10 September 2019

Bakkavor Group plc

First half trading in line with expectations

Bakkavor Group plc ("Bakkavor", "the Group" or "the Company"), the leading provider of fresh prepared food, today announces its half year unaudited results for the 26-week period ended 29 June 2019.

FINANCIAL HIGHLIGHTS

- Group revenue up 1.4% to £923.0m
- Group like-for-like revenue[1] up 2.0% to £877.9m
  - UK performance held in very challenging market, with 0.7% increase to £772.2m
  - International growth accelerated, with growth of 12.7% to £105.7m
- Adjusted EBITDA[1] pre IFRS 16 down 6.5% to £73.5m with margins down 60bps as expected
- Operating profit impacted by £13.1m of exceptional costs and £8.3m of start-up losses for new sites
- Basic earnings per share of 3.0p and adjusted earnings per share of 5.9p
- Operational net debt increased to £356.6m following a period of planned capital investment
- Interim dividend of 2.0p per share payable on 11 October 2019

OPERATIONAL HIGHLIGHTS

- Acquisition of Blueberry Foods strengthens market leading desserts capability
- Integration of Haydens already delivering synergy benefits
- Closure of meals site in Lincolnshire protects profitability
- UK meals business set to benefit from launch of significant business gain in H2 2019
- Production ramping up at new meals site in Texas
- Consistent strong growth in China through existing customer partnerships and innovative new customers

£ million (unless otherwise stated)	**H1 2019**	H1 2018	Change
Group revenue	**923.0**	909.9	1.4%
Like-for-like revenue[1]	**877.9**	860.9	2.0%
Adjusted EBITDA pre IFRS 16[1]	**73.5**	78.6	(6.5%)
Adjusted EBITDA[1] margin pre IFRS 16	**8.0%**	8.6%	(60bps)
Adjusted operating profit[1]	**50.7**	57.3	(11.5%)
Operating profit	**29.3**	54.1	(45.8%)
Basic EPS	**3.0p**	7.0p	(4.0p)
Adjusted EPS[1]	**5.9p**	7.4p	(1.5p)
Free cash flow[1]	**17.6**	32.4	(14.8)
Net debt (excluding IFRS 16 lease liabilities)	**356.6**	269.8	86.8
Interim dividend per share	**2p**	2p	-

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 21.

Agust Gudmundsson, CEO, said:

"During a challenging period, I'm pleased by the resilience we've shown across the business to deliver a solid first half performance. While the trading environment in the UK is still uncertain, we remain positive of our long-term prospects and the demand for fresh prepared food.

"Our UK operations have never been stronger and we're the clear market leader across all four of our core categories. I'm encouraged by developments made across our US business; improving efficiencies, streamlining our customer proposition and building sales across new sites. Our business in China continues to go from strength to strength, expanding both our customer base and product offering.

"Despite a subdued start to the second half, we currently expect an uplift in performance, boosted in the UK by the impact of new business and an easing of raw material inflation. Our International business is making further progress and therefore the Group remains confident in delivering full-year performance broadly in line with 2018.

"Looking further ahead, we believe that our strategy, combined with our scale and expertise, leaves us well placed to capitalise on future growth opportunities."

KEY STATUTORY FINANCIAL INFORMATION

£ million	**H1 2019**	H1 2018	Change
Group revenue	**923.0**	909.9	1.4%
Operating profit	**29.3**	54.1	(45.8%)
Profit before tax	**19.5**	47.1	(58.6%)
Profit after tax	**17.2**	40.5	(57.5%)
Basic EPS	**3.0p**	7.0p	(4.0p)

PRESENTATION

A presentation of the half year results to analysts will take place at 10.30am today, 10 September 2019, at Bakkavor's offices at 8 Mortimer Street, London W1T 3JJ.

A live webcast of the presentation can also be accessed through the Investors section of the Group's website at https://bakkavor.eventcdn.net/20190910.

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About Bakkavor

Bakkavor is the leading provider of fresh prepared food ("FPF") in the UK, with a growing international presence in the United States and China. The Group is the number one by market share in the UK in the four FPF product categories of meals, salads, desserts and pizza & bread, providing high-quality, fresh, healthy and convenient food. Its customers include some of the UK's leading grocery retailers, including Tesco, Marks & Spencer, Sainsbury's and Waitrose. The Group's International segment operates in the US and China. As these FPF markets continue to grow, Bakkavor seeks to leverage its UK expertise in order to build its presence in these territories. Bakkavor was founded in 1986 and has its headquarters in London. The Group has over 19,000 employees and operates 25 factories in the UK, 5 in the US and 9 in China.

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SUMMARY

Bakkavor is the leading provider of FPF in the UK, with a growing international presence in the US and China. Our customers include all the well-known UK grocery retailers as well as some of the world's best-known food brands.

Group overview

£ million	H1 2019	H1 2018	Change
Group revenue	**923.0**	909.9	1.4%
Like-for-like revenue	**877.9**	860.9	2.0%
Adjusted EBITDA pre IFRS 16	**73.5**	78.6	(6.5%)
Adjusted EBITDA margin pre IFRS 16	**8.0%**	8.6%	(60bps)
Operating profit	**29.3**	54.1	(45.8%)
Operating profit margin	**3.2%**	5.9%	(270bps)

Group revenue was up 1.4% at £923.0 million, with like-for-like revenue up 2.0%. Whilst trading in the UK remained challenging, especially against a tough comparative, the International business performed well. As expected, our trading this year in the UK will be weighted towards the second half as new business comes on stream and raw material pricing eases.

Group adjusted EBITDA pre IFRS 16 for the first half was £73.5 million, down 6.5% with a margin of 8.0%, impacted by lower volumes and the losses recorded prior to closure of a UK meals site in April 2019. Operating profit for the period was £29.3 million compared to £54.1 million in the prior period. In addition to the lower trading performance, £8.3 million of ongoing start-up losses for new sites was incurred and also exceptional items increased by £9.9 million to £13.1 million due to disruption and restructuring costs.

Dividend

At the AGM on 23 May 2019 a final dividend of 4.0p per share to each of the Ordinary shareholders for the period ended 29 December 2018 was approved. The total amount of £23.2 million was paid on 29 May 2019.

The Board has declared an interim dividend of 2p per share payable on 11 October 2019 to shareholders registered on the record date 20 September 2019.

Brexit

Looking forward, there continues to be a very high level of uncertainty surrounding the outcome of Brexit negotiations and we have continued to review any potential impacts on our UK business. Our senior management are regularly reviewing and where necessary updating our operational plans to minimise possible risks and limit the impact of any cost increases that may arise from tariffs and duties following the UK's exit from the European Union. In addition, we continue to focus on the implementation of an enhanced employee retention programme, as well as working actively with suppliers and logistics providers to limit any disruption to our supply chain.

Outlook

Despite a subdued start to the second half, we currently expect an uplift in performance, boosted in the UK by the impact of new business and an easing of raw material inflation. Our International business is making further progress and therefore we remain confident in delivering full-year Group performance broadly in line with 2018. Looking ahead, we believe that our strategy, combined with our scale and expertise, leaves us well placed to capitalise on future growth opportunities.

BUSINESS REVIEW

United Kingdom

£ million	**H1 2019**	H1 2018	Change
Revenue	**813.5**	816.1	(0.3%)
Like-for-like revenue	**772.2**	767.1	0.7%
Adjusted EBITDA pre IFRS 16	**70.6**	74.5	(5.2%)
Adjusted EBITDA margin pre IFRS 16	**8.7%**	9.1%	(40bps)
Operating profit	**39.8**	55.6	(28.4%)
Operating profit margin	**4.9%**	6.8%	(190bps)

The UK is Bakkavor's largest market, representing around 90% of Group revenue. We have successfully leveraged our scale, expertise and relationships with key customers in the period to maintain our market leading positions in each of the four FPF categories.

Trading performance

As widely reported, this has been a difficult trading period across the UK grocery sector, characterised by retail price inflation and continued weak consumer sentiment against a backdrop of underlying economic uncertainty. Achieving volume growth has consequently been an ongoing challenge.

The FPF categories have been impacted through a combination of these underlying issues and comparison against a strong period last year that included a number of major events and prolonged good weather. However, the key fundamentals of the FPF market, being the demand for fresh, healthy and convenient food remains strong and give us confidence in our long-term strategy and future success.

Given the challenging trading environment, it was reassuring to report like-for-like sales of £772.2 million, 0.7% up on the prior year, especially as volumes in the period were impacted by our decision to exit from a number of product lines to protect overall margins. As ever, the business continued to work closely with customers to maintain industry leading standards for service, innovation and technical delivery. This included further investment in marketing insight to gain a greater understanding of shopper behaviours to drive growth across our categories.

As expected, there has been further inflation in our raw material cost base, although more recently there have been welcome signs of this slowing after a period of price increases going back to the summer of 2016. In particular, dairy ingredients including butter, have seen a fall from the dramatic peaks of recent years. During this period of Brexit related uncertainty, our experienced procurement team continue to work closely with more than 750 suppliers to ensure we have plans in place to minimise any potential risk of disruption.

The cost of labour continues to rise, fuelled by further increases in the national living wage and a significant step-up in employer contributions to auto-enrolment pension schemes. We expect high national employment and increased labour inflation to continue and are therefore focused on increasing automation and lowering employee turnover rates, which both minimise the cost of recruitment and the associated operational disruption.

In April, we completed the closure of a loss-making meals site at Holbeach, Lincolnshire. Whilst this was a difficult decision, we were pleased to offer alternative roles to more than 350 skilled employees across our other nearby sites. Overall a combination of subdued volumes, ongoing cost pressures and trading losses up to the closure of our meals site resulted in adjusted EBITDA (pre IFRS 16) of £70.6 million, with a margin of 8.7%. At an operating profit level, after disruption and restructuring costs of £11.5 million, profits were £39.8 million in the period.

Strategic progress

Current market conditions continue to provide us with opportunities to consolidate and strengthen our market leading position in our core categories. In a highly competitive retailer environment, our scale and experience in the industry, combined with our high technical standards positions us well to benefit from future growth.

In the desserts category we have made significant progress. In June, we completed the acquisition of Blueberry Foods, a key supplier to two of our existing customers. This business provides additional capacity across many of our existing product ranges and extends our capabilities in hot desserts. As a well invested site, it will also bring operational synergies over the medium-term as we incorporate Blueberry into our existing business.

This acquisition complements last year's purchase of the Haydens Bakery business, which is integrating well into the Group and is already exceeding our initial expectations. In addition, the major investment in further capacity at our desserts site in Newark remains on track and allows us to benefit from ongoing consolidation in the category.

Our meals businesses have been working hard to prepare for the launch of more than 150 products for our largest customer this autumn. Whilst this significant new business is a natural fit with our existing skill set, we took the decision to invest across four of our sites to provide the capacity and efficiencies to ensure we maximise the benefits. A transfer of business of this scale naturally brings complexities but through clear planning and by working closely with our customer we have ensured a successful transition.

In addition to the major capacity investments, our capital programme continues at pace. Our sites, whilst well invested, are operational 364 days of the year and naturally require continued maintenance. Increasingly our focus has been to ensure that these projects also deliver efficiencies. Recent examples include an ongoing upgrade to our refrigeration capacity and improved lighting across our estate, which also bring environmental benefits and help offset rising energy costs.

People

As previously reported, at the start of the year we introduced a simplified organisational structure in the UK. This has now been embedded across the business and included a reorganisation of our commercial and development teams to better align our day to day engagement with our customers. These changes are already bringing benefits and have undoubtedly strengthened our customer partnerships.

In an environment of rising labour costs, high employment and an uncertain outcome from the Brexit negotiations, our focus on attracting and retaining a skilled workforce is essential. In April we rolled out the first phase of a two-year plan to introduce an HR shared service centre which will provide streamlined recruitment and administration processes and drive down costs. We have also continued to invest in upgrading changing rooms, canteens and offices to improve the working environment for our colleagues and will shortly be launching an updated careers website to attract the best talent into the business.

Sustainability

During the period, we continued to review ways that we can improve our environmental performance through sustainability initiatives. Alongside our commitment in the UK to adopt the United Nations Sustainable Development Goal 12.3 to halve food waste across the supply chain by 2020, during the period we were pleased to lend further support by pledging our support to the government-led campaign 'Step up to the plate' to help invoke change.

In addition, we continued to actively support our customers' sustainability programmes and targets through our technical, commercial and category teams; be that environmental targets around waste, packaging and plastics, or through ensuring that our approach to responsible sourcing and evaluating our own supply chain remains progressive and part of everyday working practices.

International

£ million	**H1 2019**	H1 2018	Change
Revenue	**109.5**	93.8	16.7%
Like-for-like revenue	**105.7**	93.8	12.7%
Adjusted EBITDA pre IFRS 16	**2.9**	4.1	(29.3%)
Adjusted EBITDA margin pre IFRS 16	**2.6%**	4.4%	(180bps)
Operating loss	**(10.5)**	(1.5)	-
Operating profit margin	**(9.6%)**	(1.6%)	(800bps)

Our International business is focused on the two largest food markets in the world, the US and China. While the markets for fresh prepared food in both regions are currently less developed than the UK, the potential for growth is significant and our expertise in the UK is proving invaluable in developing our international presence.

Both businesses reported good growth in the period and continued to grow in line with our expectations. Like-for-like revenues increased by 12.7% to £105.7 million, driven by increased volumes across our largest customers, and a consistently strong performance by our business in China. On a reported basis, revenues grew by 16.7% to £109.5 million, benefitting from the relative weakness of sterling compared to the prior year.

Adjusted EBITDA pre IFRS 16 was £2.9 million for the period and £1.2 million lower than 2018 due to continued investment in the infrastructure of both businesses to support future anticipated growth. At an operating level there was a loss of £10.5 million in H1 2019 which is £9.0 million higher than the prior period largely due to start-up losses and pre commissioning costs for new sites in both countries and disruption costs as we repurposed an existing US site.

United States

The US food market continues to show good growth as consumer demand for convenient, fresh and healthy chilled products increases. To meet this demand retailers are expanding their FPF offering, removing instore kitchens and outsourcing production to specialist manufacturers. With our strong track record in the production of short shelf life chilled food at the highest technical standards, we are well placed to capitalise on this opportunity.

Last year, we refocused our business and simplified our offer by exiting certain low margin business, freeing up resource to ensure ‘fewer, better products’ and improve business performance and longer-term returns. To support this shift, in 2018, we started two major projects at our site in Carson, California in order to repurpose part of the factory for ready meals production and to introduce a significant new manufacturing process for the production of hummus. These projects, which we referred to at the full year, were complex and impacted the whole site, and consequently we incurred a degree of disruption as we continued to provide a full service to our customers. The new ready meals facility is nearing completion and we expect to be in production by the end of the year with a range of exciting products for a new customer. The hummus project, which will deliver an improved product to the highest food safety standards using state of the art thermal food processing technology is on track, and we expect to start commissioning the equipment early next year.

Our partnership with a significant customer in Texas continues to progress well and is very encouraging. Our joint plans are clear and our expertise in FPF manufacturing, consumer insight and our stringent approach to food safety is helping ensure we remain on track and successful. The dedicated site in San Antonio is now in production and is steadily building volumes through the year under an agreed rollout plan. We are pleased to see that the meals launched to date have been well received by both customer and consumers alike.

Our new bakery in Charlotte has now started limited production of high-quality artisan breads. Whilst there is undoubted customer interest in these new products, it will take time to build meaningful scale, but we remain confident that this project will be a success.

At an operational level, we continue to focus on bringing in the relevant skilled resource across our US sites. During the period, a number of our UK production staff have been seconded to the US to leverage our expertise and build local knowledge and skills in chilled food production. We also continued an active recruitment programme to ensure we have the expertise in place to meet increasing demand across all our sites and customer base.

China

In China, we further strengthened and invested in our operations during the period in order to capitalise on the significant long-term market opportunity in the region. We continued to see strong growth in the western chained foodservice market through our existing customers further expanding their store and restaurant portfolios but also from a number of innovative new entrants to the market.

In support of this growth, we have started to benefit from recent investments in new factories in Shanghai, Taicang and Chengdu with increased volumes across all three. Our new state-of-the-art site in Shanghai has been in operation since January, with production successfully transferred over from the old site with minimal impact to customer service.

We continued to invest in a range of capital projects across the business during the period. These included starting work on a replacement site in Wuhan, which when complete, will enhance our capability and increase capacity to supply the Central China region.

During the period, we saw particularly strong growth in our 'food to go' offer, which now accounts for almost 50% of our business and included a complete relaunch of a key customer's whole range. In addition, our new bakery is performing well, and we have seen a significant upside as a result of bringing supply of a key raw material in-house, which gives us greater control of product integrity, quality and consistency.

While we expect general inflation to put pressure on our cost base in the region, we remain confident in the overall attractive Chinese market dynamics and continued demand from consumers for our products to deliver future profitability.

FINANCIAL REVIEW

Revenue

Revenue increased by £13.1 million, or 1.4% from £909.9 million in H1 2018, to £923.0 million in H1 2019 due to the net impact of acquisitions and businesses closed or sold, and the relative weakening of Sterling partly offsetting the like-for-like growth in the period. Like-for-like revenue increased by 2.0%, from £860.9 million in H1 2018, to £877.9 million in H1 2019. This increase was due to growth in the Group's operating segments, as described below.

UK

In the UK segment, revenue decreased by £2.6 million, from £816.1 million in H1 2018 to £813.5 million in H1 2019. Like-for-like revenue for H1 2019, which excludes the Anglia Crown business that was sold in July 2018 and a meals business in Lincolnshire that was closed in April 2019, and the acquisition of Haydens Bakery and Blueberry Foods in September 2018 and June 2019 respectively, increased by £5.1 million to £772.2 million, which represents modest underlying volume growth in a difficult trading environment.

International

In the International segment, revenue increased by £15.7 million, or 16.7%, to £109.5 million in H1 2019 from £93.8 million in H1 2018 as reported revenues benefitted from the relative weakening of Sterling in the period. Like-for-like revenue increased by 12.7%, from £93.8 million in H1 2018, to £105.7 million in H1 2019. The increase was due to good growth in both the US and China, where both businesses benefitted from increased sales volumes with new and existing key customers following new sites moving into production.

Adjusted EBITDA

Adjusted EBITDA pre IFRS 16 decreased by £5.1 million, or 6.5%, from £78.6 million in H1 2018 to £73.5 million in H1 2019 with the margin decreasing to 8.0% from 8.6% in the prior period. Of this decrease, £3.5 million relates to the year on year impact from the meals business in Lincolnshire that was closed in April 2019. The remaining decrease is primarily due to low volume growth combined with further labour inflation.

Exceptional items

Included within operating costs are exceptional items as follows:

£ million	**H1 2019**	H1 2018
New sites	**-**	3.2
Disruption	**2.9**	-
Restructuring and impairment	**10.2**	-
	13.1	3.2

H1 2019

The Group incurred £13.1 million of costs presented as exceptional items in H1 2019 of which £2.9 million related to disruption costs; £1.6 million as our existing factory in California was repurposed for ready meal manufacturing and £1.3 million in the UK as the business prepared for the launch of significant new products later in Q3 2019. In addition, the Group incurred £10.2 million of restructuring and impairment costs in the UK. Of this, £7.7 million related to the closure of a meals business in Lincolnshire comprising cash closure costs of £4.2 million and plant and equipment asset impairments of £3.5 million. The remaining £2.5 million is for redundancy costs following changes to our commercial and marketing structure.

H1 2018

The Group incurred costs of £3.2 million in the prior period relating to the initial start-up costs for the opening of new sites in the US and China.

Operating profit

Operating profit decreased by £24.8 million, from £54.1 million in H1 2018 to £29.3 million in H1 2019 with margins decreasing by 2.7%. This decrease was largely due to an increase in exceptional items from £3.2 million in H1 2018 to £13.1 million in the period and also due to incurring £8.3 million of ongoing start-up losses for new sites. Operating profit before exceptional items and start-up losses for new sites was £50.7 million in the period and £6.6 million lower than the prior year at a margin of 5.5%. This decrease was due to the start-up losses for the new sites, a lower trading performance and an increase in depreciation following the completion of a number of significant capital projects.

Finance costs

Finance costs increased by £2.4 million, from £6.7 million in H1 2018 to £9.1 million in H1 2019. The increase is due to the recognition of £1.4 million of lease liability costs following the transition to IFRS 16 from the start of the period and an increase in borrowing costs from higher average debt levels in the period following further capital investment.

Tax

The tax charge for the period decreased by £4.3 million, from £6.6 million in H1 2018 to £2.3 million in H1 2019. Excluding the impact of exceptional items and start-up losses for new sites in the period, the tax charge on underlying activities for H1 2019 is £6.5 million, marginally lower than the £7.2 million incurred in H1 2018 due to lower trading profits in the period.

The effective tax rate on underlying activities is 15.9% for H1 2019 compared to 14.3% for H1 2018 and is in line with previous guidance for the year of between 15% and 16%. The increase in the rate compared to the prior period is due to a reduction in overseas losses this year.

Earnings per share

Profit for the period decreased by £23.3 million, from £40.5 million in H1 2018 to £17.2 million in H1 2019 with basic earnings per share decreasing from 7.0p for H1 2018 to 3.0p in H1 2019 based on 579.4 million shares. The decrease was largely due to the increase in exceptional items after tax to £10.2 million in the period and the £7.0 million of start-up losses for new sites after tax incurred in the period.

Excluding the impact of exceptional items and the start-up losses for new sites, adjusted earnings for the period have decreased by £8.7 million to £34.4 million. Adjusted earnings per share has decreased to 5.9p in H1 2019 from 7.4p in H1 2018 with 0.2p of the decrease due to the transition to IFRS 16 in the period. The remainder of the decrease reflects the lower trading performance and higher borrowing costs in H1 2019.

Cash flow and debt

Free cash flow for H1 2019 of £17.6 million was £14.8 million lower than H1 2018 largely due to a £12.2 million increase in core capex in line with the plans for the year. There was a £6.8 million reduction in year on year working capital outflows to £5.7 million for H1 2019, with the outflow in the period mainly due to closure of the meals business in April 2019. In addition, during the period the Group paid £17.4 million for the acquisition of Blueberry Foods, £23.2 million for the final dividend for 2018, £9.7 million for development investments, £8.3 million in new site start-up losses and exceptional items of £6.0 million.

Overall this has resulted in operational net debt increasing to £356.6 million at the end of H1 2019. Leverage (the ratio of operational net debt to Adjusted EBITDA pre IFRS 16 for a rolling twelve-month period) was 2.4 times at the end of June 2019. This is as expected outside of the Group’s target range of 1.5 – 2.0 times as a result of our planned capital investment program for the year.

The Group’s liquidity position remains strong with good headroom against all financial covenants.

IFRS 16 impact

The Group transitioned to IFRS 16 ‘Leases’ with effect from the 30 December 2018 by using the modified retrospective, asset equals liability approach with no restatement of the comparative information. The impact of the change in accounting treatment on the consolidated income statement for the period has been to increase operating profit by £0.3 million but to reduce earnings by £0.9 million. In terms of borrowings the Group recognised £84.0 million of lease liabilities at 29 June 2019 which resulted in statutory net debt of £438.7 million at the end of the period.

Pensions

Under the IAS 19 valuation principles that are required to be used for accounting purposes the Group recognised a surplus of £8.9 million for the UK defined benefit scheme as at 29 June 2018 (29 December 2018: deficit £0.5 million). The increase in the surplus is largely due to an increase in asset values in the period.

The Group and the Trustee agreed in April 2017 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2016. This resulted in a funding shortfall which continues to be paid over an agreed eight-year recovery period ending on 31 March 2024. The recovery contributions over that period amount to £22.5 million with £3.5 million payable for the year ended 31 March 2019 and £2.5 million for the year ending 31 March 2020.

Principal risks and uncertainties

The Group operates a structured risk management process, which identifies and evaluates risks that could impact its performance, as well as reviewing mitigation activity.

The key areas of potential risk identified in the Group's 2018 Annual Report and Accounts are:

- Food safety and integrity;
- Raw material and input cost inflation;
- Reliance on small number of customers
- Manpower scarcity and costs;
- IT systems and cyber risk;
- Health and safety:
- Recruitment and retention of key employees;
- Investment and development;
- Liquidity, interest rates, exchange rates and covenant compliance;
- Brexit disruption
- Disruption to Group operations
- Sustainability
- Consumer behaviour and demand
- Competitors

No new key risks have been identified by the Board since the Annual Report was published.

These risks are carefully monitored and managed, and further details are set out on pages 27 to 29 of the 2018 Annual Report and Accounts which is available on the Bakkavor Group plc website: https://www.bakkavor.com/

Related party transactions

During the period, Group companies only entered into transactions with related parties who are members of the Group.

Condensed consolidated income statement

£ million	Notes	26 weeks ended 29 June 2019 (Unaudited) Underlying activities	Exceptional items (note 4)	Total	Restated* 26 weeks ended 30 June 2018 (Unaudited) Underlying activities	Exceptional items (note 4)	Total
Continuing operations							
Revenue	3	**923.0**	**-**	**923.0**	909.9	-	909.9
Cost of sales		**(678.0)**	**(1.1)**	**(679.1)**	(664.3)	-	(664.3)
Gross profit		**245.0**	**(1.1)**	**243.9**	245.6	-	245.6
Distribution costs		**(36.8)**	**-**	**(36.8)**	(37.7)	-	(37.7)
Other administrative costs		**(166.2)**	**(12.0)**	**(178.2)**	(150.9)	(3.2)	(154.1)
Share of results of associates after tax		**0.4**	**-**	**0.4**	0.3	-	0.3
Operating profit/(loss)		**42.4**	**(13.1)**	**29.3**	57.3	(3.2)	54.1
Finance costs	5	**(9.1)**	**-**	**(9.1)**	(6.7)	-	(6.7)
Other gains and (losses)	6	**(0.7)**	**-**	**(0.7)**	(0.3)	-	(0.3)
Profit/(loss) before tax		**32.6**	**(13.1)**	**19.5**	50.3	(3.2)	47.1
Tax		**(5.2)**	**2.9**	**(2.3)**	(7.2)	0.6	(6.6)
Profit/(loss) for the period attributable to equity holders of the parent company		**27.4**	**(10.2)**	**17.2**	43.1	(2.6)	40.5
Earnings per share							
Basic	7			**3.0p**			7.0p
Diluted	7			**3.0p**			6.9p

* See Note 2 for details of the restatement.

Condensed consolidated statement of comprehensive income

£ million	**26 weeks ended 29 June 2019 (Unaudited)**	26 weeks ended 30 June 2018 (Unaudited)
Profit for the period	**17.2**	40.5
Other comprehensive income/(expense)		
Items that will not be reclassified to the income statement:		
Actuarial gain on defined benefit pension schemes	**8.3**	5.0
Tax relating to components of other comprehensive income	**(1.4)**	(0.9)
	6.9	4.1
Items that may subsequently be reclassified to the income statement:		
Exchange differences on translation of foreign operations	**(0.1)**	3.7
Total other comprehensive income net of tax	**6.8**	7.8
Total comprehensive income	**24.0**	48.3

Condensed consolidated statement of financial position

£ million	Notes	29 June 2019 (Unaudited)	29 December 2018 (Audited)
Non-current assets			
Goodwill	9	**653.0**	650.2
Other intangible assets		**3.1**	3.0
Property, plant and equipment	10	**542.0**	426.9
Interests in associates and other investments		**13.0**	12.6
Deferred tax asset		**22.3**	19.6
Retirement benefit asset		**8.9**	-
Derivative financial instruments		**-**	0.2
		1,242.3	1,112.5
Current assets			
Inventories	11	**58.5**	62.8
Trade and other receivables	12	**139.0**	142.7
Cash and cash equivalents	14	**28.4**	12.4
Derivative financial instruments		**1.2**	1.9
		227.1	219.8
Total assets		**1,469.4**	1,332.3
Current liabilities			
Trade and other payables	13	**(384.9)**	(392.0)
Current tax liabilities		**(3.8)**	(6.5)
Borrowings	14	**(16.7)**	(6.6)
Provisions		**(2.8)**	(3.3)
		(408.2)	(408.4)
Non-current liabilities			
Trade and other payables	13	**(1.1)**	(2.3)
Borrowings	14	**(450.4)**	(312.4)
Provisions		**(13.4)**	(15.0)
Deferred tax liabilities		**(24.9)**	(24.3)
Retirement benefit obligation		**-**	(0.5)
		(489.8)	(354.5)
Total liabilities		**(898.0)**	(762.9)
Net assets		**571.4**	569.4

Equity			
Share capital	16	**11.6**	11.6
Merger reserve		**(130.9)**	(130.9)
Translation reserve		**33.7**	33.8
Retained earnings		**657.0**	654.9
Total equity		**571.4**	569.4

Condensed consolidated statement of changes in equity

£ million	Share capital	Share premium	Merger reserve	Translation reserve	Retained earnings	Total
Balance at 31 December 2017 (Audited)	**11.6**	**366.1**	**(130.9)**	**26.1**	**237.2**	**510.1**
Profit for the period	-	-	-	-	40.5	**40.5**
Other comprehensive income/ (expense) for the period	-	-	-	3.7	4.1	**7.8**
Total comprehensive income for the period	**-**	**-**	**-**	**3.7**	**44.6**	**48.3**
Cancellation of share premium	-	(366.1)	-	-	366.1	**-**
Credit for share-based payments	-	-	-	-	1.2	**1.2**
Balance at 30 June 2018 (Unaudited)	**11.6**	**-**	**(130.9)**	**29.8**	**649.1**	**559.6**
Balance at 30 December 2018 (Audited)	**11.6**	**-**	**(130.9)**	**33.8**	**654.9**	**569.4**
Profit for the period	-	-	-	-	17.2	**17.2**
Other comprehensive income/ (expense) for the period	-	-	-	(0.1)	6.9	**6.8**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**(0.1)**	**24.1**	**24.0**
Dividends paid (Note 8)	-	-	-	-	(23.2)	**(23.2)**
Credit for share-based payments	-	-	-	-	1.2	**1.2**
Balance at 29 June 2019 (Unaudited)	**11.6**	**-**	**(130.9)**	**33.7**	**657.0**	**571.4**

Condensed consolidated statement of cash flows

£ million	Notes	**26 weeks ended 29 June 2019 (Unaudited)**	26 weeks ended 30 June 2018 (Unaudited)
Net cash generated from operating activities	18	**42.5**	50.0
Investing activities			
Dividends received from associates		**-**	0.6
Purchases of property, plant and equipment		**(44.4)**	(51.6)
Proceeds on disposal of property, plant and equipment		**1.2**	-
Acquisition of subsidiary	17	**(17.4)**	-
Net cash used in investing activities		**(60.6)**	(51.0)
Financing activities			
Dividends paid	8	**(23.2)**	-
Increase in borrowings		**63.6**	-
Payment of lease liabilities (2018: Payment of finance lease liabilities)		**(6.4)**	(0.3)
Net cash generated from/(used in) financing activities		**34.0**	(0.3)
Net increase/(decrease) in cash and cash equivalents		**15.9**	(1.3)
Cash and cash equivalents at beginning of period		**12.4**	20.9
Effect of foreign exchange rate changes		**0.1**	0.1
Cash and cash equivalents at end of period		**28.4**	19.7

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General Information

The information for the 26 weeks ended 29 June 2019 and 26 weeks ended 30 June 2018 is unaudited and does not constitute statutory accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, ‘Interim Financial Reporting’, as adopted by the European Union and the Disclosure Guidance and Transparency rules of the Financial Conduct Authority. The condensed consolidated interim statement of financial position as at 29 December 2018 has been derived from the consolidated statement of financial position included in the Group’s financial statements for the 52 weeks ended 29 December 2018, a copy of which has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified, did not include any reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

This financial information does not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Bakkavor Group plc (the “Group”) annual financial statements for the 52 weeks ended 29 December 2018, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Controlling parties

Two of the Company’s Directors, Agust Gudmundsson and Lydur Gudmundsson, hold shares in the company through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited. On 23 May 2019, Carrion Enterprises Limited and Umbriel Ventures Limited each sold 3,229,625 ordinary shares to Lixaner Co Limited, a company owned and controlled by Sigurdur Valtysson, who runs the family office for Agust and Lydur Gudmundsson. Following the transaction, Lixaner Co Limited holds 6,459,250 ordinary shares (representing 1.11% of the issued share capital of the company) and Carrion Enterprises Limited and Umbriel Ventures Limited each hold 142,103,505 ordinary shares (representing 24.52% of the issued share capital of the Company).

Given the close relationship between the parties, Sigurdur Valtysson is to be considered as acting in concert with Agust and Lydur Gudmundsson for the purposes of the definition in the Takeover Code and the parties are controlling shareholders of the company. The aggregate shareholding in the company of Carrion Enterprises Limited and Umbriel Ventures Limited and their concert party group following the sale of shares to Lixaner Co Limited remained unchanged at 290,666,260 ordinary shares (representing 50.16% of the issued shares capital of the company).

Principal activities and seasonality

The principal activities of the Group comprise the preparation and marketing of fresh prepared foods and the marketing and distribution of fresh produce. These activities are undertaken in the UK, US and China and products are primarily sold through high street supermarkets. The Group’s cash flows are affected by seasonal variations. Sales of fresh prepared food have historically tended to be marginally higher during the summer months and in the weeks leading up to Christmas. The Group generally has higher gross profit margins during the summer months because the Group is able to source locally produced raw materials during that period, which reduces costs.

2. Significant accounting policies

Basis of accounting

The financial information has been prepared on the historical cost basis, except for the revaluation of financial instruments and defined benefit pension scheme assets and liabilities (which are stated at fair value or actuarial valuation).

Certain costs for the procurement business have been reclassified and offset against revenue for the 26 weeks ended 30 June 2018 to conform with the current year presentation. This has the impact of reducing revenue and cost of sales by £2.7 million for the 26 weeks ended 30 June 2018. In addition, revenue has been restated to correctly present the impact of the finalisation of certain commercial arrangements. This resulted in a restatement to increase revenue and cost of sales by £2.2 million in the 26 weeks ended 30 June 2018. There is no impact to profit, cash flows or the statement of financial position as a result of these restatements.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial statements except as described below:

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to the expected total annual profit or loss.

There have been no changes in the period to the Group's critical accounting judgements and key sources of estimation uncertainty as disclosed in the Group's annual financial statements for the 52 weeks ended 29 December 2018.

New standards and interpretations

The IFRS 16 *Leases*, IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers* standards have been applied from the beginning of the current period.

IFRS 16 *Leases*

IFRS 16 *Leases* introduces new or amended requirements with respect to lease accounting. It introduces significant changes to the lessee accounting by removing the distinction between operating and finance leases and requiring the recognition of a right-of-use asset and a lease liability at the lease commencement for all leases, except for short-term leases and leases of low-value assets. IFRS 16 has been applied by the Group from the start of the period by measuring the right of use asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position immediately before the date of initial application. The Group has not restated comparatives for the 26 weeks ended 30 June 2018 as permitted under the specific transitional provisions in the standard.

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to leases entered or modified before 30 December 2018.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 determines whether a contract contains a lease on the basis of whether the customer has the right to control the use of an identified asset for a period of time in exchange for consideration. The Group has applied the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 30 December 2018.

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance-sheet. Applying IFRS 16, for all leases (except as noted below), the Group will:

a) recognise right-of-use assets and lease liabilities in the consolidated statement of financial position, initially measured at the present value of future lease payments;

b) recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement; and

c) separate the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the consolidated statement of cash flows.

Lease incentives (e.g. rent-free period) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expense on a straight-line-basis.

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 36 *Impairment of Assets* and any impairment is provided for by writing down the asset value. This replaces the previous requirement to recognise a provision for onerous lease contracts. In applying IFRS 16 for the first time the Group used the practical expedient permitted by the standard to rely on previous assessments on whether leases are onerous as an alternative to performing an impairment review. The onerous leases amounted to £2.4 million at 30 December 2018.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis over the lease term as permitted by IFRS 16. This expense is presented within other expenses in the consolidated income statement.

In the statement of cash flows, the Group as a lessee will classify:

a) cash payments for the principal portion of the lease liability within financing activities;

b) cash payments for the interest portion of the lease liability applying the requirements in IAS 7 *Statement of Cash Flows* for interest paid; and

c) short-term lease payments, payments for leases of low-value assets and variable lease payments not included in the measurement of the lease liability within operating activities.

Former Finance Leases

The main difference between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of residual value guarantees provided by a lessee to a lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This change does not have a material effect on the Group's Consolidated Financial Statements.

Impact on the Financial Statements

The following tables summarise the impact of adopting IFRS 16 on the condensed consolidated income statement for the period ended 29 June 2019, the condensed consolidated statement of financial position as at 29 June 2019 and the condensed consolidated statement of cash flows for the period ended 29 June 2019.

Condensed consolidated income statement

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Continuing operations			
Revenue	923.0	-	923.0
Cost of sales	(679.1)	-	(679.1)
Gross profit	243.9	-	243.9
Distribution costs	(36.8)	-	(36.8)
Other administrative costs	(178.5)	0.3	(178.2)
Share of results of associates after tax	0.4	-	0.4
Operating profit	29.0	0.3	29.3
Finance costs	(7.7)	(1.4)	(9.1)
Other gains and (losses)	(0.7)	-	(0.7)
Profit/(loss) before tax	20.6	(1.1)	19.5
Tax	(2.5)	0.2	(2.3)
Profit/(loss) for the period attributable to equity holders of the parent company	18.1	(0.9)	17.2
Earnings per share (basic and diluted)	3.1p	(0.1p)	3.0p

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

Condensed consolidated statement of financial position

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Non-current assets			
Property, plant and equipment	460.8	81.2	542.0
All other non-current assets	700.3	-	700.3
	1,161.1	81.2	1,242.3
Current assets			
Trade and other receivables	139.7	(0.7)	139.0
All other current assets	88.1	-	88.1
	227.8	(0.7)	227.1
Total assets	1,388.9	80.5	1,469.4
Current liabilities			
Trade and other payables	(385.6)	0.7	(384.9)
Current tax liabilities	(4.0)	0.2	(3.8)
Borrowings	(5.9)	(10.8)	(16.7)
Provisions	(3.6)	0.8	(2.8)
	(399.1)	(9.1)	(408.2)
Non-current liabilities			
Trade and other payables	(1.5)	0.4	(1.1)
Borrowings	(377.2)	(73.2)	(450.4)
Provisions	(13.9)	0.5	(13.4)
Deferred tax liabilities	(24.9)	-	(24.9)
	(417.5)	(72.3)	(489.8)
Total liabilities	(816.6)	(81.4)	(898.0)
Net assets	572.3	(0.9)	571.4

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

Condensed consolidated statement of cash flows

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Operating profit	29.0	0.3	29.3
Depreciation of property, plant and equipment	22.7	6.1	28.8
Net impact of all other operating cash flows before movements in working capital	2.5	-	2.5
Operating cash flows before movements in working capital	54.2	6.4	60.6
Movements in working capital	(2.1)	0.7	(1.4)
Cash generated by operations	52.1	7.1	59.2
Income taxes paid	(8.0)	-	(8.0)
Interest paid	(7.3)	(1.4)	(8.7)
Net cash generated from operating activities	36.8	5.7	42.5
Investing activities			
Net cash used in investing activities	(60.6)	-	(60.6)
Financing activities			
Payment of lease liabilities	(0.7)	(5.7)	(6.4)
Net impact of all other financing activities	40.4	-	40.4
Net cash generated from financing activities	39.7	(5.7)	34.0
Net increase in cash	15.9	-	15.9

At the transition date of 30 December 2018, the impact of IFRS16 was:

£ million	IFRS 16 adjustments
Total assets increase at transition date	80.2
Total liabilities increase at transition date	(80.2)

The following table reconciles the operating lease commitments as at 29 December 2018 as shown in Note 34 of the Group's annual report to the lease liability at the transition date:

£ million	
Operating lease commitments disclosed at 29 December 2018	96.5
Discounted using the incremental borrowing rate at 30 December 2018	85.6
Add: finance lease liabilities recognised at 29 December 2018	5.5
Less: low-value and short-term leases not recognised as a liability	(2.9)
Lease liability recognised as at 30 December 2018	**88.2**
Of which are:	
Current lease liabilities	12.5
Non-current lease liabilities	75.7
	88.2

The weighted average incremental borrowing rate applied to the lease liabilities at transition was 3.5%.

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* addresses the classification, measurement and recognition of financial assets and liabilities. The standard replaces IAS 39 *Financial Instruments: Recognition and Measurement* and has been completed in a number of stages with the final version issued by the IASB in July 2014. IFRS 9 introduces new rules for hedge accounting and a new impairment model for financial assets. A complete review and assessment of IFRS 9 has been conducted with the conclusion that there is no material impact on net assets or retained earnings.

The new impairment model requires the recognition of impairment provisions based on expected credit losses rather than only incurred credit losses. The standard provides a simplified approach as a practical expedient in assessing impairment of trade receivables, which the Group has adopted on transition. The Group's assessment was that no adjustment was required to its trade receivables impairment provision as at 29 December 2018.

The hedge accounting requirements under IFRS 9 are optional. The Group did not apply the hedge accounting rules of IAS 39 and will also not apply those of IFRS 9. There is therefore no impact on the reported figures.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* specifies how and when an IFRS reporter recognises revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The application of this Standard did not have any impact on the Group's accounting policies and did not require retrospective adjustments.

Under IFRS 15, an entity recognises revenue when, or as a performance obligation is satisfied i.e. when control of the goods or services underlying the performance obligation is transferred to the customer. The Group's revenue contracts typically include one performance obligation (delivery of the goods) with the performance obligation satisfied at a point in time when the control passes to the customer, which is deemed to be when the goods are received by the customer.

Many of the Group's revenue contracts include an element of variable consideration, such as customer deductions for rebate arrangements or other incentives to customers. The arrangements can take the form of volume rebates, marketing fund contributions or promotional fund contributions. The Group recognises revenue net of such customer deductions. Volume based rebates are calculated on the Group's estimate of rebates expected to be paid to customers using the 'most likely amount' in line with IFRS 15 requirements, whereas fixed rebates are accounted for as a reduction in revenue over the life of the contract.

Going concern

The Directors, in their detailed consideration of going concern, have reviewed the Group's future revenue projections and cash requirements, which they believe are based on prudent interpretations of market data and past experience. In addition, the Directors have carried out a robust assessment of the potential implications of Brexit. The Directors have also considered the Group's level of available liquidity under its financing arrangements and consider that adequate headroom is available based on the forecasted cash requirements of the business.

Consequently, the Directors consider that the Group has adequate resources to meet its liabilities as they fall due for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

3. Segment information

The chief operating decision-maker has been defined as the Management Board headed by the Chief Executive Officer. They review the Group's internal reporting in order to assess performance and allocate resources. Management has determined the segments based on these reports.

As at the statement of financial position date, the Group is organised as follows:

- UK: The preparation and marketing of fresh prepared foods and fresh produce for distribution in the UK.
- International: The preparation and marketing of fresh prepared foods and fresh produce outside of the UK.

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as defined in Note 21.

The following table provides an analysis of the Group's segment information for the period 30 December 2018 to 29 June 2019:

£ million	**UK**	**International**	**Total**
Revenue	**813.5**	**109.5**	**923.0**
Adjusted EBITDA pre IFRS 16 (Note 21)	**70.6**	**2.9**	**73.5**
IFRS 16 impact	5.1	1.3	6.4
Adjusted EBITDA post IFRS 16 (Note 21)	**75.7**	**4.2**	**79.9**
Depreciation	(23.9)	(4.9)	(28.8)
Amortisation	-	(0.2)	(0.2)
Exceptional items (Note 4)	(11.5)	(1.6)	(13.1)
Start-up losses for new sites	-	(8.3)	(8.3)
Share scheme charges	(1.2)	-	(1.2)
Profit on disposal of property, plant and equipment	0.7	(0.1)	0.6
Share of results of associates after tax	-	0.4	0.4
Operating profit/(loss)	**39.8**	**(10.5)**	**29.3**
Finance costs			(9.1)
Other gains and (losses)			(0.7)
Profit before tax			19.5
Tax			(2.3)
Profit for the period			**17.2**

3. Segment information (continued)

The following table provides an analysis of the Group's segment information for the period from 31 December 2017 to 30 June 2018:

£ million	UK	International	Total
Revenue as previously reported	**816.6**	**93.8**	**910.4**
Restatement (Note 2)	**(0.5)**	**-**	**(0.5)**
Revenue restated	**816.1**	**93.8**	**909.9**
Adjusted EBITDA (Note 21)	**74.5**	**4.1**	**78.6**
Depreciation	(17.7)	(2.3)	(20.0)
Amortisation	-	(0.2)	(0.2)
Exceptional items (Note 4)	-	(3.2)	(3.2)
Share scheme charges	(1.2)	-	(1.2)
Loss on disposal of property, plant and equipment	-	(0.2)	(0.2)
Share of results of associates after tax	-	0.3	0.3
Operating profit	**55.6**	**(1.5)**	**54.1**
Finance costs			(6.7)
Other gains and (losses)			(0.3)
Profit before tax			47.1
Tax			(6.6)
Profit for the period			**40.5**

Major customers

For the 26 weeks ended 29 June 2019, the Group's four largest customers accounted for 75.7% (26 weeks ended 30 June 2018: 76.7%) of total revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

Each of these four customers accounts for a significant amount of the Group's revenue and are all in the UK segment. The percentage of Group revenue from these customers is as follows:

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Customer A	**30.2%**	30.2%
Customer B	**23.9%**	25.1%
Customer C	**10.9%**	11.6%
Customer D	**10.7%**	9.8%

All of the Group's revenue is from the sale of goods.

4. Exceptional items

The Group's financial performance is analysed in two ways; underlying performance (which does not include exceptional items) and exceptional items that are not expected to reoccur. Underlying performance is used by management to monitor financial performance as it provides comparability of the financial performance of the Group from year-to-year.

Exceptional items includes items that, in management's judgement, should be disclosed by virtue of their nature or amount and will typically include major restructuring programmes, legal cases, corporate transaction costs, disruption costs, pre-commissioning and start-up costs for new manufacturing facilities and impairment of assets as follows:

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
New sites	**-**	3.2
Disruption	**2.9**	-
Restructuring and impairment	**10.2**	-
Total before tax	**13.1**	3.2
Tax on exceptional items	**(2.9)**	(0.6)
Total after tax	**10.2**	2.6

H1 2019

The Group incurred £13.1 million of costs presented as exceptional items in H1 2019 of which £2.9 million related to disruption costs; £1.6 million as our existing factory in California was repurposed for ready meal manufacturing and £1.3 million in the UK as the business prepared for the launch of significant new products later in Q3 2019. In addition, the Group incurred £10.2 million of restructuring and impairment costs in the UK. Of this, £7.7 million related to the closure of a Meals business in Lincolnshire comprising cash closure costs of £4.2 million and plant and equipment asset impairments of £3.5 million. The remaining £2.5 million is for redundancy costs following changes to our commercial and marketing structure.

H1 2018

The Group incurred costs of £3.2 million in the prior period relating to the initial start-up costs for the opening of new sites in the US and China.

5. Finance costs

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
Interest on borrowings	**7.3**	6.2
Interest on lease liabilities (2018: Interest on finance leases)	**1.5**	0.1
Amortisation of refinancing costs	**0.7**	0.7
Unwind of discount on provisions	**0.1**	0.2
	9.6	7.2
Less: amounts included in the cost of qualifying assets	**(0.5)**	(0.5)
	9.1	6.7

Borrowing costs included in the cost of qualifying assets during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 3.0% (2018: 2.7%) to expenditure on such assets. Interest on lease liabilities for 26 weeks ended 29 June 2019 includes £1.4 million following the application of IFRS 16.

6. Other gains and (losses)

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
Foreign exchange gains	**0.2**	-
Change in fair value of derivative financial instruments	**(0.9)**	(0.3)
	(0.7)	(0.3)

7. Earnings per share

The calculation of earnings per Ordinary share is based on earnings after tax and the weighted average number of Ordinary shares in issue during the period.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary shares.

The calculation of the basic and diluted earnings per share is based on the following data:

Earnings

£ million	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Profit attributable to equity shareholders of the Company	**17.2**	40.5

Number of shares

'000	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of potentially dilutive Ordinary shares	**3,260**	3,552
Weighted average number of Ordinary shares for diluted earnings per share	**582,686**	582,978

	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Basic earnings per share	**3.0p**	7.0p
Diluted earnings per share	**3.0p**	6.9p

8. Dividends

At the AGM on 23 May 2019 a final dividend of 4.0p per share to each of the Ordinary shareholders for the period ended 29 December 2018 was approved. The total amount of £23,177,023 was paid on 29 May 2019.

An interim dividend of 2.0p per Ordinary share has been declared and is payable on 11 October 2019.

9. Goodwill

£ million	
At 31 December 2017	**647.2**
Exchange rate difference during the period	1.1
At 30 June 2018	**648.3**
At 30 December 2018	**650.2**
Recognised on acquisition of a subsidiary	2.9
Exchange rate difference during the period	(0.1)
At 29 June 2019	**653.0**

10. Property, plant and equipment

£ million	
At 31 December 2017	**337.5**
Additions	52.2
Disposals	(0.2)
Depreciation charge for the period	(20.0)
Exchange rate difference during the period	1.4
At 30 June 2018	**370.9**
At 30 December 2018	**426.9**
Adjustment for change in accounting policy (Note 2)	80.2
Restated opening balance	**507.1**
Additions	50.2
Acquisition of subsidiary (Note 17)	17.6
Disposals	(0.6)
Depreciation charge for the period	(28.8)
Impairment	(3.5)
Exchange rate difference during the period	-
At 29 June 2019	**542.0**

Additions in the 26 weeks ended 29 June 2019 include £9.7 million (2018: £29.1 million) in respect of development projects.

11. Inventories

£ million	**29 June 2019**	29 December 2018
Raw materials and packaging	**49.2**	54.6
Work-in-progress	**2.2**	1.8
Finished goods	**7.1**	6.4
	58.5	62.8

12. Trade and other receivables

£ million	29 June 2019	29 December 2018
Amounts receivable from trade customers	**108.7**	115.3
Expected credit loss	**(2.5)**	(2.0)
Net amounts receivable from trade customers	**106.2**	113.3
Other receivables	**18.0**	18.8
Prepayments	**14.8**	10.6
Trade and other receivables due within one year	**139.0**	142.7

During the period, the Group has continued to operate trade receivable factoring arrangements. These are non-recourse arrangements and therefore amounts are de-recognised from trade receivables.

13. Trade and other payables

£ million	29 June 2019	29 December 2018
Trade payables	**229.0**	232.6
Social security and other taxation	**1.3**	2.0
Other payables	**19.1**	23.5
Accruals and deferred income	**136.6**	136.2
	386.0	394.3
Less amounts due after one year:		
Other payables	**-**	(0.4)
Accruals and deferred income	**(1.1)**	(1.9)
	(1.1)	(2.3)
Trade and other payables due within one year	**384.9**	392.0

During the period, the Group entered into a supplier financing arrangement. At 29 June 2019, £13.2 million of the amount included within trade payables were subject to these arrangements. These balances are classified as trade payables and the related payments as cash flows from operating activities since the original obligation to the supplier remains and has not been replaced with a new obligation to the bank.

14. Net debt

£ million	29 June 2019	29 December 2018
Cash and cash equivalents	**28.4**	12.4
Borrowings	**(2.4)**	(3.7)
Interest accrual	**(1.5)**	(1.3)
Lease liabilities	**(12.8)**	(1.6)
Total debt due within one year	**(16.7)**	(6.6)
Borrowings	**(377.5)**	(312.5)
Unamortised fees	**3.4**	4.0
Lease liabilities	**(76.3)**	(3.9)
Total debt due after one year	**(450.4)**	(312.4)
Statutory net debt	**(438.7)**	(306.6)

14. Net debt (continued)

Statutory net debt is the sum of cash and cash equivalents, prepaid fees to be amortised over the term of outstanding borrowings, outstanding borrowings, interest accrued on borrowings and lease liabilities.

During the period, the Group entered into a new £20 million short-term loan facility to further strengthen the liquidity base of the Group.

15. Financial Instruments

The categories of financial instruments are as follows:

£ million	**29 June 2019**	29 December 2018
Financial assets		
Fair value through profit and loss:		
Derivative financial instruments	**1.2**	2.1
Loans and receivables at amortised cost:		
Trade receivables	**106.2**	113.3
Other receivables	**18.0**	18.8
Cash and cash equivalents	**28.4**	12.4
	153.8	146.6

£ million	**29 June 2019**	29 December 2018
Financial liabilities		
Other financial liabilities at amortised cost:		
Trade payables	**229.0**	232.6
Other payables	**19.1**	23.5
Accruals	**134.8**	133.6
Borrowings	**378.0**	313.5
Lease liabilities	**89.1**	5.5
	850.0	708.7

The fair value of loans and receivables approximates to their carrying values due to the short-term nature of the receivables. Fair values for the derivative financial instruments have been determined as level 2 under IFRS 7 *Financial Instruments: Disclosures*. Quoted prices are not available for the derivative financial instruments and so valuation models are used to estimate fair value. The models calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves and currency rates.

The fair value of other financial liabilities at amortised cost approximates to their carrying value. The trade and other payables approximate to their fair value due to the short-term nature of the payables. The lease liabilities fair value approximates to the carrying value based on discounted future cash flows.

16. Share capital and share premium

Issued share capital as at 29 June 2019 amounted to £11.6 million (579,425,585 Ordinary shares of £0.02 each) (29 December 2018: £11.6 million (579,425,585 Ordinary shares of £0.02 each)).

On 27 March 2018, Bakkavor Group plc cancelled its share premium account of £366.1 million resulting in a corresponding increase in retained earnings.

17. Acquisitions

On 12 June 2019, the Group completed the acquisition of 100% of the issued share capital of Blueberry Foods from Samworth Brothers Limited for initial consideration of £17.4 million. The consideration comprised £3.6 million in cash and assumed borrowings of £13.8 million that was immediately repaid.

The Group currently expects c.£0.5 million to be returned by the seller after the completion accounts have been finalised and therefore the total consideration is expected to be £16.9 million.

The provisional amounts recognised in respect of the fair value of the identifiable assets and liabilities assumed are set out in the table below:

£ million	
Other intangible assets	0.2
Property, plant and equipment	17.6
Inventories	0.9
Trade and other receivables	6.3
Trade and other payables	(4.7)
Lease liabilities	(6.3)
Net identifiable assets acquired	14.0
Goodwill	2.9
Total consideration	16.9

The net cash outflow arising on acquisition was:

£ million	
Cash consideration for share capital	3.6
Immediate repayment of amounts owed to previous owner	13.8
Cash outflow on acquisition of business	17.4
Amounts owed to the Group by the seller	(0.5)
Total consideration	16.9

Acquisition related costs of £0.7 million were incurred and are included in other administrative costs in the consolidated income statement.

The results of Blueberry Foods have been consolidated in the Group's consolidated income statement from 12 June 2019 and contributed £2.1 million of revenue and a profit of £nil to the Group's profit for the period. If the acquisition had been completed on the first day of the financial period, Group revenues and profit for the period would have been £945.8 million and £17.1 million respectively.

At this stage the initial accounting is provisional because of the proximity of the acquisition date to the date of these statements.

The Trade and other receivables amount is net of £0.3 million of expected credit losses.

The principal factors contributing to the recognition of goodwill on the acquisition of Blueberry Foods is the expected realisation of future growth potential with new and existing customers, the synergies that can be achieved with the existing Bakkavor Desserts business and the skilled workforce that is being acquired. The goodwill is not deductible for tax purposes. The Other intangible assets of £0.2 million are in respect of customer relationships with two key customers.

There are no contingent liabilities to be disclosed.

18. Notes to the condensed consolidated statement of cash flows

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
Operating profit	**29.3**	54.1
Adjustments for:		
Share of results of associates after tax	**(0.4)**	(0.3)
Depreciation of property, plant and equipment	**28.8**	20.0
Amortisation of intangible assets	**0.2**	0.2
(Profit)/loss on disposal of property, plant and equipment	**(0.6)**	0.2
Impairment of assets	**3.5**	-
Share scheme charges	**1.2**	1.2
Net retirement benefits charge less contributions	**(1.4)**	(1.7)
Operating cash flows before movements in working capital	**60.6**	73.7
Decrease in inventories	**4.7**	2.7
Decrease/(increase) in receivables	**9.2**	(17.8)
(Decrease)/increase in payables	**(15.0)**	2.5
Decrease in provisions	**(0.3)**	(1.0)
Cash generated by operations	**59.2**	60.1
Income taxes paid	**(8.0)**	(5.8)
Interest paid	**(8.7)**	(4.3)
Net cash generated from operating activities	**42.5**	50.0

19. Contingent liabilities

The Group is currently subject to a National Living Wage enquiry, which has been ongoing since July 2017. Whilst the Directors consider that there is a possible financial impact from this enquiry, given the stage of the enquiry it is not possible to quantify the potential financial impact and the outcome cannot at present be foreseen.

20. Events after the statement of financial position date

There have been no significant events after the statement of financial position date to report.

21. Alternative performance measures

The Group uses various non-IFRS financial measures to evaluate growth trends, assess operational performance and monitor cash performance. The Directors consider that these measures enable investors to understand the ongoing operations of the business and are used by management to monitor financial performance as it is considered to aid comparability of the financial performance of the Group from year to year.

Like-for-like (LFL) revenue

The Group defines LFL revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current and prior period and the effect of foreign currency movements. The Directors believe LFL revenue is a key metric of the Group's revenue growth trend as it allows for a more meaningful comparison of trends from period to period.

The following table provides the information used to calculate LFL revenue for the Group.

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018	% change
Statutory revenue as reported	**923.0**	910.4	
Restatement (Note 2)	**-**	(0.5)	
Statutory revenue restated	**923.0**	909.9	1.4%
Revenue from acquisitions	**(20.0)**	-	
Revenue from closed businesses	**(21.3)**	(49.0)	
Effect of currency movements	**(3.8)**	-	
Like-for-like revenue	**877.9**	860.9	2.0%

The following table provides the information used to calculate LFL revenue for the UK segment.

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018	% change
Statutory revenue as reported	**813.5**	816.6	
Restatement (Note 2)	**-**	(0.5)	
Statutory revenue restated	**813.5**	816.1	(0.3%)
Revenue from acquisitions	**(20.0)**	-	
Revenue from closed businesses	**(21.3)**	(49.0)	
Like-for-like revenue	**772.2**	767.1	0.7%

The following table provides the information used to calculate LFL revenue for the International segment.

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018	% change
Statutory revenue	**109.5**	93.8	16.7%
Effect of currency movements	**(3.8)**	-	
Like-for-like revenue	**105.7**	93.8	12.7%

21. Alternative performance measures (continued)

Adjusted EBITDA and Adjusted Operating Profit

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' and 'Adjusted Operating Profit' as these measures exclude the impact of items that hinder comparison of profitability year-on-year. EBITDA is generally defined as operating profit/(loss) before depreciation and amortisation. In calculating Adjusted EBITDA and Adjusted Operating Profit, we exclude restructuring costs, asset impairments, and those additional charges or credits that are considered significant or one-off in nature. In addition, for Adjusted EBITDA we exclude the share of results of associates after tax and share scheme charges as this is a non-cash amount.

The following table provides a reconciliation from the Group's Operating profit to Adjusted EBITDA.

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
Operating profit	**29.3**	54.1
Depreciation	**28.8**	20.0
Amortisation	**0.2**	0.2
EBITDA	**58.3**	74.3
Exceptional items (Note 4)	**13.1**	3.2
Start-up losses for new sites	**8.3**	-
Share scheme charges	**1.2**	1.2
(Profit)/loss on disposal of property, plant and equipment	**(0.6)**	0.2
Share of results of associates after tax	**(0.4)**	(0.3)
Adjusted EBITDA post IFRS 16	**79.9**	78.6
Less IFRS 16 impact	**(6.4)**	-
Adjusted EBITDA pre IFRS 16	**73.5**	78.6

Adjusted EBITDA by segment is reconciled to operating profit in Note 3.

Operating profit

The following table provides a reconciliation from Operating profit to Adjusted Operating profit.

£ million	**26 weeks ended 29 June 2019**	26 weeks ended 30 June 2018
Operating profit	**29.3**	54.1
Exceptional items (Note 4)	**13.1**	3.2
Start-up losses for new sites	**8.3**	-
Adjusted Operating profit	**50.7**	57.3

21. Alternative performance measures (continued)

Operational net debt and leverage

Operational net debt excludes the impact of non-cash items and those liabilities recognised under IFRS 16 on the Group's statutory net debt and therefore the Directors use this measure as it reflects actual net borrowings at the relevant reporting date and is most comparable with the Group's free cash flow. The following table provides a reconciliation from the Group's statutory net debt to the Group's operational net debt.

£ million	29 June 2019	29 December 2018
Statutory net debt	**(438.7)**	(306.6)
Unamortised fees	**(3.4)**	(4.0)
Interest accrual	**1.5**	1.3
Lease liabilities recognised under IFRS 16	**84.0**	-
Operational net debt	**(356.6)**	(309.3)
Adjusted EBITDA (last 12 months and excluding IFRS 16 impact)	**148.4**	153.5
Leverage (Operational net debt/Adjusted EBITDA pre IFRS 16)	**2.4**	2.0

Free cash flow

The Group defines free cash flow as the amount of cash generated by the Group after meeting all of its obligations for interest, tax and pensions and after purchases of property, plant and equipment (excluding development projects), lease liability capital payments under IFRS 16, but before payments of refinancing fees and other exceptional or significant non-recurring cash flows. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the underlying cash available to pay dividends, repay debt or make further investments in the Group. The following table provides a reconciliation from net cash generated from operating activities to free cash flow.

£ million	26 weeks ended 29 June 2019	26 weeks ended 30 June 2018
Net cash generated from operating activities	**42.5**	50.0
Dividends received from associates	**-**	0.6
Purchases of property, plant and equipment	**(44.4)**	(51.6)
Purchases of property, plant and equipment relating to development projects (Note 10)	**9.7**	29.1
Proceeds on disposal of property, plant and equipment	**1.2**	-
Cash impact of exceptional items	**6.0**	4.3
Cash impact of start-up losses for new sites	**8.3**	-
IFRS 16 capital element of lease liability payments	**(5.7)**	-
Free cash flow	**17.6**	32.4

21. Alternative performance measures (continued)

Adjusted basic earnings per share

The Group calculates Adjusted basic earnings per Ordinary share by dividing Adjusted earnings by the weighted average number of Ordinary shares in issue during the year. Adjusted Earnings is calculated as profit attributable to equity holders of the Company adjusted to exclude exceptional items as presented in the condensed consolidated income statement and start-up losses for new sites. The Directors use this measure as it tracks the underlying profitability of the Group and enables comparison with the Group's peer companies. The following table reconciles profit attributable to equity shareholders of the Company to Adjusted earnings.

£ million	**26 weeks ended 29 June 2019**	**26 weeks ended 30 June 2018**
Profit attributable to equity shareholders of the Company	**17.2**	40.5
Exceptional items (Note 4)	**13.1**	3.2
Start-up losses for new sites	**8.3**	-
Tax on the above items	**(4.2)**	(0.6)
Adjusted earnings	**34.4**	43.1
Add back: Tax on adjusted profit before tax	**6.5**	7.2
Adjusted profit before tax	**40.9**	50.3
Effective tax rate on underlying activities (Tax on adjusted profit before tax/Adjusted profit before tax)	**15.9%**	14.3%

Number 000's		
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of dilutive Ordinary shares	**3,260**	3,552
Weighted average number of Ordinary shares for diluted earnings per share	**582,686**	582,978
Adjusted basic earnings per share	**5.9p**	7.4p
Adjusted diluted earnings per share	**5.9p**	7.4p

Statement of Directors' responsibilities

The Directors confirm that to the best of their knowledge the condensed set of financial statements has been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting and includes a fair review of the information required by the Disclosure Guidance and Transparency Rule (“DTR”) 4.2.7R (an indication of important events during the first six months and a description of the principal risks and uncertainties for the remaining six months of the year) and by DTR 4.2.8R (a disclosure of related party transactions and changes therein).

The Board of Directors that served during the six months ended 29 June 2019, and their respective responsibilities, can be found on pages 50 and 51 of the 2018 Annual Report & Accounts.

This responsibility statement has been approved by the Directors of the Company ("the Group Board") and signed on its behalf on 9 September 2019 by:

Agust Gudmundsson
CEO

Peter Gates
CFO

Independent review report to Bakkavor Group plc

Report on the Condensed set of financial statements in the half-yearly financial report

Our conclusion

We have reviewed Bakkavor Group plc's Condensed set of financial statements in the half-yearly financial report (the "interim financial statements") in the half-yearly results of Bakkavor Group plc for the 26-week period ended 29 June 2019. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the Condensed consolidated statement of financial position as at 29 June 2019;
- the Condensed consolidated income statement and Condensed consolidated statement of comprehensive income for the period then ended;
- the Condensed consolidated statement of cash flows for the period then ended;
- the Condensed consolidated statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly results have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The half-yearly results, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly results in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half-yearly results based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of complying with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of interim financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half-yearly results and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants
London
9 September 2019