4. Loans

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Secured bank loans denominated in: | | |
| NZD | **10,000** | 20,000 |
| AUD | **80,671** | 51,151 |
| USD | **156,719** | 165,248 |
| **Secured bank loans** | **247,390** | **236,399** |

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

| | | |
|---|---|---|
| Current | **-** | 8,058 |
| Term | **247,390** | 228,341 |
| **Secured bank loans** | **247,390** | **236,399** |

Included within the Group's loans as at 31 December 2020 is $11.3 million ($8.1 million current) relating to the PPP Loan. This was included within the proceeds from loans within the 31 December 2020 consolidated statement of cash flows. The loan was with First Hawaiian Bank. The loan was forgiven by the US Small Business Association in June 2021 (Refer note 2).

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Secured bank loans | **247,390** | 236,399 |
| Less prepaid facility fees | **(503)** | (760) |
| **Loan balance** | **246,887** | **235,639** |

Included in the loans balance in the consolidated statement of financial position is $0.5 million (Dec 2020: $0.8 million) relating to prepaid facility fees that are being amortised over the term of the loan facilities.

### Facilities

On 24 February 2020 the Group entered into new loan facility agreements. The facilities are split between NZD, USD and AUD tranches, most of the tranches are three year terms with the remainder expiring in four years.

The Group has loan facilities in place totalling $359.8 million with the following financial institutions:

- Westpac Banking Corporation - $NZ20.0 million and $A70.0 million facility expiring on 1 May 2023,
- Bank of China - $NZ20.0 million facility expiring on 1 May 2023 and $A40.0 million facility expiring on 1 May 2024,
- J P Morgan - $US75.0 million expiring on 1 May 2023, and
- Rabobank - $NZ20.0 million expiring on 1 May 2023 and $US50.0 million facility expiring on 1 May 2024.

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

For the year ended 31 December 2021

## Interest rate swaps

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

| Date entered | Face value | Maturity date | Interest rate paid | Interest rate received | Swap fair value |
|---|---|---|---|---|---|
| 22 January 2017 | $NZ10 million | 28 January 2022 | 3.03% | 0.80% | (56) |
| 25 January 2017 | $A15 million | 25 January 2022 | 2.52% | 0.04% | (99) |
| 14 November 2017 | $A20 million | 14 November 2022 | 2.50% | 0.05% | (467) |
| 22 May 2017 | $US10 million | 1 June 2022 | 2.06% | 0.10% | (159) |
| 29 June 2017 | $US10 million | 1 July 2022 | 2.02% | 0.10% | (136) |
| **Total** | | | | | **(917)** |

## Security

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

As security over the USD debt facility, the bank holds guarantees and security over the USA businesses.

The Group also has indemnity guarantees of $2.7 million across various properties leased in New Zealand and Australia, a standby letter of credit of $3.7 million in California, and a standby letter of credit in Hawaii of $0.4 million.

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

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

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

- debt coverage ratio (i.e. net debt to EBITDA),
- fixed charge coverage ratio (EBITDAL to fixed charges), with EBITDAL being EBITDA before lease costs, fixed charges comprising interest and lease costs,
- guaranteeing group assets ratio (i.e. total guaranteeing group tangible assets to total consolidated group tangible assets), and
- guaranteeing group earnings ratio (i.e. non-guaranteeing group EBITDA to the consolidated group EBITDA).

These ratios exclude the impact of NZ IFRS 16 Leases.

The covenants are reported to the bank on a six monthly basis, whilst the Board reviews covenant compliance on a monthly basis.

There have been no breaches of the covenants during the period (Dec 2020: no breaches).

The carrying value equates to fair value, for more information about the Group's exposure to interest rate and foreign currency risk see Note 6.

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

## Financing expense

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Financing expense – lease | **29,450** | 23,752 |
| Finance expense – bank | **6,834** | 6,468 |
| **Financing expenses** | **36,284** | **30,220** |

Included within the period ended 31 December 2021 is $29.5 million (Dec 2020: $23.8 million) of interest relating to leases recognised in accordance with NZ IFRS 16.

Financing expenses comprise: interest payable on borrowings calculated using the effective interest rate method; interest received on funds invested calculated using the effective interest rate method; lease interest (note 14); foreign exchange gains and losses; gains and losses on certain financial instruments that are recognised in profit or loss in the consolidated statement of comprehensive income; unwinding of the discount on provisions and impairment losses on financial assets.

## 5. Derivatives and hedge accounting

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| **Term** | | |
| Fair value of interest rate swaps | **917** | 2,698 |
| **Financing expenses** | **917** | **2,698** |
| | | |
| Change in fair value of interest rate swaps | **1,781** | **(481)** |
| Change in value of hedge item used to determine hedge effectiveness | **(1,781)** | **481** |

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

There were no transfers between fair value levels during the period (Dec 2020: Nil). The fair values are classified as level two.

The fixed interest rates of the swaps used to hedge range between 1.92% and 2.48% (Dec 2020: 1.86% to 2.75%) and the variable rates of the loans are between 0.04% and 0.8% above the applicable bank bill rates. Refer to note 4 for the interest rate swaps face values, maturity dates, currencies and interest rate ranges.

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

### Financial Assets

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

*Financial assets held at amortised cost*

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 consolidated 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 consolidated 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 trade and other payables which are initially recognised at fair value and subsequently measured at amortised cost.

*Derivative financial instruments*

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

## Notes to and forming part of the financial statements (continued)
For the year ended 31 December 2021

### Financial assets and financial liabilities by category

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Loans and receivables | | |
| Trade receivables | **3,717** | 3,749 |
| Other receivables | **1,332** | 2,334 |
| Cash and cash equivalents | **45,155** | 35,666 |
| | **50,204** | **41,749** |
| Derivatives used for hedging | | |
| Derivative financial instruments - liabilities | **917** | 2,698 |
| | **917** | **2,698** |
| Financial liabilities at amortised cost | | |
| Loans (excluding prepaid facility fees) | **247,390** | 236,398 |
| Trade and other payables (excluding indirect and other taxes and employee benefits) | **77,677** | 70,223 |
| | **325,067** | **306,621** |

### 6. Financial risk management

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

#### (a) Foreign currency risk

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

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

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

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

#### (b) Interest rate risk

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

Where necessary the Group hedges its exposure to changes in interest rates primarily through the use of interest rate swaps. There are guidelines as to the minimum prescribed level of hedging set out by the board, however the board reviews all swaps before they are entered into.

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

As discussed in note 4, the Group has an interest rate swap in place to fix the interest rate on $A35 million of Australian denominated bank loans to 2022 (Dec 2020: $A35 million), $NZ10 million to 2022 (Dec 2020: $NZ10 million to 2022) and $US20 million to 2022 (Dec 2020: $US20 million). The Group will continue to monitor interest rate movements to ensure it maintains an appropriate mix of fixed and floating rate exposure within the Group's treasury policy.

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

For the year ended 31 December 2021

### (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 rates | Total | Less than 1 year | Between 1 and 5 years |
|---|---|---|---|---|
| **31 Dec 2021** | | | | |
| Cash on hand | - | 640 | 640 | - |
| Cash at bank | 0.25% | 24,115 | 24,115 | - |
| Money market deposit | 0.70% | 20,400 | 20,400 | - |
| Bank term loan – principal (NZD) | 7.83% | (10,000) | - | (10,000) |
| Bank term loan – principal (AUD) | 3.13% | (80,671) | - | (80,671) |
| Bank term loan – principal (USD) | 2.25% | (156,719) | - | (156,719) |
| Bank term loan – expected interest | 2.76% | (8,047) | (4,858) | (3,189) |
| Derivative financial instruments | - | (762) | (762) | - |
| Trade and other payables (excluding indirect and other taxes and employee benefits) | - | (77,087) | (77,087) | - |
| | | (288,131) | (37,552) | (250,579) |
| **31 Dec 2020** | | | | |
| Cash on hand | | 612 | 612 | - |
| Cash at bank | 0.25% | 32,054 | 32,054 | - |
| Money market deposit | 0.20% | 3,000 | 3,000 | - |
| Bank term loan – principal (NZD) | 4.36% | (20,000) | - | (20,000) |
| Bank term loan – principal (AUD) | 4.66% | (51,151) | - | (51,151) |
| Bank term loan – principal (USD) | 2.43% | (165,247) | (8,058) | (157,189) |
| Bank term loan – expected interest | 3.08% | (16,689) | (5,378) | (11,311) |
| Derivative financial instruments | - | (2,466) | (1,719) | (747) |
| Trade and other payables (excluding indirect and other taxes and employee benefits) | - | (69,653) | (69,653) | - |
| | | **(289,540)** | **(49,142)** | **(240,398)** |

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

The Group has a negative working capital balance as the nature of the business results in most sales conducted on a cash basis. The Group has bank funding facilities, excluding overdraft facilities, of $359.8 million (Dec 2020: $350.6 million) available at variable rates. The amount undrawn at balance date was $112.5 million (Dec 2020: $125.5 million) and therefore the Group has the ability to fully pay debts as they fall due.

The Group has fixed the interest rate on $NZ10 million of NZD bank loans, $A35 million of AUD bank loans and $US20 million of USD bank loans with the balance at a floating interest rate. The bank loans are structured as a revolving wholesale advance facility with portions of the facility renewing on a regular basis. This leads to the loans being sensitive to interest rate movement in 12 months or less.

The Group has lease liabilities with future cash payments as disclosed in the table below:

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Within one year | **56,801** | 51,831 |
| One to five years | **224,436** | 197,672 |
| Beyond 5 years | **802,240** | 724,669 |
| | **1,083,477** | **974,172** |

This includes future lease options that the Group currently expects to exercise and is not discounted for the future nature of payments. This does not reflect the Group's future contractual minimum payments.

### (d) Credit risk

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

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

There were no financial assets past due nor impaired at balance date (Dec 2020: 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 consolidated statement of financial position.

### (e) Fair values

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

**Sensitivity analysis**

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

At 31 December 2021 it is estimated that a general increase of one percentage point in interest rates would decrease the Group profit before income tax by approximately $1.7 million (Dec 2020: $1.5 million), however equity would increase $0.1 million (Dec 2020: $1.3 million). A one percentage point decrease in interest rates would increase the Group profit before income tax by approximately $2.4 million (Dec 2020: $2.2 million), however equity would increase by $1.8 million (Dec 2020 $1.6 million).

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

**Capital risk management**

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

The Group's objectives when managing capital are to safeguard the Group's ability to continue to operate as a going concern, and 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, sell assets to reduce debt or draw down more debt.

## 7. Equity and reserves

### Share capital

| | 31 Dec 2021 number | 31 Dec 2021 $NZ000's | 31 Dec 2020 Number | 31 Dec 2020 $NZ000's |
|---|---|---|---|---|
| | 124,758,523 | 154,565 | 124,758,523 | 154,565 |

The issued and authorised capital of the Company represents ordinary fully paid up shares. The par value is nil (Dec 2020: nil). All issued shares carry equal rights in respect of voting and the receipt of dividends, and upon winding up rank equally with regards to the Company's residual assets.

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

### Foreign currency translation reserve

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | (1,480) | (8,038) |

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

### Derivative hedging reserve

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | (872) | (2,322) |

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

## WORKING CAPITAL

## 8. Inventories

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Raw materials and consumables | 22,261 | 16,607 |

Inventories recognised as an expense during the period ended 31 December 2021 amounted to $269.9 million (Dec 2020: $222.9 million). This is included in cost of goods sold.

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of marketing, selling and distribution. The cost of inventories is based on the first-in first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. The cost of inventories consumed is recognised as an expense and included in cost of goods sold in the consolidated statement of comprehensive income.

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

For the year ended 31 December 2021

### 9. Trade and other receivables

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Trade receivables | 3,717 | 3,749 |
| Prepayments | 5,963 | 5,311 |
| Other receivables | 1,332 | 2,334 |
| | 11,012 | 11,394 |

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

| | | |
|---|---|---|
| NZD | 7,016 | 6,912 |
| AUD | 1,781 | 1,748 |
| USD | 2,215 | 2,734 |
| | 11,012 | 11,394 |

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.

### 10. Cash and cash equivalents

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Cash on hand | 640 | 612 |
| Cash at bank | 44,515 | 35,054 |
| | 45,155 | 35,666 |

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

| | | |
|---|---|---|
| NZD | 23,829 | 8,218 |
| AUD | 6,944 | 5,855 |
| USD | 14,382 | 21,593 |
| | 45,155 | 35,666 |

Included in cash and cash equivalents are credit card receipts and delivery receipts that are in transit at balance date.

### 11. Held for sale – assets and liabilities for stores developed for sale

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Assets for stores developed for sale | - | 2,833 |
| Liabilities for store developed for sale | - | (1,751) |

This related to new Pizza Hut stores developed for sale in New Zealand which were actively marketed for sale and expected to be sold. Included as part of the balances was $1.8 million of lease liabilities and $1.7 million of right of use associated with these stores. This differs from 'held for sale - assets' and 'held for sale - liabilities' which relate to existing stores currently being operated by the Group which are actively being marketed for sale. There were three stores classified as held for sale in 2020, two of these were sold to franchisees whilst one store was retained and reclassified as an owned store during 2021.

### 12. Trade and other payables

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Trade payables | 45,443 | 41,265 |
| Other payables and accruals | 32,234 | 28,958 |
| Employee benefits | 24,476 | 21,297 |
| Indirect and other taxes | 8,323 | 10,069 |
| | 110,476 | 101,589 |

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

| | | |
|---|---|---|
| NZD | 60,944 | 60,736 |
| AUD | 20,890 | 18,621 |
| USD | 28,642 | 22,232 |
| | 110,476 | 101,589 |

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

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

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

For the year ended 31 December 2021

### LONG TERM ASSETS

### 13. Property, plant and equipment

| $NZ000's | Land | Leasehold improvements | Plant, equipment and fittings | Motor vehicles | Leased plant and equipment | Capital work in progress | Total |
|---|---|---|---|---|---|---|---|
| Cost | | | | | | | |
| **Balance as at 31 December 2019** | **4,375** | **225,841** | **109,835** | **1,870** | **196** | **14,705** | **356,822** |
| Additions | – | – | – | – | – | 59,905 | 59,905 |
| Acquisition of business | – | 26,361 | 7,036 | 258 | – | 490 | 34,145 |
| Transfers from work in progress | – | 37,507 | 18,141 | 164 | – | (55,812) | – |
| Disposals | – | (6,183) | (6,554) | (191) | – | – | (12,928) |
| Movement in exchange rates | 92 | (3,406) | (1,455) | (2) | – | (373) | (5,144) |
| **Balance as at 31 December 2020** | **4,467** | **280,120** | **127,003** | **2,099** | **196** | **18,915** | **432,800** |
| Additions | – | – | – | – | – | 82,445 | 82,445 |
| Acquisition of business | – | 3,418 | 832 | – | – | – | 4,250 |
| Transfers from work in progress | – | 54,717 | 16,102 | 487 | – | (71,306) | – |
| Disposals | – | (18,246) | (20,785) | (426) | (196) | – | (39,653) |
| Reclassifications | – | 1,264 | (3,385) | – | – | – | (2,121) |
| Movement in exchange rates | (15) | 3,756 | 1,518 | 12 | – | 405 | 5,676 |
| **Balance as at 31 December 2021** | **4,452** | **325,029** | **121,285** | **2,172** | **–** | **30,459** | **483,397** |
| Accumulated depreciation | | | | | | | |
| **Balance as at 31 December 2019** | **–** | **(109,169)** | **(66,873)** | **(992)** | **(196)** | **–** | **(177,230)** |
| Charge | – | (20,943) | (12,286) | (378) | – | – | (33,607) |
| Disposals | – | 3,572 | 4,850 | 165 | – | – | 8,587 |
| Movement in exchange rates | – | 516 | 859 | (3) | – | – | 1,372 |
| **Balance as at 31 December 2020** | **–** | **(126,024)** | **(73,450)** | **(1,208)** | **(196)** | **–** | **(200,878)** |
| Charge | – | (23,413) | (13,636) | (410) | – | – | (37,459) |
| Disposals | – | 14,567 | 18,421 | 299 | 196 | – | 33,483 |
| Reclassification | – | (582) | 2,703 | – | – | – | 2,121 |
| Movement in exchange rates | – | (702) | (750) | (4) | – | – | (1,456) |
| **Balance as at 31 December 2021** | **–** | **(136,154)** | **(66,712)** | **(1,323)** | **–** | **–** | **(204,189)** |
| Impairment provision | | | | | | | |
| **Balance as at 31 December 2019** | **–** | (3,897) | 86 | **–** | **–** | **–** | **(3,811)** |
| Charge | – | (97) | (108) | – | – | – | (205) |
| Reclassification | – | 517 | (517) | – | – | – | – |
| Utilised/disposed | – | 692 | 111 | – | – | – | 803 |
| **Balance as at 31 December 2020** | **–** | **(2,785)** | **(428)** | **–** | **–** | **–** | **(3,213)** |
| Charge | – | (170) | (173) | – | – | – | (343) |
| Utilised/disposed | – | 914 | 316 | – | – | – | 1,230 |
| Movement in exchange rates | – | (114) | (20) | – | – | – | (134) |
| **Balance as at 31 December 2021** | **–** | **(2,155)** | **(305)** | **–** | **–** | **–** | **(2,460)** |
| Carrying amounts | | | | | | | |
| Balance as at 31 December 2019 | 4,375 | 112,775 | 43,048 | 878 | – | 14,705 | 175,781 |
| Balance as at 31 December 2020 | 4,467 | 151,311 | 53,125 | 891 | – | 18,915 | 228,709 |
| **Balance as at 31 December 2021** | **4,452** | **186,720** | **54,268** | **849** | **–** | **30,459** | **276,748** |

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

For the year ended 31 December 2021

### Depreciation expense

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Depreciation expense | **36,623** | 33,811 |

| Sale of property, plant and equipment | | |
|---|---|---|
| Net loss on disposal of property, plant and equipment (included in depreciation expense) | (3,619) | (1,850) |
| Net gain on disposal of property, plant and equipment (included in other expenses) | 945 | 405 |

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

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives of fixed assets are as follows:

| | |
|---|---|
| Leasehold improvements | 5 – 25 years |
| Plant and equipment | 3 -12.5 years |
| Motor vehicles | 4-5 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 the consolidated 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 consolidated statement of comprehensive income.

### Significant judgments and estimates

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

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

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

Key assumptions in the determination of recoverable amount are:

- the estimate of future cash flows of the restaurant incorporating reasonable sales growth and margin improvement
- the discount rate incorporating the rates of return based on the risk and uncertainty inherent in the forecast cash flows
- the terminal growth rate is calculated based on continuous sales growth at a minimum projected inflation estimated at 2.0%.

Management has assessed individual restaurant assets to identify whether impairment indicators existed as at balance date for associated property, plant and equipment and right of use assets. The COVID-19 pandemic has continued to have an impact on the financial performance of each of the Group's segments.

Management's review focussed particularly on the restaurants (cash-generating units) within the Australian segment as the impacts of COVID-19 during the year caused by extended lockdown restrictions have significantly adversely affected trading. Restaurant property, plant and equipment and right-of-use assets for Australia amounted to $81.9 million and $152.9 million respectively as at 31 December 2021.The restaurants most affected were CBD and mall locations which were closed for an extended period of time during the year and only resumed operations when restrictions began to ease in October 2021. Following a review of store performance and consideration of other impairment indicators, the Group determined that there were six restaurants within the Australian segment that required a calculation of the recoverable amount as there were impairment indicators. The key assumptions used in the value in use calculations were as follows:

| Key assumptions | Percentage used (%) |
|---|---|
| Sales Growth | 2.0 - 75.4 |
| EBITDA margin | 4.1 - 17.5 |
| EBITDA margin terminal year | 21.7 |
| Terminal growth rate | 2.0 |
| Discount rate | 7.8 |

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

For the year ended 31 December 2021

The significant change in sales growth and EBITDA margin as a percentage reflects the return to normal trading levels following significant restrictions for some stores in 2021. The sales growth from 2023 returns to normal levels at approximately 4%, except for one store which is in a location catering primarily to international students that is expected to grow by 15% in 2023 before returning to normal growth levels thereafter.

Based on the calculations, which in each case showed a recoverable amount higher than the respective carrying value of assets, no impairment was considered necessary.

Although the other CGUs were adversely impacted by COVID-19 it was to a lesser degree. California and Hawaii were not subject to significant restrictions and New Zealand's Alert Level 4 closures were for a limited period. No impairment indicators were noted for these CGUs.

A full impairment test was performed as required by IAS 36 for the goodwill balance. Refer to note 15 for further detail over assumptions utilised.

### 14. NZ IFRS 16 - Leases

#### Key estimates and judgments

There are a number of judgments and estimates in calculating the future lease liabilities and right of use asset value. These include:

- incremental borrowing rate. The Group engages an independent valuation expert to establish the incremental borrowing rates applied during the period.
- lease terms, including any rights of renewal expected to be exercised. The Group has assumed that all rights of renewal are expected to be exercised which is consistent with the Group's strategy and previous leases. This judgment has been applied unless a store closure or a decision to relocate a store is known when valuing the lease.
- foreign exchange conversion rates.

#### Right of use assets (ROU assets)

| $NZ000's | note | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|
| Opening balance | | 517,085 | 353,937 |
| Right of use assets acquired on acquisition of businesses | 26 | 19,072 | 159,310 |
| Depreciation | | (38,194) | (30,908) |
| Adjustments to existing right of use assets | | 27,070 | 12,077 |
| Additions | | 39,838 | 33,398 |
| Foreign exchange movement | | 11,656 | (10,729) |
| **Closing balance** | | **576,527** | **517,085** |

Additions relate to new leases entered into by the Group.

The Group leases relate to land and buildings. Rental contracts are typically made for fixed periods of 1 to 50 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Under NZ IFRS 16, leases are recognised as a right of use asset and a corresponding lease liability. Each lease payment is allocated between the lease liability and the finance cost. The finance cost is charged to the statement of comprehensive income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of fixed payments and known fixed lease increases, less any lease incentives receivable. Right of use assets are measured at cost comprising the amount of the initial measurement of lease liability and any restoration costs. These assets are subsequently depreciated using the straight line method from the commencement date to the end of the lease term.

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

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

The Group has applied the recognition exemption allowed by the standard in respect short-term and low value leases. Payments associated with short term leases and leases of low value assets are recognised on a straight line basis as an expense in the statement of comprehensive income. Short term leases are leases with a lease term of 12 months or less. Low value assets comprise IT equipment and small items of office furniture.

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

For the year ended 31 December 2021

### Lease liabilities

| $NZ000's | note | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|
| Opening balance | | 595,614 | 425,083 |
| Lease liabilities asset acquired on acquisition of businesses | 26 | 19,072 | 158,244 |
| Cash flow payments | | (54,857) | (45,843) |
| Interest | | 28,993 | 23,752 |
| Adjustments to existing lease liabilities | | 27,786 | 12,281 |
| Additions | | 39,510 | 33,052 |
| Foreign exchange movement | | 12,563 | (10,955) |
| Closing balance | | **668,681** | **595,614** |
| | | | |
| Current lease liabilities | | 25,609 | 23,826 |
| Non-current lease liabilities | | 643,072 | 571,788 |
| Closing balance | | **668,681** | **595,614** |

The weighted average incremental borrowing rate applied to lease additions during the year was 4.2% (Dec 2020: 4.6%).

## 15. Intangibles

| $NZ000's | Note | Goodwill | Franchise fees | Concept development costs | Acquired software costs | Total |
|---|---|---|---|---|---|---|
| Cost | | | | | | |
| **Balance as at 31 December 2019** | | **228,672** | **30,119** | **1,290** | **11,586** | **271,667** |
| Additions | | – | 1,958 | – | – | 1,958 |
| Acquisition of business | | 29,187 | 58,512 | – | – | 87,699 |
| Transfer from work in progress | | – | – | – | 1,489 | 1,489 |
| Disposals | | (1,322) | (3,765) | (489) | (2,480) | (8,066) |
| Movement in exchange rates | | (7,249) | (4,419) | – | – | (11,668) |
| **Balance as at 31 December 2020** | | **249,278** | **82,405** | **801** | **10,595** | **343,079** |
| Additions | | – | 2,689 | – | 200 | 2,889 |
| Acquisition of business | 26 | 18,152 | 5,840 | – | – | 23,992 |
| Disposals | | (327) | (1,583) | – | (552) | (2,462) |
| Reclassification from property, plant and Equipment | | – | – | – | 2,121 | 2,121 |
| Movement in exchange rates | | 6,992 | 3,765 | – | – | 10,757 |
| **Balance as at 31 December 2021** | | **274,095** | **93,116** | **801** | **12,364** | **380,376** |
| Accumulated amortisation | | | | | | |
| **Balance as at 31 December 2019** | | **(831)** | **(12,633)** | **(1,220)** | **(8,312)** | **(22,996)** |
| Charge | | – | (4,168) | (5) | (1,343) | (5,516) |
| Disposals | | – | 3,336 | 489 | 2,190 | 6,015 |
| Movement in exchange rates | | – | 404 | – | – | 404 |
| **Balance as at 31 December 2020** | | **(831)** | **(13,061)** | **(736)** | **(7,465)** | **(22,093)** |
| Charge | | – | (8,151) | (5) | (1,076) | (9,232) |
| Disposals | | – | 1,392 | – | 350 | 1,742 |
| Reclassification from property, plant and Equipment | | – | – | – | (2,121) | (2,121) |
| Movement in exchange rates | | – | (456) | – | – | (456) |
| **Balance as at 31 December 2021** | | **(831)** | **(20,276)** | **(741)** | **(10,312)** | **(32,160)** |

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

| Carrying amounts | | Goodwill | Franchise fees | Concept development costs | Acquired software costs | Total |
|---|---|---|---|---|---|---|
| Balance as at 31 December 2019 | | 227,841 | 17,486 | 70 | 3,274 | 248,671 |
| Balance as at 31 December 2020 | | 248,447 | 69,344 | 65 | 3,130 | 320,986 |
| **Balance as at 31 December 2021** | | **273,264** | **72,840** | **60** | **2,052** | **348,216** |

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

For the year ended 31 December 2021

### Goodwill

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

### Franchise fees

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

### Concept development costs

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

### Acquired software costs

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

### Amortisation

Amortisation charge is recognised in cost of sales and other expenses in the consolidated statement of comprehensive income.

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Amortisation of intangibles | **9,232** | 5,516 |

### 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.

Allocation of goodwill by cash generating unit:

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| KFC Australia | **112,800** | 96,896 |
| KFC New Zealand | **6,528** | 6,528 |
| Pizza Hut New Zealand | **7,433** | 7,787 |
| Pizza Hut and Taco Bell Hawaii | **118,669** | 112,374 |
| KFC and Taco Bell California | **27,834** | 24,862 |
| Total goodwill | **273,264** | 248,447 |

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 four year financial plan as approved by the Board of Directors.

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

For the year ended 31 December 2021

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

| Brand | 31 Dec 2021 | 31 Dec 2021 | 31 Dec 2021 | 31 Dec 2020 | 31 Dec 2020 | 31 Dec 2020 |
|---|---|---|---|---|---|---|
| | Sales growth 2022-2024 % | EBITDA margin 2022-2024 % | EBITDA margin terminal year % | Sales growth 2021-2023 % | EBITDA margin 2021-2023 % | EBITDA margin terminal year % |
| KFC Australia | 4.1 - 5.1 | 14.4 – 15.2 | 15.5 | 4.3 | 15.3 | 15.3 |
| KFC New Zealand | 4.1 - 5.2 | 20.8 - 21.3 | 21.3 | 4.1 | 20.1 | 20.1 |
| Pizza Hut New Zealand | 3.0 - 5.1 | 8.3 – 9.5 | 10.0 | 1.1 | 5.3 | 5.3 |
| Pizza Hut and Taco Bell Hawaii | 3.0 - 6.9 | 10.3 – 20.0 | 10.6 – 20.2 | 3.5-6.1 | 7.7-20.0 | 7.7-20.0 |
| KFC and Taco Bell California | (4.7) - 3.5 | 15.0 – 17.0 | 18.0 | 2.0 | 16.5 | 16.5 |

The key assumptions in each cash-generating unit are broadly consistent with the prior year with the exception of:

Pizza Hut New Zealand – the disposal of unprofitable stores has been considered in developing future key assumptions and therefore sales and EBITDA margins are expected to significantly improve compared to prior year assumptions.
Pizza Hut and Taco Bell Hawaii – The improvement in EBITDA margin reflects the strong performance of the Pizza Hut brand which is expected to continue.

KFC and Taco Bell California – all key assumptions are relatively consistent with the prior year other than sales growth where it is expected to decrease in 2022 to adjust for Government stimulus packages provided in 2021 that are not expected to recur in the future.

The terminal growth rate is calculated based on the 2025 year and assumes a continuous sales growth of a minimum of projected inflation estimates of 2.0% (Dec 2020: 1.5%).

The weighted average post-tax cost of capital discount rate for each cash generating units is set out below:

| Brand | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| | Weighted average post-tax cost of capital % | Weighted average post-tax cost of capital % |
| KFC Australia | 7.8 | 7.8 |
| KFC New Zealand | 7.8 | 7.8 |
| Pizza Hut New Zealand | 10.9 | 10.9 |
| Pizza Hut and Taco Bell Hawaii | 8.0 | 8.0 |
| KFC and Taco Bell California | 8.0 | 8.0 |

The weighted average cost of capital calculation was reviewed in 2020 based on capital asset pricing model (CAPM) methodology using market inputs at the time. For 2021, management has assessed changes in current market inputs and have determined that there has been no significant change that would change the overall weighted average post-tax cost of capital from the previous year.

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 including Board approved forecasts (historical data). The key assumptions are detailed below:

- Sales growth - Average annual growth rate over the three-year forecast period based on past performance, management's expectations of market development, current industry trends and including long-term inflation forecasts for each territory.
- EBITDA margin 2022-2024 and EBITDA margin terminal year- Based on past performance and management's expectations for the future. EBITDA growth has been disclosed as a key assumption as a number of costs are variable and link directly to revenue levels, such as the cost of labour, and food costs. Other fixed costs of the CGUs, which do not vary significantly with revenue changes, are forecast based on the current structure of the business, adjusting for inflationary increases but not reflecting any future restructurings or cost-saving measures.
- Terminal growth rate - This is the growth rate used to extrapolate cash flows beyond the budget period. The rates are consistent with expected long-term inflation for each territory in which the CGU operates.
- The discount rate - The rate used to reflect specific risks relating to the relevant segments and the countries in which they operate.

In respect of the New Zealand KFC and Pizza Hut brands 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 California brands of KFC and Taco Bell, which was a recent acquisition in September 2020, an increase to 8.1% in the weighted average post-tax cost of capital would cause the carrying amount to equal its recoverable amount, this is an increase of 0.1% on the weighted average post-tax cost of capital.

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

For the year ended 31 December 2021

## OTHER NOTES

### 16. Taxation

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

#### Taxation – consolidated statement of comprehensive income

The total taxation expense is analysed as follows:

| $NZ000's | Note | | 31 Dec 2021 | | 31 Dec 2020 |
|---|---|---|---|---|---|
| Total profit before taxation for the period | 1 | | 65,793 | | 44,564 |
| Taxation expense | 1 | | (13,912) | | (13,920) |
| Net profit after income tax | | | 51,881 | | 30,644 |
| Taxation expense using the Company's domestic tax rate | | (28.0%) | (18,422) | (28.0%) | (12,478) |
| Non-assessable income | | | 3,094 | 4.9% | - |
| Other | | | 978 | 0.6% | (1,813) |
| Adjustments due to different jurisdictions | | | 437 | 0.7% | 371 |
| | | | (13,912) | (21.8%) | (13,920) |
| **Taxation expense comprises:** | | | | | |
| Current tax expense | | | (13,257) | | (18,364) |
| Deferred tax expense | | | (655) | | 4,444 |
| | | | (13,912) | | (13,920) |

#### Imputation credits

The below 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 and deferred tax rates for the period were calculated using the rate of 28% for New Zealand, 30% for Australia and 21% for USA (Dec 2020: 28% New Zealand, 30% Australia and 21% USA).

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Imputation credits available for subsequent reporting periods | 35,435 | 21,909 |

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

For the year ended 31 December 2021

### Taxation – consolidated statement of financial position

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

| | Assets | | Liabilities | | Net | |
|---|---|---|---|---|---|---|
| $NZ000's | 31 Dec 2021 | 31 Dec 2020 | 31 Dec 2021 | 31 Dec 2020 | 31 Dec 2021 | 31 Dec 2020 |
| Property, plant and equipment | 10,354 | 9,766 | (5,608) | (174) | 4,746 | 9,592 |
| Inventory | 39 | 57 | - | - | 39 | 57 |
| Accounts receivable | - | - | (274) | (287) | (274) | (287) |
| Provisions | 6,995 | 6,830 | - | - | 6,995 | 6,830 |
| Intangibles | 1,214 | 38 | (3,414) | (1,958) | (2,200) | (1,920) |
| Leases | 25,762 | 22,054 | - | - | 25,762 | 22,054 |
| Other | 2,507 | 3,585 | - | - | 2,507 | 3,585 |
| | 46,871 | 42,330 | (9,296) | (2,419) | 37,575 | 39,911 |

| $NZ000's | Balance 31 December 2019 | Opening balance on acquisition | Recognised in consolidated statement of comprehensive income | Recognised in equity | Foreign currency translation | Balance 31 December 2020 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 10,766 | - | (1,155) | - | (19) | 9,592 |
| Inventory | 51 | - | 6 | - | - | 57 |
| Accounts receivable | (172) | - | (111) | - | (4) | (287) |
| Provisions | 4,463 | - | (2,355) | - | 12 | 6,830 |
| Intangibles | (365) | - | (1,763) | - | 208 | (1,920) |
| Leases | 19,679 | (70) | 2,522 | - | (77) | 22,054 |
| Other | 2,070 | - | 2,590 | (872) | (203) | 3,585 |
| | 36,492 | (70) | 4,444 | (872) | (83) | 39,911 |

| $NZ000's | Balance 31 December 2020 | Opening balance on acquisition | Recognised in consolidated statement of comprehensive income | Recognised in equity | Foreign currency translation | Balance 31 December 2021 |
|---|---|---|---|---|---|---|
| Property, plant and equipment | 9,592 | - | (4,817) | - | (29) | 4,746 |
| Inventory | 57 | - | (18) | - | - | 39 |
| Accounts receivable | (287) | - | 12 | - | 1 | (274) |
| Provisions | 6,830 | - | 119 | - | 46 | 6,995 |
| Intangibles | (1,920) | (1,290) | 1,304 | - | (294) | (2,200) |
| Leases | 22,054 | - | 3,619 | - | 89 | 25,762 |
| Other | 3,585 | - | (874) | (370) | 166 | 2,507 |
| | 39,911 | (1,290) | (655) | (370) | (21) | 37,575 |

The Hawaii and California divisions have a net deferred tax liability of $1.1 million which cannot be offset against the deferred tax assets held in the other divisions, therefore this is classified as a non-current liability in the consolidated statement of financial position.

| $NZ000's | 31 Dec 2021 |
|---|---|
| Deferred tax assets | 38,711 |
| Deferred tax liabilities | (1,136) |
| | 37,575 |

## 17. Provisions

| NZ$000's | Employee provisions | Make good provisions | Total |
|---|---|---|---|
| **Balance at 31 December 2020** | **2,243** | **3,076** | **5,319** |
| Opening balance acquired on acquisition | 131 | - | 131 |
| Created during the period | 394 | 970 | 1,364 |
| Used during the period | (779) | (105) | (884) |
| Released during the period | - | (135) | (135) |
| Foreign exchange movement | (5) | (7) | (12) |
| **Balance at 31 December 2021** | **1,984** | **3,799** | **5,783** |
| | | | |
| **31 December 2021** | | | |
| Non-current | 680 | 3,799 | 4,479 |
| Current | 1,304 | - | 1,304 |
| **Total** | **1,984** | **3,799** | **5,783** |

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.

The make good provisions represent the contractual obligations for the estimated future store restoration costs at the completion of the property lease term. The make good provision is classified as non-current.

## 18. Deferred income

| NZ$000's | |
|---|---|
| **Balance at 31 December 2020** | **788** |
| Opening balance acquired on acquisition | - |
| Created during the period | 2,595 |
| Used during the period | (2,465) |
| Released during the period | - |
| Foreign exchange movement | 25 |
| **Balance at 31 December 2021** | **943** |
| | |
| **31 December 2021** | |
| Non-current | 173 |
| Current | 770 |
| **Total** | **943** |

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

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

For the year ended 31 December 2021

## 19. Related party transactions

### Parent and ultimate controlling party

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

### Transactions with entities with key management or entities related to them

During the period the Group received internal audit services from Finaccess Servicios Corporativos S.A. De .C.V a subsidiary of Grupo Finaccess S.A.P.I de C.V the ultimate parent company of the Group. Acquired services totalling $0.1 million have been included in the consolidated statement of comprehensive income of which no amount remains owing at balance date. These transactions were at arm's length and performed on normal commercial terms.

Apart from directors' fees and key management remuneration, there were no other related party transactions with key management or any Directors or entities associated with them.

### Key management and director compensation

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

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Key management – total benefits | 5,556 | 5,700 |
| Directors fees | 488 | 420 |

Key management - total benefits relates to short-term employee benefits paid during the year.

### Total Group CEO Remuneration

| $NZ000's | Salary | Short term incentive | Long term incentives | Total remuneration |
|---|---|---|---|---|
| 31 December 2021 | 1,147 | 553 | - | 1,700 |
| 31 December 2020 | 1,023 | 1,279 | - | 2,302 |

**Short term incentive scheme**

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

In May 2021 a payment of $0.6 million (Dec 20: $0.9 million) was paid in lieu of a share price based incentive scheme, as no long term incentive scheme has been agreed. The Board also agreed to pay $0.4 million in May 2022 conditional on the CEO continuing to be employed by the Group.

**Long term incentive scheme**

There is currently no other long term incentive plan in place.

## 20. Commitments

### Capital commitments

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

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Store development | 17,966 | 6,817 |

## 21. Contingent liabilities

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (Dec 2020: nil).

## 22. Subsequent events

The directors have declared a fully imputed final dividend of 32.0 cents per share for the year ended 31 December 2021. There are no other subsequent events that would have a material effect on these financial statements.

## 23. Fees paid to auditor

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| **Audit of financial statements** | | |
| Audit and review of financial statements – PwC | 977 | 714 |
| **Other services – performed by PwC** | | |
| Specified procedures on landlord certificates | 6 | 3 |
| Review of Yum! advertising co-operative report | 11 | 6 |
| **Total other services** | **17** | **9** |
| **Total fees paid to auditors** | **994** | **723** |

The above audit fee includes $0.1 million relating to the 2020 audit.

## 24. Donations

| $NZ000's | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|
| Donations | 549 | 396 |

## 25. Business combinations

On 23 February 2021 the Group acquired five KFC stores in New South Wales, Australia for $17.3 million through the purchase of 100% of the shares in TPH Group Pty Ltd.

The acquisition provided increased presence within the current trading territory. The goodwill on acquisition represents synergies from combining operations with the current store network as well as additional trading strength within the current trading territory. The goodwill is not deductible for tax purposes.

TPH contributed $15.9 million in sales and $1.4 million in profit after taxation attributable to shareholders in the period ended 31 December 2021. Had TPH's results been consolidated for the full year ended 31 December 2021, TPH would have contributed $19.0 million in sales and profit after taxation attributable to shareholders of $1.7 million.

The loan of $8.0 million was repaid to the previous owner as part of the settlement. Therefore in the consolidated statement of cash flows cash applied to the acquisition of business is $25.3 million, including both the net consideration and the settlement of the loan to the previous owner.

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

For the year ended 31 December 2021

| $NZ000's | 31 Dec 2021 |
|---|---|
| Net consideration | 17,283 |
| | |
| Net consideration is made up as follows: | |
| Cash paid | 17,283 |
| Total net consideration | 17,283 |
| | |
| Property, plant and equipment | 4,073 |
| Right of use assets | 11,953 |
| Intangibles – reacquired franchise rights | 4,645 |
| Intangibles – franchise fees | 248 |
| Cash and cash equivalents | 1,264 |
| Trade and other receivables | 167 |
| Income tax receivable | 91 |
| Inventory | 63 |
| Lease liabilities | (11,953) |
| Loan | (7,994) |
| Deferred tax liability | (1,298) |
| Provisions | (134) |
| Trade and other payables | (418) |
| Total identified assets and liabilities | 707 |
| | |
| Goodwill | 16,576 |

The valuation of both the tangible and intangible assets are areas where estimates and judgements 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 engaged third parties to value the tangible assets and franchise agreements.

The valuation of franchise agreements was based on discounted cash flow methodology. Cash flows have been prepared both with and without the existing franchise agreements factored into the model to assess the value attributable to the existing franchise agreements.

The valuation of property, plant and equipment was completed using a cost approach. The cost approach considers the cost to replace existing assets less the amount of depreciation on the asset. A market approach was also used for some assets where an active secondary market was identified.

**KFC California acquisitions**

During the year the Group acquired two KFC stores in California for a total of $2.7 million, one in July and one in December 2021. The stores contributed sales of $1.1 million resulting in a net loss after tax of $0.1 million in the consolidated statement of comprehensive income. The acquisition gives rise to $1.6 million of goodwill.

## 26. Deed of Cross Guarantee

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

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

Set out below is the consolidated information for the year ended 31 December 2021 of the closed group consisting of RBNZ, QSR, Restaurant Brands Australia Holdings Pty Limited and Restaurant Brands Australia Pty Limited.

| $NZ000's | | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|
| Financial information in relation to: | | | |
| **(i)** | **Statement of profit and loss and other comprehensive income** | | |
| | Operating revenue | 244,104 | 214,923 |
| | Earnings before interest and taxation | 6,405 | 8,576 |
| | Finance expense | (10,666) | (9,863) |
| | Loss before taxation | (4,261) | (1,287) |
| | Taxation expense | 374 | (1,721) |
| | **Loss after taxation** | **(3,887)** | **(3,008)** |
| | *Items that may be reclassified subsequently to the statement of comprehensive income:* | | |
| | Exchange differences on translating foreign operations | (418) | 577 |
| | Derivative hedge reserve | 1,253 | (31) |
| | Taxation expense relating to components of other comprehensive income | (370) | 10 |
| | Other comprehensive income net of tax | 465 | 556 |
| | **Total comprehensive income** | **(3,422)** | **(2,452)** |
| **(ii)** | **Summary of movements in retained earnings** | | |
| | Retained earnings at the beginning of the period | **119,677** | 122,129 |
| | Total comprehensive income | **(3,422)** | (2,452) |
| | **Retained earnings at the end of the year** | **116,125** | **119,677** |

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

For the year ended 31 December 2021

| $NZ000's | | 31 Dec 2021 | 31 Dec 2020 |
|---|---|---|---|
| **(iii)** | **Statement of financial position** | | |
| | **Non-current assets** | | |
| | Property, plant and equipment | 81,883 | 67,930 |
| | Right of use assets | 151,859 | 126,642 |
| | Intangible assets | 120,846 | 100,401 |
| | Deferred tax asset | 10,754 | 9,139 |
| | Investment in subsidiaries | 239,353 | 239,353 |
| | **Total non-current assets** | **604,695** | **543,465** |
| | **Current assets** | | |
| | Inventories | 1,432 | 1,244 |
| | Trade and other receivables | 2,249 | 2,473 |
| | Income tax receivable | 2,361 | 3,355 |
| | Amounts receivable from subsidiaries | - | 16,019 |
| | Cash and cash equivalents | 27,745 | 9,150 |
| | **Total current assets** | **33,787** | **32,241** |
| | **Total assets** | **638,482** | **575,706** |
| | **Equity attributable to shareholders** | | |
| | Share capital | 154,565 | 154,565 |
| | Reserves | (4,450) | (4,915) |
| | Retained earnings | (33,990) | (30,104) |
| | **Total equity attributable to shareholders** | **116,125** | **119,546** |
| | **Non-current liabilities** | | |
| | Provisions | 2,312 | 1,671 |
| | Lease liabilities | 161,762 | 133,958 |
| | Loans | 90,671 | 71,151 |
| | Derivative financial instruments | - | 1,876 |
| | **Total non-current liabilities** | **254,775** | **208,656** |
| | **Current liabilities** | | |
| | Trade and other payables | 22,962 | 20,596 |
| | Provisions | 950 | 1,054 |
| | Derivative financial instruments | 622 | - |
| | Lease liabilities | 9,105 | 7,946 |
| | Amounts payable to subsidiaries | 233,943 | 217,908 |
| | **Total current liabilities** | **267,582** | **247,504** |
| | **Total liabilities** | **522,357** | **456,160** |
| | **Total equity and liabilities** | **638,482** | **575,706** |

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

## 27. COVID-19

An assessment of the impact of COVID-19 on the Group consolidated financial statements is set out below, based on information available at the time of preparing these consolidated financial statements:

Government grants - New Zealand: The Group has claimed $7.2 million (Dec 2020: $22.0 million) under the New Zealand Wage Subsidy Scheme. This has been recognised and disclosed separately in the consolidated statement of comprehensive income. For further information about the New Zealand Government grant claimed see Note 2.

Right-of-use assets and lease liabilities: The Group has engaged with landlords for rent relief as a result of the lock down in New Zealand and the reduced trading in the other divisions. To date, $0.5 million (Dec 2020: $1.3 million) in rent relief has been included as negative variable rental payments in the consolidated statement of comprehensive income.

Property, plant and equipment: Property, plant and equipment are stated at historical cost less depreciation and impairment. Impairment testing was completed and no impairment identified, having factored into forecasts the anticipated ongoing effects of COVID-19 such as increased costs. Refer note 13 for further details in regards to the impairment testing.

Goodwill: Following recovery of operations any lockdown or restricted trading period, COVID-19 and the resulting economic impacts, as assessed at this reporting period, is not an external indicator of impairment. Impairment testing was completed and no impairment identified, having factored into forecasts the anticipated ongoing effects of COVID-19 such as increased costs.

No other significant measurement impacts were noted. No impact on the going concern status of the Group has been identified as a result of COVID-19.

# Independent auditor's report

To the shareholders of Restaurant Brands New Zealand Limited

## Our opinion

In our opinion, the accompanying financial statements of Restaurant Brands New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 31 December 2021, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

## What we have audited

The Group's financial statements comprise:

- the consolidated statement of financial position as at 31 December 2021;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

## 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.

## Independence

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

Our firm carries out other services for the Group in the areas of specified procedures on landlord certificates and review of the Yum! Advertising co-operative report. In addition, certain partners and employees of our firm may deal with the Group on normal terms within the ordinary course of trading activities of the Group. These relationships and provision of other services has not impaired our independence as auditor of the Group.

## Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Goodwill impairment tests for KFC Australia and KFC and Taco Bell California**<br><br>As at balance date, the Group has recognised goodwill of $112.8 million relating to KFC Australia and $27.8 million relating to KFC and Taco Bell California. The Australian business unit has been impacted by COVID-19 during the year, which has had a significant adverse effect on trading circumstances due to extended lockdown restrictions causing store closures and reducing sales and profitability. As the California business unit was acquired in September 2020 with FY21 being the first full year of trading under the Group, the impairment model is sensitive to small changes in assumptions.<br><br>Management performed an annual impairment assessment using discounted cash flow value in use (VIU) models to determine whether the carrying value of assets held by these cash generating units (CGUs) are recoverable. The discounted cash flows are based on the four year budgets approved by the Board of Directors.<br><br>Our audit focussed on the KFC Australia CGU due to the impacts of COVID-19 and the inherent judgement involved in estimating future business performance, which includes certain key assumptions such as sales growth, EBITDA margin, EBITDA margin terminal year, terminal growth rate and the discount rate. We focussed on the California CGU due to it being recently acquired as well as the ongoing impacts of COVID-19 on the business.<br><br>The recoverable amount based on the VIU model was higher than the carrying value of both CGUs and as a result, no impairment charge was recognised. | In addressing the estimation and judgements in relation to future performance of the KFC Australia and KFC and Taco Bell CGUs, our audit procedures included:<br><br>• Gaining an understanding of the business process applied by management in preparing the impairment assessment;<br>• Reviewing historical years' actual store sales and profitability against the original budgeted performance to determine the reliability of the budgeting process and considering the impact on forecast performance;<br>• Agreeing forecast future performance included in the impairment assessments to four year budgets approved by the Board of Directors;<br>• Challenging key assumptions used in the VIU model in relation to sales growth, costs and EBITDA margins, terminal year sales and EBITDA growth and discount rate, and assessing whether these are reasonable by understanding strategic and operational initiatives underway, along with reviewing recent monthly performance trends to assess the recovery in sales upon stores re-opening;<br>• Evaluating whether corporate costs had been allocated appropriately and included in the cash flows for each CGU;<br>• With the assistance of our auditor's valuation expert, assessing the appropriateness of the terminal growth and discount rates as well as considering industry trends and external market forecasts for the industry;<br>• Testing the calculation of the carrying amounts of the CGU assets;<br>• Performing a sensitivity analysis over key assumptions to determine whether reasonably possible changes would result in impairment of goodwill; and<br>• Reviewing the financial statements to ensure appropriate identification and disclosure of key assumptions. |

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| For the KFC Australia CGU, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount. For the KFC and Taco Bell California CGU, an increase from 8% to 8.1% in the weighted average post-tax cost of capital would cause the carrying amount to equal its recoverable amount.<br><br>Refer to note 15 of the financial statements. | |
| **Impairment assessment of restaurant property, plant and equipment and right of use assets for KFC Australia**<br><br>As disclosed in note 13, the Group has recognised property, plant and equipment of $81.9 million and right of use assets of $152.9 million relating to KFC Australia.<br><br>Accounting standards require an entity to assess at the end of each reporting period whether there is any indication that an asset may be impaired. For the purposes of restaurant property, plant and equipment and right of use asset impairment testing, each individual restaurant is considered to be a separate CGU.<br><br>The Group has identified impairment indicators for certain restaurants in KFC Australia which have experienced prolonged closure periods due to COVID-19 restrictions. For these restaurants, management has performed value in use calculations to assess whether the associated carrying amounts of restaurant property, plant and equipment and right of use assets are recoverable.<br><br>This area is a key focus of our audit due to the inherent judgement in assumptions used in impairment testing including the uncertainty as to the ongoing impact of COVID-19 on forecast sales, costs and EBITDA margins for each restaurant. | Our audit procedures included:<br>• Considering the appropriate composition of each cash-generating unit;<br>• Gaining an understanding of the business process applied by management in preparing the impairment assessment;<br>• Reviewing monthly restaurant performance data to analyse how stores have recovered where COVID-19 related restrictions have been eased;<br>• Reviewing historical years' actual restaurant sales and profitability against the original budgeted performance to determine the reliability of the budgeting process and considering the impact on forecast performance and understanding the impacts of COVID-19 on operations during the year;<br>• Challenging key assumptions used in the VIU model in relation to sales growth, EBITDA margin, EBITDA margin terminal year, terminal growth rate and discount rate by performing sensitivity analyses;<br>• Challenging key assumptions used within the impairment indicators assessment such as forecast sales, costs and margin assumptions and assessing whether these are reasonable when taking into account ongoing uncertainty from COVID-19. This includes considering the potential for future restaurant closures and the impact of this on future sales and recovery of costs; and<br>• Considering whether the disclosures in the financial statements complied with the requirements of the accounting standards. |

| Description of the key audit matter | How our audit addressed the key audit matter |
|---|---|
| The key assumptions used in management's discounted cash flow models for restaurants identified to have impairment indicators are sales growth, EBITDA margin, EBITDA margin terminal year, terminal growth rate and discount rate.<br><br>There was no impairment recorded as a result of the impairment tests of individual restaurant property, plant and equipment and right of use assets as the recoverable amounts exceeded the carrying amounts. | |

## Our audit approach

### Overview


Overall group materiality: $3.282 million, which represents approximately 5% of profit before taxation.

We chose profit before taxation 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.

Following our assessment of the risk of material misstatement, we:

- Performed full scope audits for all the Group's principal business units in New Zealand, Australia, Hawaii and California based on their financial significance;
- Performed specified audit procedures and analytical review procedures over three of the remaining entities.

As reported above, we have two key audit matters, being:

- Goodwill impairment tests for KFC Australia and KFC and Taco Bell California
- Impairment assessment of restaurant property, plant and equipment and right of use assets for KFC Australia

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. 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.

## Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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.

## How we tailored our group audit scope

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. We performed full-scope audits for all of the Group's principal business units in New Zealand, Australia, California and Hawaii.

The materiality levels applied in the full scope audits of the principal business units were calculated by reference to a portion of Group materiality appropriate to the relative scale of the business concerned.

## Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual report (but does not include the financial statements and our auditor's report thereon). The other information we obtained prior to the date of this auditor's report comprised the Historical Summary, Consolidated Income Statement, Non-GAAP Financial Measures and the Directors' statement. The remaining other information is expected to be made available to us after that date.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon.

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.

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

## 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.

pwc

## 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/assurance-standards/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 Philippa (Pip) Cameron.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
28 February 2022

Auckland