

These financial statements for Restaurant Brands International Inc. are also included in the Form 10-Q for the quarterly period ended June 30, 2018 filed on SEDAR on August 1, 2018 in its entirety.

Item 1. Financial Statements
RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets
(In millions of U.S. dollars, except share data)
(Unaudited)

	As of	
	June 30, 2018	December 31, 2017
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 987.5	\$ 1,097.4
Accounts and notes receivable, net of allowance of \$17.4 and \$16.4, respectively	441.8	488.8
Inventories, net	85.5	78.0
Prepays and other current assets	116.1	85.4
Total current assets	1,630.9	1,749.6
Property and equipment, net of accumulated depreciation and amortization of \$682.9 and \$623.3, respectively	2,033.9	2,133.3
Intangible assets, net	10,736.4	11,062.2
Goodwill	5,619.9	5,782.3
Net investment in property leased to franchisees	61.8	71.3
Other assets, net	531.9	424.8
Total assets	<u>\$ 20,614.8</u>	<u>\$ 21,223.5</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>		
Current liabilities:		
Accounts and drafts payable	\$ 474.4	\$ 496.2
Other accrued liabilities	662.7	865.7
Gift card liability	102.5	214.9
Current portion of long term debt and capital leases	78.8	78.2
Total current liabilities	1,318.4	1,655.0
Term debt, net of current portion	11,776.0	11,800.9
Capital leases, net of current portion	231.1	243.8
Other liabilities, net	1,664.2	1,455.1
Deferred income taxes, net	1,400.8	1,508.1
Total liabilities	16,390.5	16,662.9
Shareholders' equity:		
Common shares, no par value; unlimited shares authorized at June 30, 2018 and December 31, 2017; 249,567,271 shares issued and outstanding at June 30, 2018; 243,899,476 shares issued and outstanding at December 31, 2017	2,116.4	2,051.5
Retained earnings	607.8	650.6
Accumulated other comprehensive income (loss)	(647.4)	(475.7)
Total Restaurant Brands International Inc. shareholders' equity	2,076.8	2,226.4
Noncontrolling interests	2,147.5	2,334.2
Total shareholders' equity	4,224.3	4,560.6
Total liabilities and shareholders' equity	<u>\$ 20,614.8</u>	<u>\$ 21,223.5</u>

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

(In millions of U.S. dollars, except per share data)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues:				
Sales	\$ 586.2	\$ 602.1	\$ 1,134.0	\$ 1,152.5
Franchise and property revenues (Note 4)	757.2	530.6	1,463.2	980.8
Total revenues	1,343.4	1,132.7	2,597.2	2,133.3
Operating costs and expenses:				
Cost of sales	448.9	460.2	878.0	883.6
Franchise and property expenses	102.4	113.7	206.8	224.7
Selling, general and administrative expenses (Note 4)	317.6	96.7	618.9	218.6
(Income) loss from equity method investments	1.2	0.9	(13.1)	(4.8)
Other operating expenses (income), net	(29.4)	46.8	(16.7)	60.6
Total operating costs and expenses	840.7	718.3	1,673.9	1,382.7
Income from operations	502.7	414.4	923.3	750.6
Interest expense, net	129.8	128.0	269.9	239.4
Loss on early extinguishment of debt	—	—	—	20.4
Income before income taxes	372.9	286.4	653.4	490.8
Income tax expense	58.7	42.9	60.4	80.7
Net income	314.2	243.5	593.0	410.1
Net income attributable to noncontrolling interests (Note 11)	146.6	86.5	277.6	135.4
Preferred share dividends	—	67.5	—	135.0
Net income attributable to common shareholders	\$ 167.6	\$ 89.5	\$ 315.4	\$ 139.7
Earnings per common share				
Basic	\$ 0.67	\$ 0.38	\$ 1.27	\$ 0.59
Diluted	\$ 0.66	\$ 0.37	\$ 1.25	\$ 0.57
Weighted average shares outstanding				
Basic	249.3	235.8	247.6	235.2
Diluted	474.1	478.0	474.0	477.3
Cash dividends declared per common share	\$ 0.45	\$ 0.19	\$ 0.90	\$ 0.37

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions of U.S. dollars)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	\$ 314.2	\$ 243.5	\$ 593.0	\$ 410.1
Foreign currency translation adjustment	(256.8)	355.4	(472.4)	461.2
Net change in fair value of net investment hedges, net of tax of \$(29.3), \$(48.8), \$(37.9) and \$(38.1)	113.5	(172.9)	116.0	(216.4)
Net change in fair value of cash flow hedges, net of tax of \$0.3, \$5.9, \$(10.1) and \$6.8	(0.7)	(16.5)	27.6	(19.1)
Amounts reclassified to earnings of cash flow hedges, net of tax of \$(1.5), \$(2.5), \$(2.3) and \$(3.8)	3.9	7.3	6.2	11.0
Gain (loss) recognized on defined benefit pension plans, net of tax of \$0.0, \$1.1, \$0.0 and \$1.4	—	0.6	0.2	0.3
Other comprehensive income (loss)	(140.1)	173.9	(322.4)	237.0
Comprehensive income (loss)	174.1	417.4	270.6	647.1
Comprehensive income (loss) attributable to noncontrolling interests	81.3	171.8	126.7	251.7
Comprehensive income attributable to preferred shareholders	—	67.5	—	135.0
Comprehensive income (loss) attributable to common shareholders	<u>\$ 92.8</u>	<u>\$ 178.1</u>	<u>\$ 143.9</u>	<u>\$ 260.4</u>

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity

(In millions of U.S. dollars, except shares)

(Unaudited)

	Issued Common Shares		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
	Shares	Amount				
Balances at December 31, 2017	243,899,476	\$ 2,051.5	\$ 650.6	\$ (475.7)	\$ 2,334.2	\$ 4,560.6
Cumulative effect adjustment (Note 4)	—	—	(132.0)	—	(117.8)	(249.8)
Stock option exercises	5,469,375	29.0	—	—	—	29.0
Share-based compensation	—	26.5	—	—	—	26.5
Issuance of shares	126,065	6.6	—	—	—	6.6
Dividends declared on common shares	—	—	(224.3)	—	—	(224.3)
Dividend equivalents declared on restricted stock units	—	1.9	(1.9)	—	—	—
Distributions declared by Partnership on Partnership exchangeable units (Note 11)	—	—	—	—	(195.9)	(195.9)
Exchange of Partnership exchangeable units for RBI common shares	72,355	0.9	—	(0.2)	(0.7)	—
Restaurant VIE contributions (distributions)	—	—	—	—	1.0	1.0
Net income	—	—	315.4	—	277.6	593.0
Other comprehensive income (loss)	—	—	—	(171.5)	(150.9)	(322.4)
Balances at June 30, 2018	<u>249,567,271</u>	<u>\$ 2,116.4</u>	<u>\$ 607.8</u>	<u>\$ (647.4)</u>	<u>\$ 2,147.5</u>	<u>\$ 4,224.3</u>

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In millions of U.S. dollars)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$ 593.0	\$ 410.1
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	92.6	88.7
Premiums paid and non-cash loss on early extinguishment of debt	—	17.9
Amortization of deferred financing costs and debt issuance discount	14.5	16.7
(Income) loss from equity method investments	(13.1)	(4.8)
Loss (gain) on remeasurement of foreign denominated transactions	(16.2)	47.1
Net (gains) losses on derivatives	(14.8)	14.9
Share-based compensation expense	26.6	27.2
Deferred income taxes	(58.1)	22.4
Other	4.3	9.8
Changes in current assets and liabilities, excluding acquisitions and dispositions:		
Accounts and notes receivable	36.2	27.4
Inventories and prepaids and other current assets	(15.6)	(4.9)
Accounts and drafts payable	(11.4)	(5.4)
Other accrued liabilities and gift card liability	(347.4)	(164.2)
Other long-term assets and liabilities	(3.2)	(12.9)
Net cash provided by operating activities	<u>287.4</u>	<u>490.0</u>
Cash flows from investing activities:		
Payments for property and equipment	(21.6)	(11.7)
Proceeds from disposal of assets, restaurant closures, and refranchisings	3.4	9.6
Net payment for purchase of Popeyes, net of cash acquired	—	(1,635.9)
Return of investment on direct financing leases	8.3	7.8
Settlement/sale of derivatives, net	11.2	772.0
Other investing activities, net	0.2	0.3
Net cash provided by (used for) investing activities	<u>1.5</u>	<u>(857.9)</u>
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	3,050.0
Repayments of long-term debt and capital leases	(43.3)	(377.7)
Payment of financing costs	—	(47.0)
Payment of dividends on common and preferred shares and distributions on Partnership exchangeable units	(307.0)	(296.6)
Payments in connection with redemption of preferred shares	(60.1)	—
Proceeds from stock option exercises	29.0	12.3
Other financing activities, net	(1.8)	(2.3)
Net cash (used for) provided by financing activities	<u>(383.2)</u>	<u>2,338.7</u>
Effect of exchange rates on cash and cash equivalents	(15.6)	13.3
Increase (decrease) in cash and cash equivalents	(109.9)	1,984.1
Cash and cash equivalents at beginning of period	1,097.4	1,475.8
Cash and cash equivalents at end of period	<u><u>\$ 987.5</u></u>	<u><u>\$ 3,459.9</u></u>
Supplemental cash flow disclosures:		
Interest paid	\$ 273.6	\$ 205.6
Income taxes paid	\$ 374.0	\$ 116.9

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business and Organization

Restaurant Brands International Inc. (the “Company”, “RBI”, “we”, “us” or “our”) was formed on August 25, 2014 and continued under the laws of Canada. The Company serves as the sole general partner of Restaurant Brands International Limited Partnership (“Partnership”). We franchise and operate quick service restaurants serving premium coffee and other beverage and food products under the *Tim Hortons*® brand (“Tim Hortons” or “TH”), fast food hamburgers principally under the *Burger King*® brand (“Burger King” or “BK”), and chicken under the *Popeyes*® brand (“Popeyes” or “PLK”). We are one of the world’s largest quick service restaurant, or QSR, companies as measured by total number of restaurants. As of June 30, 2018, we franchised or owned 4,794 Tim Hortons restaurants, 17,022 Burger King restaurants, and 2,975 Popeyes restaurants, for a total of 24,791 restaurants, and operate in more than 100 countries and U.S. territories. Approximately 100% of current system-wide restaurants are franchised.

All references to “\$” or “dollars” are to the currency of the United States unless otherwise indicated. All references to Canadian dollars or C\$ are to the currency of Canada unless otherwise indicated.

Note 2. Basis of Presentation and Consolidation

We have prepared the accompanying unaudited condensed consolidated financial statements (the “Financial Statements”) in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (“U.S. GAAP”) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited consolidated financial statements contained in our Annual Report on Form 10-K filed with the SEC and Canadian securities regulatory authorities on February 23, 2018.

The Financial Statements include our accounts and the accounts of entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. All material intercompany balances and transactions have been eliminated in consolidation. Investments in other affiliates that are owned 50% or less where we have significant influence are accounted for by the equity method.

We are the sole general partner of Partnership and, as such we have the exclusive right, power and authority to manage, control, administer and operate the business and affairs and to make decisions regarding the undertaking and business of Partnership, subject to the terms of the amended and restated limited partnership agreement of Partnership (the “partnership agreement”) and applicable laws. As a result, we consolidate the results of Partnership and record a noncontrolling interest in our consolidated balance sheets and statements of operations with respect to the remaining economic interest in Partnership we do not hold.

We also consider for consolidation entities in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (“VIE”), is required to be consolidated by its primary beneficiary.

Tim Hortons has historically entered into certain arrangements in which an operator acquires the right to operate a restaurant, but Tim Hortons owns the restaurant’s assets. We perform an analysis to determine if the legal entity in which operations are conducted is a VIE and consolidate a VIE entity if we also determine Tim Hortons is the entity’s primary beneficiary (“Restaurant VIEs”). As of June 30, 2018 and December 31, 2017, we determined that we are the primary beneficiary of 21 and 31 Restaurant VIEs, respectively. As Tim Hortons, Burger King, and Popeyes franchise and master franchise arrangements provide the franchise and master franchise entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might be a VIE.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

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The preparation of consolidated financial statements in conformity with U.S. GAAP and related rules and regulations of the SEC requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

Certain prior year amounts in the accompanying Financial Statements and notes to the Financial Statements have been reclassified in order to be comparable with the current year classifications. These consist of the December 31, 2017 reclassification of Advertising fund restricted assets to Cash and cash equivalents, Accounts and notes receivable, net and Prepaids and other current assets and the reclassification of Advertising fund liabilities to Accounts and drafts payable and Other accrued liabilities as detailed below (in millions). These reclassifications had no effect on previously reported net income.

	December 31, 2017		December 31, 2017	
	As Reported	Reclassification	As Adjusted	
Current assets:				
Cash and cash equivalents	\$ 1,073.4	\$ 24.0	\$ 1,097.4	
Accounts and notes receivable, net	455.9	32.9	488.8	
Inventories, net	78.0	—	78.0	
Advertising fund restricted assets	83.3	(83.3)	—	
Prepaids and other current assets	59.0	26.4	85.4	
Total current assets	<u>\$ 1,749.6</u>	<u>\$ —</u>	<u>\$ 1,749.6</u>	
Current liabilities:				
Accounts and drafts payable	\$ 412.9	\$ 83.3	\$ 496.2	
Other accrued liabilities	838.2	27.5	865.7	
Gift card liability	214.9	—	214.9	
Advertising fund liabilities	110.8	(110.8)	—	
Current portion of long term debt and capital leases	78.2	—	78.2	
Total current liabilities	<u>\$ 1,655.0</u>	<u>\$ —</u>	<u>\$ 1,655.0</u>	

Note 3. New Accounting Pronouncements

Revenue Recognition – In May 2014, the Financial Accounting Standards Board (the “FASB”) issued a new single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. We adopted this new guidance on January 1, 2018. See Note 4, *Revenue Recognition*, for further information about our transition to this new revenue recognition model using the modified retrospective transition method.

Lease Accounting – In February 2016, the FASB issued new guidance on leases. The new guidance requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by finance and operating leases with lease terms of more than 12 months, amends various other aspects of accounting for leases by lessees and lessors, and requires enhanced disclosures. The new guidance is effective commencing in 2019 and requires either a modified retrospective transition approach with application in all comparative periods presented, or an alternative transition method, which permits a company to use its effective date as the date of initial application without restating comparative period financial statements. The new guidance also provides several practical expedients and policies that companies may elect under either transition method. We currently expect to apply the alternative transition method and elect the package of practical expedients under which we will not reassess the classification of our existing leases, reevaluate whether any expired or existing contracts are or contain leases or reassess initial direct costs under the new guidance. We do not expect to elect the practical expedient that permits a reassessment of lease terms for existing leases and are continuing to evaluate other practical expedients and elections specified in the new guidance.

We have commenced an analysis of the impact of the new lease guidance and developed a comprehensive plan for our implementation of the new guidance. The project plan includes analyzing the impact of the new guidance on our current lease contracts, reviewing the completeness of our existing lease portfolio, comparing our accounting policies under current accounting guidance to the new accounting guidance and identifying potential differences from applying the requirements of

the new guidance to our lease contracts. Under current accounting guidance for leases, we do not recognize an asset or liability created by operating leases where we are the lessee. We expect a material increase to our assets and liabilities on our consolidated balance sheet as a result of recognizing assets and liabilities for operating leases where we are the lessee on the date of initial application of the new guidance. We are continuing to evaluate the impact of the new guidance on capital leases and direct finance leases. We are also continuing to evaluate the impact that adoption of this guidance will have on our consolidated statements of operations. We do not expect the adoption of this new guidance to have a material impact on the amount or timing of our cash flows and liquidity.

Goodwill Impairment – In January 2017, the FASB issued guidance to simplify how an entity measures goodwill impairment by removing the second step of the two-step quantitative goodwill impairment test. An entity will no longer be required to perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured at the amount by which the carrying value exceeds the fair value of a reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. The amendment requires prospective adoption and is effective commencing in 2020 with early adoption permitted.

Hedge Accounting – In August 2017, the FASB issued guidance to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities and to simplify the application of hedge accounting by preparers. We adopted this guidance on January 1, 2018 (the "Adoption Date").

The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness for cash flow and net investment hedges that are deemed effective. Most notably, for our cross-currency swaps designated as net investment hedges, the new guidance permits the exclusion of the interest component (the "Excluded Component") from the accounting hedge without affecting net investment hedge designation. The initial value of the Excluded Component may be recognized in earnings on a systematic and rational basis over the life of the derivative instrument.

Subsequent to the Adoption Date, we changed the method of assessing effectiveness for net investment hedges using derivatives from the forward method to the spot method. We de-designated the cross currency-swaps and re-designated them as of March 15, 2018 (the "Re-designation Date"). As a result of adopting the new guidance and the re-designation of our cross-currency-swaps, we will recognize a benefit from the amortization of the initial value of the Excluded Component as a component of Interest expense, net in our condensed consolidated statements of operations rather than as a component of other comprehensive income. All changes in fair value of the instruments related to currency fluctuations will continue to be recognized within other comprehensive income.

The impact of adoption did not have a material effect on our Financial Statements as of the Adoption Date. We recorded a \$19.9 million net benefit to Interest expense, net during the three months ended June 30, 2018 and a \$23.5 million net benefit to Interest expense, net from the Re-designation Date through June 30, 2018 in our condensed consolidated statements of operations for the amortization of the initial value of the Excluded Component, as described above. We believe the new guidance better portrays the economic results of our risk management activities and net investment hedges in our Financial Statements.

Reclassification of Certain Tax Effects – In February 2018, the FASB issued guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for the tax effects of certain items within accumulated other comprehensive income. The amendment is effective commencing in 2019 with early adoption permitted. We are currently evaluating the impact that the adoption of this new guidance will have on our Financial Statements.

Share-based payment arrangements with nonemployees – In June 2018, the FASB issued guidance which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The amendment is effective commencing in 2019 with early adoption permitted. We are currently evaluating the impact that the adoption of this new guidance will have on our Financial Statements.

Note 4. Revenue Recognition

Revenue from Contracts with Customers

We transitioned to FASB Accounting Standards Codification (“ASC”) Topic 606, *Revenue From Contracts with Customers* (“ASC 606”), from ASC Topic 605, *Revenue Recognition* and ASC Subtopic 952-605, *Franchisors - Revenue Recognition* (together, the “Previous Standards”) on January 1, 2018 using the modified retrospective transition method. Our Financial Statements reflect the application of ASC 606 guidance beginning in 2018, while our consolidated financial statements for prior periods were prepared under the guidance of the Previous Standards. The \$249.8 million cumulative effect of our transition to ASC 606 is reflected as an adjustment to January 1, 2018 Shareholders' equity.

Our transition to ASC 606 represents a change in accounting principle. ASC 606 eliminates industry-specific guidance and provides a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of ASC 606 is that a reporting entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the reporting entity expects to be entitled for the exchange of those goods or services.

Revenue Recognition Significant Accounting Policies under ASC 606

Our revenues are comprised of sales and franchise and property revenues, which are detailed as follows:

Sales

Sales consist primarily of supply chain sales, which represent sales of products, supplies and restaurant equipment to franchisees, as well as sales to retailers. Orders placed by customers specify the goods to be delivered and transaction prices for supply chain sales. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the customer, which is when the customer obtains physical possession of the goods, legal title is transferred, the customer has all risks and rewards of ownership and an obligation to pay for the goods is created. Shipping and handling costs associated with outbound freight for supply chain sales are accounted for as fulfillment costs and classified as cost of sales.

Commencing on January 1, 2018, we classify all sales of restaurant equipment to franchisees as Sales and related cost of equipment sold as Cost of sales. In periods prior to January 1, 2018, we classified sales of restaurant equipment at establishment of a restaurant and in connection with renewal or renovation as Franchise and property revenues and related costs as Franchise and property expense.

To a much lesser extent, sales also include Company restaurant sales (including Restaurant VIEs), which consist of sales to restaurant guests. Revenue from Company restaurant sales is recognized at the point of sale. Taxes assessed by a governmental authority that we collect are excluded from revenue.

Franchise and Property Revenues

Franchise revenues

Franchise revenues consist primarily of royalties, advertising fund contributions, initial and renewal franchise fees and upfront fees from development agreements and master franchise and development agreements (“MFDAs”). Our performance obligations under franchise agreements consist of (a) a franchise license, including a license to use one of our brands and, where our subsidiaries manage an advertising fund, advertising and promotion management, (b) pre-opening services, such as training and inspections, and (c) ongoing services, such as development of training materials and menu items and restaurant monitoring and inspections. These performance obligations are highly interrelated, so we do not consider them to be individually distinct and therefore account for them under ASC 606 as a single performance obligation, which is satisfied by providing a right to use our intellectual property over the term of each franchise agreement.

Royalties, including franchisee contributions to advertising funds managed by our subsidiaries, are calculated as a percentage of franchise restaurant sales over the term of the franchise agreement. Under our franchise agreements, advertising contributions paid by franchisees must be spent on advertising, product development, marketing and related activities. Initial and renewal franchise fees are payable by the franchisee upon a new restaurant opening or renewal of an existing franchise agreement. Our franchise agreement royalties, inclusive of advertising fund contributions, represent sales-based royalties that are related entirely to our performance obligation under the franchise agreement and are recognized as franchise sales occur. Additionally, under ASC 606, initial and renewal franchise fees are recognized as revenue on a straight-line basis over the term of the respective agreement. Under the Previous Standards, initial franchise fees were recognized as revenue when the related restaurant commenced operations and our completion of all material services and conditions. Renewal franchise fees were recognized as revenue upon execution of a new franchise agreement. Our performance obligation under development

agreements other than MFDAs generally consists of an obligation to grant exclusive development rights over a stated term. These development rights are not distinct from franchise agreements, so upfront fees paid by franchisees for exclusive development rights are deferred and apportioned to each franchise restaurant opened by the franchisee. The pro rata amount apportioned to each restaurant is accounted for as an initial franchise fee.

We have a distinct performance obligation under our MFDAs to grant subfranchising rights over a stated term. Under the terms of MFDAs, we typically either receive an upfront fee paid in cash and/or receive noncash consideration in the form of an equity interest in the master franchisee or an affiliate of the master franchisee. We previously accounted for noncash consideration as a nonmonetary exchange and did not record revenue or a basis in the equity interest received in arrangements where we received noncash consideration. These transactions now fall within the scope of ASC 606, which requires us to record investments in the applicable equity method investee and recognize revenue in an amount equal to the fair value of the equity interest received. Upfront fees from master franchisees, including the fair value of noncash consideration, are deferred and amortized over the MFDA term on a straight-line basis. We may recognize unamortized upfront fees when a contract with a franchisee or master franchisee is modified and is accounted for as a termination of the existing contract.

The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Under ASC 606, we recognize gift card breakage income proportionately as each gift card is redeemed using an estimated breakage rate based on our historical experience. Under the Previous Standards, we recognized gift card breakage income for each gift card's remaining balance when redemption of that balance was deemed remote.

Property Revenues

Property revenues are accounted for in accordance with applicable accounting guidance for leases and are excluded from the scope of ASC 606. See Note 2, *Significant Accounting Policies*, to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for our property revenue accounting policies.

Contract Liabilities

Contract liabilities consist of deferred revenue resulting from initial and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the underlying agreement. We classify these contract liabilities as Other liabilities, net in our condensed consolidated balance sheets. The following table reflects the change in contract liabilities between the date of adoption (January 1, 2018) and June 30, 2018 (in millions):

	Contract Liabilities
Balance at January 1, 2018	\$ 455.0
Revenue recognized that was included in the contract liability balance at the beginning of the year	(30.7)
Increase, excluding amounts recognized as revenue during the period	40.6
Impact of foreign currency translation	(9.9)
Balance at June 30, 2018	<u>\$ 455.0</u>

The following table illustrates estimated revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of June 30, 2018 (in millions):

Contract liabilities expected to be recognized in	Amount
Remainder of 2018	\$ 17.6
2019	34.2
2020	33.5
2021	32.8
2022	32.0
Thereafter	304.9
Total	<u>\$ 455.0</u>

Disaggregation of Total Revenues

Total revenues consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Sales	\$ 586.2	\$ 602.1	\$ 1,134.0	\$ 1,152.5
Royalties	543.9	308.7	1,054.3	550.7
Property revenues	190.5	189.3	368.3	364.3
Franchise fees and other revenue	22.8	32.6	40.6	65.8
Total revenues	<u>\$ 1,343.4</u>	<u>\$ 1,132.7</u>	<u>\$ 2,597.2</u>	<u>\$ 2,133.3</u>

Financial Statement Impact of Transition to ASC 606

As noted above, we transitioned to ASC 606 using the modified retrospective method on January 1, 2018. The cumulative effect of this transition to applicable contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to Shareholders' equity as of this date. As a result of applying the modified retrospective method to transition to ASC 606, the following adjustments were made to the consolidated balance sheet as of January 1, 2018 (in millions):

	As Reported December 31, 2017	Total Adjustments	Adjusted January 1, 2018
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 1,097.4	\$ —	\$ 1,097.4
Accounts and notes receivable, net	488.8	—	488.8
Inventories, net	78.0	—	78.0
Prepays and other current assets	85.4	(23.0)	62.4
Total current assets	1,749.6	(23.0)	1,726.6
Property and equipment, net	2,133.3	—	2,133.3
Intangible assets, net	11,062.2	—	11,062.2
Goodwill	5,782.3	—	5,782.3
Net investment in property leased to franchisees	71.3	—	71.3
Other assets, net	424.8	106.6	531.4
Total assets	<u>\$ 21,223.5</u>	<u>\$ 83.6</u>	<u>\$ 21,307.1</u>
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts and drafts payable	\$ 496.2	\$ —	\$ 496.2
Other accrued liabilities	865.7	8.9	874.6
Gift card liability	214.9	(43.0)	171.9
Current portion of long term debt and capital leases	78.2	—	78.2
Total current liabilities	1,655.0	(34.1)	1,620.9
Term debt, net of current portion	11,800.9	—	11,800.9
Capital leases, net of current portion	243.8	—	243.8
Other liabilities, net	1,455.1	425.7	1,880.8
Deferred income taxes, net	1,508.1	(58.2)	1,449.9
Total liabilities	<u>16,662.9</u>	<u>333.4</u>	<u>16,996.3</u>
Shareholders' equity:			
Common shares	2,051.5	—	2,051.5
Retained earnings	650.6	(132.0)	518.6
Accumulated other comprehensive income (loss)	(475.7)	—	(475.7)
Total RBI shareholders' equity	2,226.4	(132.0)	2,094.4
Noncontrolling interests	2,334.2	(117.8)	2,216.4
Total shareholders' equity	4,560.6	(249.8)	4,310.8
Total liabilities and shareholders' equity	<u>\$ 21,223.5</u>	<u>\$ 83.6</u>	<u>\$ 21,307.1</u>

Franchise Fees

The cumulative adjustment for franchise fees consists of the following:

- A \$320.7 million increase in Other liabilities, net for the cumulative reversal and deferral of previously recognized franchise fees related to franchise agreements in effect at January 1, 2018 that were entered into subsequent to the acquisitions of BK in 2010, TH in 2014 and PLK in 2017 (net of the cumulative revenue attributable for the period through January 1, 2018), with a corresponding decrease to Shareholders' equity.
- A \$106.6 million increase in Other assets, net for the previously unrecognized value of equity interests received in connection with MFDA arrangements. This increase resulted in a corresponding increase in Other liabilities, net of \$105.0 million and an adjustment to Shareholders' equity of \$1.6 million for the cumulative effect of revenue attributable for the period between the inception of each such arrangement and January 1, 2018.
- A \$67.1 million decrease to Deferred income taxes, net for the tax effects of the two adjustments noted above, with a corresponding increase to Shareholders' equity.

Advertising Funds

The cumulative adjustment for advertising funds reflects the recognition of cumulative advertising expenditures temporarily in excess of cumulative advertising fund contributions as of January 1, 2018, which is reflected as a \$23.0 million decrease in Prepaids and other current assets and a \$23.0 million decrease to Shareholders' equity.

Gift Card Breakage

The adjustment for gift card breakage reflects the impact of the change to recognize gift card breakage proportionately as gift card balances are used rather than when it is deemed remote that the unused gift card balance would be redeemed, as done under the Previous Standards. The cumulative effect of applying ASC 606 accounting to gift card balances outstanding at January 1, 2018 is reflected as a \$43.0 million decrease in Gift card liability, an \$8.9 million increase in Other accrued liabilities, an \$8.9 million increase in Deferred income taxes, net and a \$25.2 million increase in January 1, 2018 Shareholders' equity.

Comparison to Amounts if Previous Standards Had Been in Effect

The following tables reflect the impact of adoption of ASC 606 on our condensed consolidated statements of operations for the three and six months ended June 30, 2018 and cash flows from operating activities for the six months ended June 30, 2018 and our condensed consolidated balance sheet as of June 30, 2018 and the amounts as if the Previous Standards were in effect (“Amounts Under Previous Standards”) (in millions):

Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2018

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	As Reported	Total Adjustments	Amounts Under Previous Standards	As Reported	Total Adjustments	Amounts Under Previous Standards
Revenues:						
Sales	\$ 586.2	\$ —	\$ 586.2	\$ 1,134.0	\$ —	\$ 1,134.0
Franchise and property revenues	757.2	(199.1)	558.1	1,463.2	(381.1)	1,082.1
Total revenues	1,343.4	(199.1)	1,144.3	2,597.2	(381.1)	2,216.1
Operating costs and expenses:						
Cost of sales	448.9	—	448.9	878.0	—	878.0
Franchise and property expenses	102.4	—	102.4	206.8	(0.2)	206.6
Selling, general and administrative expenses	317.6	(200.1)	117.5	618.9	(390.6)	228.3
(Income) loss from equity method investments	1.2	(3.6)	(2.4)	(13.1)	(3.6)	(16.7)
Other operating expenses (income), net	(29.4)	—	(29.4)	(16.7)	—	(16.7)
Total operating costs and expenses	840.7	(203.7)	637.0	1,673.9	(394.4)	1,279.5
Income from operations	502.7	4.6	507.3	923.3	13.3	936.6
Interest expense, net	129.8	0.7	130.5	269.9	1.2	271.1
Income before income taxes	372.9	3.9	376.8	653.4	12.1	665.5
Income tax expense	58.7	1.1	59.8	60.4	3.2	63.6
Net income	314.2	2.8	317.0	593.0	8.9	601.9
Net income attributable to noncontrolling interests	146.6	1.3	147.9	277.6	4.2	281.8
Net income attributable to common shareholders	\$ 167.6	\$ 1.5	\$ 169.1	\$ 315.4	\$ 4.7	\$ 320.1
Earnings per common share:						
Basic	\$ 0.67		\$ 0.68	\$ 1.27		\$ 1.29
Diluted	\$ 0.66		\$ 0.67	\$ 1.25		\$ 1.27

The following summarizes the adjustments to our condensed consolidated statement of operations for the three and six months ended June 30, 2018 to reflect our condensed consolidated statement of operations as if we had continued to recognize revenue under the Previous Standards:

- As described above, our transition to ASC 606 resulted in the deferral of franchise fees, recognition of franchise fees in connection with MFDAs where we received an equity interest in the equity method investee, and a change in the timing of recognizing gift card breakage income. The adjustments for the three and six months ended June 30, 2018 to reflect the recognition of this revenue as if the Previous Standards were in effect consists of a \$1.1 million and \$5.0 million increase in Franchise and property revenue, respectively, and a \$1.3 million and \$2.4 million increase in Income tax expense, respectively.
- The adjustments to (income) loss from equity method investments for the three and six months ended June 30, 2018 reflect the amount of losses from equity method investments we would not have recognized if the Previous Standards were in effect. There is no tax impact related to these adjustments.
- As described above, under the Previous Standards our statement of operations did not reflect gross presentations of advertising fund contributions and expenses. Our transition to ASC 606 requires the presentation of advertising fund contributions and advertising fund expenses on a gross basis. The adjustments for the three and six months ended June 30, 2018 to reflect advertising fund contributions and expenses as if the Previous Standards were in effect consist of a

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\$200.2 million and \$386.1 million decrease in Franchise and property revenues, respectively, a \$0.0 million and \$0.2 million decrease in Franchise and property expenses, respectively, a \$200.1 million and \$390.6 million decrease in Selling, general and administrative expenses, respectively, a \$0.7 million and \$1.2 million increase in Interest expense, net, respectively, and a \$0.2 million decrease and \$0.8 million increase in Income tax expense, respectively.

Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2018

The transition to ASC 606 had no net impact on our cash provided by operating activities and no impact on our cash provided by investing activities or cash used for financing activities during the six months ended June 30, 2018.

	As Reported	Total Adjustments	Amounts Under Previous Standards
Cash flows from operating activities:			
Net income	\$ 593.0	\$ 8.9	\$ 601.9
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	92.6	—	92.6
Amortization of deferred financing costs and debt issuance discount	14.5	—	14.5
(Income) loss from equity method investments	(13.1)	(3.6)	(16.7)
Loss (gain) on remeasurement of foreign denominated transactions	(16.2)	—	(16.2)
Net losses on derivatives	(14.8)	—	(14.8)
Share-based compensation expense	26.6	—	26.6
Deferred income taxes	(58.1)	3.2	(54.9)
Other	4.3	—	4.3
Changes in current assets and liabilities, excluding acquisitions and dispositions:			
Accounts and notes receivable	36.2	—	36.2
Inventories and prepaids and other current assets	(15.6)	(4.4)	(20.0)
Accounts and drafts payable	(11.4)	3.8	(7.6)
Other accrued liabilities and gift card liability	(347.4)	(2.3)	(349.7)
Other long-term assets and liabilities	(3.2)	(5.6)	(8.8)
Net cash provided by operating activities	\$ 287.4	\$ —	\$ 287.4

Condensed Consolidated Balance Sheet

	As Reported	Total	Amounts Under
	June 30, 2018	Adjustments	Previous Standards
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	\$ 987.5	\$ —	\$ 987.5
Accounts and notes receivable, net	441.8	—	441.8
Inventories, net	85.5	—	85.5
Prepays and other current assets	116.1	27.4	143.5
Total current assets	1,630.9	27.4	1,658.3
Property and equipment, net	2,033.9	—	2,033.9
Intangible assets, net	10,736.4	—	10,736.4
Goodwill	5,619.9	—	5,619.9
Net investment in property leased to franchisees	61.8	—	61.8
Other assets, net	531.9	(103.0)	428.9
Total assets	\$ 20,614.8	\$ (75.6)	\$ 20,539.2
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts and drafts payable	\$ 474.4	\$ 3.8	\$ 478.2
Other accrued liabilities	662.7	(11.8)	650.9
Gift card liability	102.5	43.6	146.1
Current portion of long term debt and capital leases	78.8	—	78.8
Total current liabilities	1,318.4	35.6	1,354.0
Term debt, net of current portion	11,776.0	—	11,776.0
Capital leases, net of current portion	231.1	—	231.1
Other liabilities, net	1,664.2	(431.3)	1,232.9
Deferred income taxes, net	1,400.8	61.4	1,462.2
Total liabilities	16,390.5	(334.3)	16,056.2
Shareholders' equity:			
Common shares	2,116.4	—	2,116.4
Retained earnings	607.8	138.2	746.0
Accumulated other comprehensive income (loss)	(647.4)	—	(647.4)
Total RBI shareholders' equity	2,076.8	138.2	2,215.0
Noncontrolling interests	2,147.5	120.5	2,268.0
Total shareholders' equity	4,224.3	258.7	4,483.0
Total liabilities and shareholders' equity	\$ 20,614.8	\$ (75.6)	\$ 20,539.2

Note 5. Earnings per Share

An economic interest in Partnership common equity is held by the holders of Class B exchangeable limited partnership units (the “Partnership exchangeable units”), which is reflected as a noncontrolling interest in our equity. See Note 11, *Shareholders’ Equity*.

Basic and diluted earnings per share is computed using the weighted average number of shares outstanding for the period. We apply the treasury stock method to determine the dilutive weighted average common shares represented by Partnership exchangeable units and outstanding equity awards, unless the effect of their inclusion is anti-dilutive. The diluted earnings per share calculation assumes conversion of 100% of the Partnership exchangeable units under the “if converted” method. Accordingly, the numerator is also adjusted to include the earnings allocated to the holders of noncontrolling interests.

The following table summarizes the basic and diluted earnings per share calculations (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Numerator:				
Net income attributable to common shareholders - basic	\$ 167.6	\$ 89.5	\$ 315.4	\$ 139.7
Add: Net income attributable to noncontrolling interests	146.4	86.1	277.2	134.6
Net income available to common shareholders and noncontrolling interests - diluted	<u>\$ 314.0</u>	<u>\$ 175.6</u>	<u>\$ 592.6</u>	<u>\$ 274.3</u>
Denominator:				
Weighted average common shares - basic	249.3	235.8	247.6	235.2
Exchange of noncontrolling interests for common shares (Note 11)	217.6	226.9	217.7	226.9
Effect of other dilutive securities	7.2	15.3	8.7	15.2
Weighted average common shares - diluted	<u>474.1</u>	<u>478.0</u>	<u>474.0</u>	<u>477.3</u>
Basic earnings per share	\$ 0.67	\$ 0.38	\$ 1.27	\$ 0.59
Diluted earnings per share	\$ 0.66	\$ 0.37	\$ 1.25	\$ 0.57
Anti-dilutive securities outstanding	5.8	4.2	5.8	4.2

Note 6. Intangible Assets, net and Goodwill

Intangible assets, net and goodwill consist of the following (in millions):

	As of					
	June 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Identifiable assets subject to amortization:						
Franchise agreements	\$ 713.4	\$ (181.0)	\$ 532.4	\$ 724.7	\$ (168.0)	\$ 556.7
Favorable leases	443.5	(208.6)	234.9	455.7	(193.7)	262.0
Subtotal	1,156.9	(389.6)	767.3	1,180.4	(361.7)	818.7
Indefinite lived intangible assets:						
<i>Tim Hortons</i> brand	\$ 6,470.8	\$ —	\$ 6,470.8	\$ 6,727.1	\$ —	\$ 6,727.1
<i>Burger King</i> brand	2,143.4	—	2,143.4	2,161.5	—	2,161.5
<i>Popeyes</i> brand	1,354.9	—	1,354.9	1,354.9	—	1,354.9
Subtotal	9,969.1	—	9,969.1	10,243.5	—	10,243.5
Intangible assets, net			<u>\$ 10,736.4</u>			<u>\$ 11,062.2</u>
Goodwill						
Tim Hortons segment	\$ 4,168.5			\$ 4,325.8		
Burger King segment	605.6			610.7		
Popeyes segment	845.8			845.8		
Total	<u>\$ 5,619.9</u>			<u>\$ 5,782.3</u>		

Amortization expense on intangible assets totaled \$17.7 million for the three months ended June 30, 2018 and \$18.0 million for the same period in the prior year. Amortization expense on intangible assets totaled \$35.7 million for the six months ended June 30, 2018 and \$35.5 million for the same period in the prior year. The change in the brands and goodwill balances during the six months ended June 30, 2018 was due to the impact of foreign currency translation.

Note 7. Equity Method Investments

The aggregate carrying amount of our equity method investments was \$264.9 million and \$155.1 million as of June 30, 2018 and December 31, 2017, respectively, and is included as a component of Other assets, net in our accompanying condensed consolidated balance sheets. The increase in the carrying amount of our equity method investments as of June 30, 2018 compared to December 31, 2017 is primarily attributable to the recognition of investments received in connection with master franchise and development arrangements as a result of our transition to ASC 606. See Note 4, *Revenue Recognition*. TH and BK both have equity method investments. PLK does not have any equity method investments.

With respect to our TH business, the most significant equity method investment is our 50% joint venture interest with The Wendy's Company (the "TIMWEN Partnership"), which jointly holds real estate underlying Canadian combination restaurants. Distributions received from this joint venture were \$2.9 million and \$3.0 million during the three months ended June 30, 2018 and 2017, respectively. Distributions received from this joint venture were \$5.8 million and \$5.4 million during the six months ended June 30, 2018 and 2017, respectively.

The aggregate market value of our 20.5% equity interest in Carrols Restaurant Group, Inc. ("Carrols") based on the quoted market price on June 30, 2018 was approximately \$139.8 million. The aggregate market value of our 10.1% equity interest in BK Brasil Operação e Assessoria a Restaurantes S.A. based on the quoted market price on June 30, 2018 was approximately \$91.3 million. No quoted market prices are available for our other equity method investments.

We have equity interests in entities that own or franchise Tim Hortons or Burger King restaurants. Franchise and property revenues recognized from franchisees that are owned or franchised by entities in which we have an equity interest consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues from affiliates:				
Royalties	\$ 73.6	\$ 43.4	\$ 141.8	\$ 81.9
Property revenues	9.0	6.6	17.8	12.9
Franchise fees and other revenue	2.4	5.3	4.7	11.0
Total	<u>\$ 85.0</u>	<u>\$ 55.3</u>	<u>\$ 164.3</u>	<u>\$ 105.8</u>

We recognized \$5.0 million and \$4.9 million of rent expense associated with the TIMWEN Partnership during the three months ended June 30, 2018 and 2017, respectively. We recognized \$9.5 million and \$9.4 million of rent expense associated with the TIMWEN Partnership during the six months ended June 30, 2018 and 2017, respectively.

At June 30, 2018 and December 31, 2017, we had \$33.9 million and \$31.9 million, respectively, of accounts receivable, net from our equity method investments which were recorded in accounts and notes receivable, net in our condensed consolidated balance sheets.

(Income) loss from equity method investments reflects our share of investee net income or loss, non-cash dilution gains or losses from changes in our ownership interests in equity method investees and basis difference amortization. During the six months ended June 30, 2018 we recorded an increase to the carrying value of our equity method investment balance and a non-cash dilution gain of \$20.4 million on the initial public offering by one of our equity method investees.

Note 8. Other Accrued Liabilities and Other Liabilities, net

Other accrued liabilities (current) and other liabilities, net (noncurrent) consist of the following (in millions):

	As of	
	June 30, 2018	December 31, 2017
Current:		
Dividend payable	\$ 210.1	\$ 96.9
Interest payable	88.3	88.6
Accrued compensation and benefits	53.2	66.6
Taxes payable	158.8	401.0
Deferred income	26.9	42.9
Accrued advertising expenses	24.8	27.5
Closed property reserve	10.4	10.8
Restructuring and other provisions	12.0	12.0
Other	78.2	119.4
Other accrued liabilities	<u>\$ 662.7</u>	<u>\$ 865.7</u>
Noncurrent:		
Derivatives liabilities	\$ 305.4	\$ 498.5
Taxes payable	488.2	495.6
Contract liabilities, net	455.0	10.0
Unfavorable leases	224.3	251.8
Accrued pension	68.1	72.0
Accrued lease straight-lining liability	50.9	46.4
Deferred income	29.0	27.4
Other	43.3	53.4
Other liabilities, net	<u>\$ 1,664.2</u>	<u>\$ 1,455.1</u>

Note 9. Long-Term Debt

Long-term debt consists of the following (in millions):

	As of	
	June 30, 2018	December 31, 2017
Term Loan Facility (due February 17, 2024)	\$ 6,356.5	\$ 6,388.7
2017 4.25% Senior Notes (due May 15, 2024)	1,500.0	1,500.0
2015 4.625% Senior Notes (due January 15, 2022)	1,250.0	1,250.0
2017 5.00% Senior Notes (due October 15, 2025)	2,800.0	2,800.0
Other	82.3	89.1
Less: unamortized deferred financing costs and deferred issue discount	(156.0)	(170.1)
Total debt, net	<u>11,832.8</u>	<u>11,857.7</u>
Less: current maturities of debt	(56.8)	(56.8)
Total long-term debt	<u>\$ 11,776.0</u>	<u>\$ 11,800.9</u>

Revolving Credit Facility

As of June 30, 2018, we had no amounts outstanding under our senior secured revolving credit facility (the "Revolving Credit Facility"). Funds available under the Revolving Credit Facility may be used to repay other debt, finance debt or share repurchases, fund acquisitions or capital expenditures and for other general corporate purposes. We have a \$125.0 million letter of credit sublimit as part of the Revolving Credit Facility, which reduces our borrowing availability thereunder by the

cumulative amount of outstanding letters of credit. As of June 30, 2018, we had \$4.5 million of letters of credit issued against the Revolving Credit Facility, and our borrowing availability was \$495.5 million.

Fair Value Measurement

The fair value of our variable rate term debt and senior notes is estimated using inputs based on bid and offer prices that are Level 2 inputs and was \$11.7 billion and \$12.0 billion at June 30, 2018 and December 31, 2017, respectively, compared to a principal carrying amount of \$11.9 billion and \$11.9 billion, respectively, on the same dates.

Interest Expense, net

Interest expense, net consists of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Debt (a)	\$ 120.8	\$ 118.9	\$ 250.2	\$ 218.9
Capital lease obligations	5.4	5.0	11.5	10.0
Amortization of deferred financing costs and debt issuance discount	7.3	8.2	14.5	16.7
Interest income	(3.7)	(4.1)	(6.3)	(6.2)
Interest expense, net	<u>\$ 129.8</u>	<u>\$ 128.0</u>	<u>\$ 269.9</u>	<u>\$ 239.4</u>

- (a) Amount includes \$19.9 million and \$23.5 million benefit during the three and six months ended June 30, 2018 from our adoption of a new hedge accounting standard. See Note 3, *New Accounting Pronouncements*, for further details of the effects of this change in accounting principle on Interest expense, net.

Note 10. Income Taxes

Our effective tax rate was 15.7% and 9.2% for the three and six months ended June 30, 2018, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, the benefit from reserve releases due to audit settlements and the realignment of various internal financing arrangements. In addition, benefits from stock option exercises reduced the effective tax rate by 0.6% and 10.1% for the three and six months ended June 30, 2018, respectively.

Our effective tax rate was 15.0% and 16.4% for the three and six months ended June 30, 2017, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, the favorable impact of our internal financing structure and benefits from stock option exercises that reduced the effective tax rate by 2.9% and 3.3% for the three and six months ended June 30, 2017, respectively, partially offset by non-deductible transaction related costs.

Note 11. Shareholders' Equity

Noncontrolling Interests

The holders of Partnership exchangeable units held an economic interest of approximately 46.6% and 47.2% in Partnership common equity through the ownership of 217,636,569 and 217,708,924 Partnership exchangeable units as of June 30, 2018 and December 31, 2017, respectively.

During the six months ended June 30, 2018, Partnership exchanged 72,355 Partnership exchangeable units, pursuant to exchange notices received. In accordance with the terms of the partnership agreement, Partnership satisfied the exchange notices by exchanging these Partnership exchangeable units for the same number of newly issued RBI common shares. The exchanges represented increases in our ownership interest in Partnership and were accounted for as equity transactions, with no gain or loss recorded in the accompanying condensed consolidated statement of operations. Pursuant to the terms of the partnership agreement, upon the exchange of Partnership exchangeable units, each such Partnership exchangeable unit was cancelled concurrently with the exchange.

Accumulated Other Comprehensive Income (Loss)

The following table displays the changes in the components of accumulated other comprehensive income (loss) ("AOCI") (in millions):

	Derivatives	Pensions	Foreign Currency Translation	Accumulated Other Comprehensive Income (Loss)
Balances at December 31, 2017	\$ 96.8	\$ (15.3)	\$ (557.2)	\$ (475.7)
Foreign currency translation adjustment	—	—	(472.4)	(472.4)
Net change in fair value of derivatives, net of tax	143.6	—	—	143.6
Amounts reclassified to earnings of cash flow hedges, net of tax	6.2	—	—	6.2
Pension and post-retirement benefit plans, net of tax	—	0.2	—	0.2
Amounts attributable to noncontrolling interests	(70.0)	(0.1)	220.8	150.7
Balances at June 30, 2018	<u>\$ 176.6</u>	<u>\$ (15.2)</u>	<u>\$ (808.8)</u>	<u>\$ (647.4)</u>

Note 12. Derivative Instruments

Disclosures about Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes, including derivatives designated as cash flow hedges, derivatives designated as net investment hedges and those utilized as economic hedges. We use derivatives to manage our exposure to fluctuations in interest rates and currency exchange rates.

Interest Rate Swaps

During 2018, we entered into a series of receive-variable, pay-fixed interest rate swaps with a notional value of \$3,500.0 million to hedge the variability in the interest payments on a portion of our senior secured term loan facility (the "Term Loan Facility") beginning March 29, 2018 through the expiration of the final swap on February 17, 2024, resetting each March. At inception, these interest rate swaps were designated as cash flow hedges for hedge accounting. The unrealized changes in market value are recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

During 2015, we entered into a series of receive-variable, pay-fixed interest rate swaps with a notional value of \$2,500.0 million to hedge the variability in the interest payments on a portion of our Term Loan Facility beginning May 28, 2015. All of these interest rate swaps were settled on April 26, 2018 for an insignificant cash receipt. At inception, these interest rate swaps were designated as cash flow hedges for hedge accounting. The unrealized changes in market value were recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

During 2015, we settled certain interest rate swaps and recognized a net unrealized loss of \$84.6 million in AOCI at the date of settlement. This amount will be reclassified into Interest expense, net as the original hedged forecasted transaction affects earnings. The amount of pre-tax losses in AOCI as of June 30, 2018 that we expect to be reclassified into interest expense within the next 12 months is \$12.3 million.

Cross-Currency Rate Swaps

To protect the value of our investments in our foreign operations against adverse changes in foreign currency exchange rates, we hedge a portion of our net investment in one or more of our foreign subsidiaries by using cross-currency rate swaps. At June 30, 2018, we had outstanding cross-currency rate swap contracts between the Canadian dollar and U.S. dollar and the Euro and U.S. dollar that have been designated as net investment hedges of a portion of our equity in foreign operations in those currencies. The component of the gains and losses on our net investment in these designated foreign operations driven by changes in foreign exchange rates are economically offset by movements in the fair value of our cross-currency swap contracts. The fair value of the swaps is calculated each period with changes in fair value reported in AOCI, net of tax.

We terminated and settled our previous cross-currency rate swaps in June 2017, with an aggregate notional value of \$5,000.0 million, between the Canadian dollar and U.S. dollar. In connection with this termination, we received \$763.5 million which was reflected as a source of cash provided by investing activities in the condensed consolidated statement of cash flows. The unrealized gains totaled \$533.4 million, net of tax, as of the termination date and will remain in AOCI until the complete or substantially complete liquidation of our investment in the underlying foreign operations. Additionally, we entered into new fixed-to-fixed cross-currency rate swaps to partially hedge the net investment in our Canadian subsidiaries. At inception, these cross-currency rate swaps were designated as a hedge and are accounted for as net investment hedges. These swaps are contracts to exchange quarterly fixed-rate interest payments we make on the Canadian dollar notional amount of C\$6,753.5 million for quarterly fixed-rate interest payments we receive on the U.S. dollar notional amount of \$5,000.0 million through the maturity date of June 30, 2023. In making such changes, we effectively realigned our Canadian dollar hedges to reflect our current cash flow mix and capital structure maturity profile.

At June 30, 2018, we also had outstanding a cross-currency rate swap in which we pay quarterly fixed-rate interest payments on the Euro notional value of €1,107.8 million and receive quarterly fixed-rate interest payments on the U.S. dollar notional value of \$1,200.0 million through the maturity date of March 31, 2021. At inception, this cross-currency rate swap was designated as a hedge and is accounted for as a net investment hedge.

The fixed to fixed cross-currency rate swaps hedging Canadian dollar and Euro net investments utilized the forward method of effectiveness assessment prior to March 15, 2018. On March 15, 2018, we dedesignated and subsequently redesignated the outstanding fixed to fixed cross-currency rate swaps to prospectively use the spot method of hedge effectiveness assessment. We also elected to amortize the excluded component over the life of the derivative instrument. The amortization of the excluded component is recognized in Interest expense, net in the condensed consolidated statement of operations. The change in fair value that is not related to the excluded component is recorded in AOCI and will be reclassified to earnings when the foreign subsidiaries are sold or substantially liquidated. See Note 3, *New Accounting Pronouncements*, for further information on the adoption of this new guidance.

Foreign Currency Exchange Contracts

We use foreign exchange derivative instruments to manage the impact of foreign exchange fluctuations on U.S. dollar purchases and payments, such as coffee purchases made by our Canadian Tim Hortons operations. At June 30, 2018, we had outstanding forward currency contracts to manage this risk in which we sell Canadian dollars and buy U.S. dollars with a notional value of \$170.0 million with maturities to August 2019. We have designated these instruments as cash flow hedges, and as such, the unrealized changes in market value of effective hedges are recorded in AOCI and are reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

Credit Risk

By entering into derivative contracts, we are exposed to counterparty credit risk. Counterparty credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is in an asset position, the counterparty has a liability to us, which creates credit risk for us. We attempt to minimize this risk by selecting counterparties with investment grade credit ratings and regularly monitoring our market position with each counterparty.

Credit-Risk Related Contingent Features

Our derivative instruments do not contain any credit-risk related contingent features.

Quantitative Disclosures about Derivative Instruments and Fair Value Measurements

The following tables present the required quantitative disclosures for our derivative instruments, including their estimated fair values (all estimated using Level 2 inputs) and their location on our condensed consolidated balance sheets (in millions):

	Gain or (Loss) Recognized in Other Comprehensive Income (Loss)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Derivatives designated as cash flow hedges⁽¹⁾				
Interest rate swaps	\$ (4.3)	\$ (15.4)	\$ 24.4	\$ (20.4)
Forward-currency contracts	\$ 3.3	\$ (7.0)	\$ 13.3	\$ (5.5)
Derivatives designated as net investment hedges				
Cross-currency rate swaps	\$ 142.8	\$ (124.1)	\$ 153.9	\$ (178.3)

(1) We did not exclude any components from the cash flow hedge relationships presented in this table.

	Location of Gain or (Loss) Reclassified from AOCI into Earnings	Gain or (Loss) Reclassified from AOCI into Earnings			
		Three Months Ended		Six Months Ended	
		June 30,		June 30,	
		2018	2017	2018	2017
Derivatives designated as cash flow hedges					
Interest rate swaps	Interest expense, net	\$ (5.6)	\$ (9.0)	\$ (11.1)	\$ (14.9)
Forward-currency contracts	Cost of sales	\$ 0.2	\$ (0.8)	\$ 2.6	\$ 0.1

	Location of Gain or (Loss) Recognized in Earnings	Gain or (Loss) Recognized in Earnings (Amount Excluded from Effectiveness Testing)			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2018	2017	2018	2017
Derivatives designated as net investment hedges					
Cross-currency rate swaps	Interest expense, net	\$ 19.9	\$ —	\$ 23.5	\$ —

	Fair Value as of		Balance Sheet Location
	June 30, 2018	December 31, 2017	
Assets:			
Derivatives designated as cash flow hedges			
Foreign currency	\$ 6.3	\$ 0.5	Prepays and other current assets
Total assets at fair value	<u>\$ 6.3</u>	<u>\$ 0.5</u>	
Liabilities:			
Derivatives designated as cash flow hedges			
Interest rate	\$ 12.7	\$ 42.1	Other liabilities, net
Foreign currency	0.3	5.1	Other accrued liabilities
Derivatives designated as net investment hedges			
Foreign currency	292.7	456.4	Other liabilities, net
Total liabilities at fair value	<u>\$ 305.7</u>	<u>\$ 503.6</u>	

Note 13. Other Operating Expenses (Income), net

Other operating expenses (income), net consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net losses (gains) on disposal of assets, restaurant closures, and refranchisings	\$ 3.0	\$ 8.6	\$ 9.7	\$ 11.5
Litigation settlements (gains) and reserves, net	0.4	1.1	(5.7)	1.1
Net losses (gains) on foreign exchange	(32.6)	36.8	(16.2)	47.2
Other, net	(0.2)	0.3	(4.5)	0.8
Other operating expenses (income), net	<u>\$ (29.4)</u>	<u>\$ 46.8</u>	<u>\$ (16.7)</u>	<u>\$ 60.6</u>

Net losses (gains) on disposal of assets, restaurant closures, and refranchisings represent sales of properties and other costs related to restaurant closures and refranchisings. Gains and losses recognized in the current period may reflect certain costs related to closures and refranchisings that occurred in previous periods.

The litigation settlement gain during the six months ended June 30, 2018 primarily reflects proceeds received from the successful resolution of a legacy BK litigation matter.

Net losses (gains) on foreign exchange is primarily related to revaluation of foreign denominated assets and liabilities.

Note 14. Commitments and Contingencies
Litigation

From time to time, we are involved in legal proceedings arising in the ordinary course of business relating to matters including, but not limited to, disputes with franchisees, suppliers, employees and customers, as well as disputes over our intellectual property.

On June 19, 2017, a claim was filed in the Ontario Superior Court of Justice. The plaintiff, a franchisee of two Tim Hortons restaurants, seeks to certify a class of all persons who have carried on business as a Tim Hortons franchisee in Canada at any time after December 15, 2014. The claim alleges various causes of action against the defendants in relation to the purported misuse of amounts paid by members of the proposed class to the Tim Hortons Canada advertising fund (the "Ad Fund"). The plaintiff seeks to have the Ad Fund franchisee contributions held in trust for the benefit of members of the proposed class, an accounting of the Ad Fund, as well as damages for breach of contract, breach of trust, breach of the statutory duty of fair dealing, and breach of fiduciary duties.

On October 6, 2017, a claim was filed in the Ontario Superior Court of Justice. The plaintiffs, two franchisees of Tim Hortons restaurants, seek to certify a class of all persons who have carried on business as a Tim Hortons franchisee at any time after March 8, 2017. The claim alleges various causes of action against the defendants in relation to the purported adverse treatment of member and potential member franchisees of the Great White North Franchise Association. The plaintiffs seek damages for, among other things, breach of contract, breach of the statutory duty of fair dealing, and breach of the franchisees' statutory right of association.

On July 24, 2018, a complaint for declaratory relief was filed against Tim Hortons USA, Inc. ("THUSA") and Restaurant Brands International Limited Partnership in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County, Florida by Great White North Franchise Association - USA, Inc., on behalf of its members. The complaint alleges certain breaches of the franchise agreements between THUSA and its franchisees and the implied covenant of good faith and fair dealing, as well as violations of the U.S. franchise rules and the Florida Deceptive and Unfair Trade Practices Act.

While we believe the claims are without merit and intend to vigorously defend against these lawsuits, we are unable to predict the ultimate outcome of these cases or estimate the range of possible loss, if any.

Note 15. Segment Reporting

As stated in Note 1, *Description of Business and Organization*, we manage three brands. Under the *Tim Hortons* brand, we operate in the donut/coffee/tea category of the quick service segment of the restaurant industry. Under the *Burger King* brand, we operate in the fast food hamburger restaurant category of the quick service segment of the restaurant industry. Under the *Popeyes* brand, we operate in the chicken category of the quick service segment of the restaurant industry. Our business generates revenue from the following sources: (i) franchise revenues, consisting primarily of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (ii) property revenues from properties we lease or sublease to franchisees; and (iii) sales at Company restaurants. In addition, our TH business generates revenue from sales to franchisees related to our supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers.

Each brand is managed by a brand president that reports directly to our Chief Executive Officer, who is our Chief Operating Decision Maker. Therefore, we have three operating segments: (1) TH, which includes all operations of our *Tim Hortons* brand, (2) BK, which includes all operations of our *Burger King* brand, and (3) PLK, which includes all operations of our *Popeyes* brand. Our three operating segments represent our reportable segments.

As stated in Note 4, *Revenue Recognition*, we transitioned to ASC 606 on January 1, 2018 using the modified retrospective transition method. Our Financial Statements reflect the application of ASC 606 guidance beginning in 2018, while our Financial Statements for prior periods were prepared under the guidance of the Previous Standards. For comparability purposes, we have disclosed 2018 total revenues by operating segment under the Previous Standards as well as segment income with a reconciliation to net income under the Previous Standards. See Note 4, *Revenue Recognition*, for further details of the effects of this change in accounting principle on total revenues and net income.

The following table presents revenues, by segment and by country (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018 As Reported	2018 Amounts Under Previous Standards	2017	2018 As Reported	2018 Amounts Under Previous Standards	2017
Revenues by operating segment:						
TH	\$ 823.0	\$ 770.3	\$ 772.3	\$ 1,586.5	\$ 1,482.1	\$ 1,505.9
BK	418.1	306.2	293.7	808.0	599.0	560.7
PLK	102.3	67.8	66.7	202.7	135.0	66.7
Total revenues	<u>\$ 1,343.4</u>	<u>\$ 1,144.3</u>	<u>\$ 1,132.7</u>	<u>\$ 2,597.2</u>	<u>\$ 2,216.1</u>	<u>\$ 2,133.3</u>

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Revenues by country (a):				
Canada	\$ 745.3	\$ 687.9	\$ 1,437.7	\$ 1,344.9
United States	450.8	313.2	871.5	545.6
Other	147.3	131.6	288.0	242.8
Total revenues	<u>\$ 1,343.4</u>	<u>\$ 1,132.7</u>	<u>\$ 2,597.2</u>	<u>\$ 2,133.3</u>

(a) Only Canada and the United States represented 10% or more of our total revenues in each period presented.

Our measure of segment income is Adjusted EBITDA. Adjusted EBITDA represents earnings (net income or loss) before interest expense, net, (gain) loss on early extinguishment of debt, income tax expense, and depreciation and amortization, adjusted to exclude the non-cash impact of share-based compensation and non-cash incentive compensation expense and (income) loss from equity method investments, net of cash distributions received from equity method investments, as well as other operating expenses (income), net. Other specifically identified costs associated with non-recurring projects are also excluded from Adjusted EBITDA, including fees and expenses associated with the Popeyes Acquisition (“PLK Transaction costs”), Corporate restructuring and tax advisory fees related to the interpretation and implementation of comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act enacted by the U.S. government on December 22, 2017 and non-operational Office centralization and relocation costs in connection with the centralization and relocation of our Canadian and U.S. restaurant support centers to new offices in Toronto, Ontario, and Miami, Florida, respectively. Adjusted EBITDA is used by management to measure operating performance of the business, excluding these non-cash and other specifically identified items that management believes are not relevant to management’s assessment of operating performance or the performance of an acquired business. A reconciliation of segment income to net income (loss) consists of the following (in millions):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018 As Reported	2018 Amounts Under Previous Standards	2017	2018 As Reported	2018 Amounts Under Previous Standards	2017
Segment income:						
TH	\$ 285.5	\$ 288.6	\$ 281.1	\$ 530.7	\$ 539.1	\$ 537.3
BK	236.4	232.0	216.8	450.5	447.0	403.9
PLK	40.2	42.5	33.2	78.7	83.3	33.2
Adjusted EBITDA	562.1	563.1	531.1	1,059.9	1,069.4	974.4
Share-based compensation and non-cash incentive compensation expense	15.5	15.5	11.9	30.8	30.8	30.4
PLK Transaction costs	4.6	4.6	8.5	9.7	9.7	42.9
Corporate restructuring and tax advisory fees	6.4	6.4	—	13.5	13.5	—
Office centralization and relocation costs	12.4	12.4	—	12.4	12.4	—
Impact of equity method investments (a)	4.4	0.8	4.1	(5.6)	(9.2)	1.2
Other operating expenses (income), net	(29.4)	(29.4)	46.8	(16.7)	(16.7)	60.6
EBITDA	548.2	552.8	459.8	1,015.8	1,028.9	839.3
Depreciation and amortization	45.5	45.5	45.4	92.5	92.3	88.7
Income from operations	502.7	507.3	414.4	923.3	936.6	750.6
Interest expense, net	129.8	130.5	128.0	269.9	271.1	239.4
Loss on early extinguishment of debt	—	—	—	—	—	20.4
Income tax expense	58.7	59.8	42.9	60.4	63.6	80.7
Net income	\$ 314.2	\$ 317.0	\$ 243.5	\$ 593.0	\$ 601.9	\$ 410.1

(a) Represents (i) (income) loss from equity method investments and (ii) cash distributions received from our equity method investments. Cash distributions received from our equity method investments are included in segment income.

Note 16. Subsequent Events

Dividends

On July 3, 2018, we paid a cash dividend of \$0.45 per common share to common shareholders of record on May 15, 2018. On such date, Partnership also made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 per exchangeable unit to holders of record on May 15, 2018.

Our board of directors has declared a cash dividend of \$0.45 per common share, which will be paid on October 1, 2018 to common shareholders of record on September 7, 2018. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 per Partnership exchangeable unit, and the record date and payment date for distributions on Partnership exchangeable units are the same as the record date and payment date set forth above.
