27 February 2020

Bakkavor Group plc

A solid performance while building for longer term growth

Bakkavor Group plc ("Bakkavor", "the Group" or "the Company"), the leading provider of fresh prepared food ("FPF"), today announces its full year unaudited results for the 52-week period ended 28 December 2019.

FINANCIAL HIGHLIGHTS

- Group revenue up 1.5% to £1,885.9m
- Group like-for-like revenue[1] up 1.7% to £1,787.2m:
  - UK up marginally 0.2% to £1,559.8m in a challenging market
  - International growth strong at 12.8% to £227.4m
- Adjusted EBITDA[1] pre IFRS 16 in line with prior year at £153.5m, with Adjusted EBITDA[1] margins protected in the UK
- Operating profit lower at £69.4m (2018: £85.6m), impacted by £20.3m of exceptional costs and £15.5m of start-up losses for new sites
- Basic earnings per share of 6.4p and Adjusted earnings per share[1] of 12.7p
- Operational net debt[1] increased by £45.5m to £354.8m due to planned capital investment
- Proposed final dividend of 4p per Ordinary share, giving full year dividend of 6p per Ordinary share

OPERATIONAL HIGHLIGHTS

- Clear leadership position in the UK with share gain in three core categories
- Completed investment at desserts site in Newark and integration of Blueberry Foods on track
- UK benefitted from transfer of significant new meals business following investment at four sites
- Easing of commodity price inflation in H2 helped offset rising labour costs
- Developing stronger US retail partnerships to build foundations for future growth
- Three new sites in China now fully operational, increasing capacity to support growing demand

£ million (unless otherwise stated)	**FY 2019**	FY 2018	Change
Group revenue	**1,885.9**	1,857.2	1.5%
Like-for-like revenue[1]	**1,787.2**	1,757.9	1.7%
Adjusted EBITDA[1] pre IFRS 16	**153.5**	153.5	-
Adjusted EBITDA[1] margin pre IFRS 16	**8.1%**	8.3%	(20bps)
Adjusted operating profit[1]	**105.2**	111.7	(5.8%)
Operating profit	**69.4**	85.6	(18.9%)
Basic EPS	**6.4p**	11.6p	(5.2p)
Adjusted EPS[1]	**12.7p**	14.5p	(1.8p)
Free cash flow[1]	**51.1**	55.1	(4.0)
Net debt (excluding IFRS 16 lease liabilities)	**354.8**	309.3	45.5
Total dividend proposed	**6p**	6p	-

[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:

“This was another solid year for Bakkavor, in which we delivered further growth, increased market share, and strengthened our operations both in the UK and internationally, whilst reporting performance in line with expectations.

“In the UK, against difficult market conditions, and with further labour inflation and low consumer confidence, we successfully protected EBITDA margins and held our underlying profitability. We have significantly strengthened our market-leading position in the desserts category and launched a major new meals range for one of our strategic customers which give us confidence going into 2020.

“In our International businesses, we continue to develop our operations to take advantage of the long-term potential in both the US and China. Volumes are accelerating across our new sites, the demand for our products is growing and interest in our fresh prepared meal offer is gaining traction particularly with US regional retailers.

“More recently, the Coronavirus outbreak is having a significant impact on our business in China and our key priority is to safeguard the health and wellbeing of our colleagues through this challenging period. We continue to monitor the situation closely as it develops.

“Looking further ahead, we have strong foundations and the skills and expertise in place to deliver on our long-term strategy. We are confident that the strength of our business model, customer strategy and category excellence will enable us to capitalise on further growth opportunities.”

KEY STATUTORY FINANCIAL INFORMATION

£ million (unless otherwise stated)	**FY 2019**	FY 2018	Change
Group revenue	**1,885.9**	1,857.2	1.5%
Operating profit	**69.4**	85.6	(18.9%)
Profit before tax	**43.8**	77.9	(43.8%)
Profit after tax	**36.9**	67.2	(45.1%)
Basic EPS	**6.4p**	11.6p	(5.2p)

PRESENTATION

A presentation of the full-year results to analysts will take place at 10.00am today, 27 February 2020, 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/2019fy/

ENQUIRIES

Institutional investors and analysts:

Peter Gates, Chief Financial Officer

Sally Barrett-Jolley, Head of Corporate Affairs +44 (0) 20 7908 6143

Media:

Tulchan Communications

Will Smith, Michelle Clarke +44 (0) 20 7353 4200

About Bakkavor
Bakkavor is the leading provider of fresh prepared food ("FPF") in the UK, with a growing international presence in the US 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 20,000 employees and operates 25 factories in the UK, 5 in the US and 9 in China.

LEI number: 213800COL7AD54YU9949

DISCLAIMER – FORWARD-LOOKING STATEMENTS
This full-year statement, prepared by Bakkavor Group plc (the "Company"), may contain forward-looking statements about Bakkavor Group plc and its subsidiaries (the "Group"). Forward-looking statements involve uncertainties because they relate to events, and depend on circumstances, that will, or may, occur in the future. If the assumptions on which the Group bases its forward-looking statements change, actual results may differ from those expressed in such statements. Forward-looking statements speak only as of the date they are made and the Company undertakes no obligation to update these forward-looking statements. Nothing in this statement should be construed as a profit forecast. Some numbers and period on period percentages in this statement have been rounded or adjusted in order to ensure consistency with the financial information.

CHIEF EXECUTIVE'S OVERVIEW

Bakkavor is the leading provider of fresh prepared food ("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 (unless otherwise stated)	**FY 2019**	FY 2018	Change
Group revenue	**1,885.9**	1,857.2	1.5%
Like-for-like revenue[1]	**1,787.2**	1,757.9	1.7%
Adjusted EBITDA[1] pre IFRS 16	**153.5**	153.5	-
Adjusted EBITDA[1] margin pre IFRS 16	**8.1%**	8.3%	(20bps)
Operating profit	**69.4**	85.6	(18.9%)
Operating profit margin	**3.7%**	4.6%	(90bps)

[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.

Continued progress in challenging market conditions

Bakkavor is a business centred around scale, innovation, expertise and strong customer relationships. Our continued investment in these key strengths has driven our progress over the past year and will ultimately underpin our strategy of long-term sustainable growth across the Group.

While economic and political conditions remained unhelpful in 2019, the unique characteristics of the Group together with our financial resilience continues to differentiate Bakkavor from its competitors. This enables us to leverage our number one position in the highly competitive UK fresh prepared food industry, whilst accelerating our growth in international markets and improving our operational efficiency.

Overall, Group revenue increased by 1.5% to £1,885.9 million, with like-for-like revenue[1] up 1.7% to £1,787.2 million. This increase was primarily due to good growth in the Group's International segment together with a solid performance in the UK despite relatively weak levels of consumer confidence.

As expected, Group Adjusted EBITDA[1] was in line with the prior year at £153.5 million, with operating profit down 18.9% to £69.4 million as a result of initial start-up losses in our new international sites and an increase in depreciation following a period of heavy investment. In the UK, our financial discipline and clear focus on protecting profitability ensured that we successfully held our Adjusted EBITDA[1] margin. However, the Group Adjusted EBITDA[1] margin was slightly lower (-20bps) at 8.1% which reflects ongoing investment in our International infrastructure to support volume growth and deliver the efficiencies from scale.

We continue to generate strong free cash flow[1] for the year at £51.1 million (2018: £55.1 million), although debt levels were higher during the period following further targeted investment, including the acquisition of Blueberry Foods (now Bakkavor Desserts Leicester) in the UK.

In challenging market conditions, this is a robust and encouraging result and I would like to thank each of our 20,000 employees for helping us to deliver this performance.

Strengthening our foundations for the future

While delivering our 2019 financial performance, we have further strengthened our foundations to ensure the Group's long-term success.

In the UK, we continue to see considerable opportunity for Bakkavor within the desserts category. Our upgraded Newark site became fully operational in Q3, with new state-of-the-art automation helping to increase our capacity and capabilities. Elsewhere, we completed the integration of Haydens Bakery and in June this was complemented by the acquisition of Blueberry Foods, bringing additional capacity to our existing product ranges, extending our capabilities into hot desserts and building our market-leading position in this category.

In the US, our dedicated meals site in San Antonio is steadily increasing volumes. Our relationship with the customer is developing well and our oven ready products for their own-label meals range has been well received by consumers. Whilst this venture is still at a relatively early stage, we are confident of its long-term success and continue to discuss further opportunities to capitalise on this model. Our new bakery in Charlotte is now operational, delivering high-quality artisan bread for our customers.

In China, our recent investment in three factories, including the completion of our new state-of-the-art facility in Shanghai, leaves us ideally placed to capitalise on the growing trend for fresh prepared food.

After experiencing strong momentum into January, our China business has been impacted by the Coronavirus outbreak, resulting in a sharp decline in demand, significantly reduced production levels across all sites, and the temporary closure of our sites at Wuhan and Taicang. We continue to prioritise the wellbeing of our colleagues and their families, as well as working closely with local authorities and our customers.

The ongoing uncertainty regarding the extent and duration of the Coronavirus crisis will clearly have a material impact on Group's International performance this year. However, we are confident that the demand for our products in China remains and we will restore production levels as soon as market dynamics normalise.

Leveraging our innovation expertise

Innovation is the lifeblood of our business, and during the period we continued to support our customers enabling them to react quickly to changing consumer demands and shopping behaviours. Our deep understanding of consumer tastes has enabled us to work alongside our customers to create innovative new products which appeal to the key market drivers of taste, health and convenience, particularly in the growing vegan, vegetarian and 'free from' categories.

We have helped our customers reconfigure the recipes and designs of classic meal dishes and a number of these were celebrated at our Annual Innovation Awards held in November. For example, hummus production for our largest customer advanced during the year and the full range now has a lower oil content and is healthier for consumers. Similarly, we have also seen innovation in packaging design, including a shift to using more recyclable plastics, and whilst we have further work to do in this area alongside our customers, we are making good progress.

In China, we have successfully used our UK expertise to reconfigure some of our most popular dishes to meet local tastes, with products such as Sichuan Style Mala Crayfish Salad and our own-brand Fresh Kitchen Peppered Beef and Grain Salad. We continue to extend our 'food-to-go' offer to some of the best-known global food service outlets and retail brands and this now represents more than half of our business in China.

Growing responsibly and sustainably

As a Group, we have made meaningful progress this year in developing our approach to corporate responsibility through a formal Group-wide framework, based on the theme of 'Trusted Partner'. Working with colleagues, customers, partners and suppliers, we are proud to have produced our new framework, strategy and new commitments that reflect our ambitions and will make us a more responsible business. The strategy covers our supply chain, operations, workplaces and communities and includes a focus on reducing food waste and minimising the environmental impact of packaging.

Among our commitments is a renewal of our support in the UK to the United Nations Sustainable Development Goal target 12.3 to halve food waste across the supply chain by 2030. We also commit to achieving the goals of the UK Plastics Pact, including eliminating problematic plastics and moving to 100% recyclable plastic from 2025 and have already made significant progress, including removing 50 million pieces of plastic in 2019. We will use our expertise to evaluate and manage environmental and social risks across our supply chain, understand our exposure to climate risk and take action to mitigate the impact where possible. The investment plan to upgrade our factory refrigeration systems has already supported greater energy efficiency at site-level and we will continue to focus on operational improvements that reduce our carbon footprint. Our work in this area is fully aligned with all our key stakeholders.

Developing our expertise

We continue to recruit talented individuals at all levels across our organisation who bring the skills and experience to support our exciting growth ambitions. At a senior level we were delighted to welcome in the past year Justin Bushby as Group IT Director, Annabel Tagoe-Bannerman as Group General Counsel and Company Secretary and Sebastiano Macchi as Group Strategy Director.

In September, we carried out our latest Group-wide employee engagement survey, achieving a high response rate of 87% from our employees. The survey highlighted that our employees feel more engaged and enabled to fulfil their potential. The feedback is invaluable and allows us to make positive changes to working practices as we continue to create an environment where our people enjoy their jobs, feel valued, motivated and recognised.

We also launched an updated careers website to attract the best talent into the business. Late in 2019, in response to the engagement survey, we announced a commitment to relaunch our overall talent strategy, outlining a new vision in early 2020, including a set of principles and leadership framework that defines, manages and rewards performance.

Dividend

The Group paid an interim dividend of 2 pence per Ordinary share on 11 October 2019 and will propose a final dividend of 4 pence per Ordinary share at the Company's AGM on 21 May 2020, payable on 28 May 2020. This will result in a total dividend for financial year 2019 of 6 pence per Ordinary share, unchanged from the prior year. The Board expects to maintain a progressive dividend policy in the medium term.

Outlook

In the UK, against difficult market conditions, and with further labour inflation and low consumer confidence, we successfully protected EBITDA[1] margins in 2019 and held our underlying profitability. We expect to see a significant uplift in volumes in the first half of this year as we benefit from recent business gains which will more than offset labour inflation which is once again running at over 5%. Combined with little change forecasted in raw material pricing, we therefore expect Adjusted EBITDA[1] in the UK to be progressive for the year as a whole.

In our International businesses, we continue to develop our operations to take advantage of the long-term potential in both regions. In the US, having stabilised the business, we are encouraged by the increased volumes, particularly in our new sites. However, as expected it will take until 2021 before we can leverage the real benefits of scale. In China, whilst 2020 started well, the recent Coronavirus outbreak is now having a significant effect on our business. Volumes are significantly down in February and currently there is no clear visibility as to when more normal trading conditions might resume. It is therefore very difficult to assess the financial impact; however, our current view is that Adjusted EBITDA[1] before exceptionals and start-up losses for our international business in 2020 could be £6 million to £10 million lower than 2019. Despite this short-term impact, market fundamentals are strong and we remain excited about our prospects in China.

Looking further ahead, we have strong foundations and the skills and expertise in place to deliver on our long-term strategy. We are confident that the strength of our business model, customer strategy and category excellence will enable us to capitalise on further growth opportunities.

BUSINESS REVIEW

United Kingdom

£ million (unless otherwise stated)	**FY 2019**	FY 2018	Change
Revenue	**1,652.5**	1,655.6	(0.2%)
Like-for-like revenue[1]	**1,559.8**	1,556.3	0.2%
Adjusted EBITDA[1] pre IFRS 16	**147.1**	147.7	(0.4%)
Adjusted EBITDA[1] margin pre IFRS 16	**8.9%**	8.9%	-
Operating profit	**89.6**	99.8	(10.2%)
Operating profit margin	**5.4%**	6.0%	(60bps)

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.

Performance overview

Our UK business segment generated £1,652.5 million of reported revenue in 2019, down 0.2% compared to the prior year. Like-for-like revenue[1], excluding closures, disposals and acquisitions, was £1,559.8 million, 0.2% up on 2019. This was due to volume increases of 0.5% being partly offset by price decreases of 0.3% in response to an easing of raw material inflation in the first half and raw material deflation in the second half of 2019.

Underlying volume growth has been limited for the year as a whole as consumer confidence remained weak. In addition, retail price inflation affected consumer spending patterns, with shoppers reducing their total spend by buying less frequently and substituting products for less expensive ones. This reduction in frequency, combined with tough comparatives due to good weather the previous summer, meant that organic volume growth in our business was challenging.

Margin protection and operational efficiencies

Recognising the difficult market conditions, our clear focus during the year was on protecting profitability and winning further market share to ensure long-term success. As such, we are pleased to report that, in a volatile environment, the strength of our offer saw us achieve more business wins than losses, underpinning our market share gains in three of our four categories, especially in the final quarter of the year.

Our disciplined approach to profitable growth has been particularly focused on winning additional business with our four strategic customers, with whom we believe our commercial relationships have never been stronger. There is a recognition from them that by doing more together we can unlock value for each of our respective businesses, as we leverage and benefit from our combined expertise and scale. This partnership approach, centred around shared values, helped drive our business gains in the year, and all business losses were due to an inability to agree commercial terms that met our target returns.

Given our focus on maximising profitability, in April 2019 we closed our Freshcook meals facility at Holbeach, Lincolnshire. This dedicated customer site became loss-making in 2018 as we were unable to recover sufficient raw material inflation and we therefore regrettably took the decision that the site was no longer commercially viable. We are pleased to say that the majority of our Freshcook colleagues were offered alternative roles, relocating to neighbouring Bakkavor sites. The site is owned and will therefore provide future capacity to capitalise on opportunities as the market continues to consolidate.

Whilst we saw commodity price inflation ease in the second half, labour inflation remained, fuelled by further pressure on wage rates due to increases in the National Living Wage, and the ongoing impact of complying with auto enrolment pension requirements. We continue to work tirelessly to deal with this pressure. Internally, our focus is on lowering employee turnover and driving efficiency, whilst externally we are working with our customers to ensure that our overall pricing remains sustainable. Increasingly our business relationships are underpinned by cost models that link to our selling prices, giving transparency and supporting commercial discussions.

The actions taken during the year ensured that whilst our UK Adjusted EBITDA[1] dropped slightly to £147.1 million, we held our Adjusted EBITDA margin[1] at 8.9%.

The operating profit for the UK segment decreased by £10.2 million in the year from £99.8 million in 2018 to £89.6 million, mainly due to an increase of £6.4 million in exceptional items following the closure of a meals site and the non-core fast casual restaurant business. Depreciation, excluding the IFRS 16 impact, has increased by £4.0 million in 2019 compared to 2018.

Delivering category excellence across our portfolio

As well as strengthening our strategic customer partnerships we believe our continued focus on developing the depth and breadth of our core categories of meals, pizza & bread, desserts and salads remains key to our success. Our product portfolio remains well balanced across all categories and price points and is able to adapt to seasonal changes in consumer eating patterns. In 2019, following increased investment, we delivered a step change across our meals and desserts sites which was instrumental in securing new business:

Meals category growth
Across our meals business we invested in capability and capacity at four of our meals sites to accommodate a significant business gain. The new business is a natural fit with our existing skill set and represents the largest single transfer of business to the Group. All new business was successfully onboarded by the beginning of September, with a dedicated project team that executed this complex plan on time and on budget. This project has ultimately redefined and strengthened our customer relationship and enabled us to deliver a stronger joint model.

Desserts category consolidation
Current market conditions continued to provide us with opportunities to consolidate and strengthen our market leading position in our core categories, especially desserts. Alongside commissioning the final phase of our Newark investment, in June we also acquired Blueberry Foods, now Bakkavor Desserts Leicester. The acquisition was fully aligned to our customer strategy as this business was a key supplier to our two largest customers. We acquired capability and capacity, a well invested site with values aligned to our own, and a strong track record of technical delivery. These investments, along with our acquisition in 2018 of Haydens Bakery - now Bakkavor Desserts Devizes - further strengthens our market-leading position and leaves us well placed to benefit from future growth opportunities in this category.

Seasonal changes and portfolio effect
The complexity of our business model allows us to react and respond quickly to changes in customer eating habits. However, in recent years the salads category has become increasingly unpredictable, exacerbated by concerns over quality and availability of produce. In the summer months of 2019, we had significantly less 'sun hours' than the prior year, and consequently we saw a decline in performance in this category. In response, we continue to review our operational strategy in this category to improve efficiencies and protect our margins. However, this year's relative underperformance in the salads category was partially offset by strong trading across our pizza and bread category, in part due to increased promotional activity and a large number of new product launches. Once again this emphasises the benefit of having a balanced business in the UK.

Category innovation
Our track record of innovation and operational delivery underpins everything we do across our business. We are focused on ensuring our products are best in class and tailored to the specific consumer preferences and price points for each retailer, whether that be a core Indian meal or a top tier lasagne. Alongside this, we use our category breadth to deliver new meal occasions. For example, together with our largest customer we created The Pizza Company, a unique pizza meal deal concept which includes a range of complementary sides and desserts produced across our business. This has been highly successful and driven incremental sale. Christmas is a great time for us to showcase our innovation, particularly in the desserts category where we worked closely with our customers to create statement desserts for the festive season. These fun and memorable desserts included a sticky toffee family trifle and a 'smash nose reindeer' cheesecake which were both particularly popular with consumers!

Capital investment

In addition to completing the major expansion of our desserts site at Newark in August we have also made significant investments in four of our meals sites in preparation for the new business that we took on during the Autumn. This investment helped ensure that we were able to deliver a smooth transfer of this complex project on time.

During 2019, we also started a multi-year programme to replace legacy refrigeration systems in our UK factories, targeting the oldest systems in our portfolio. By the end of 2020, we expect to have completed Phase 1 and will have fully replaced the systems in five UK factories at a cost of almost £20 million, replacing Fluorinated Greenhouse Gases (F-Gas) with sustainable solutions that have a zero GWP (Global Warming Potential), delivering a significant reduction in our environmental impact. In addition, we are also investing in technology to take the residual heat from the new systems to heat water for use in our factories. A combination of these two efficiency projects is expected to deliver a saving on our energy bills of up to 20% per annum.

In addition to the regular maintenance spend required across our UK sites to keep them to the very high standards we expect, we have continued to target productivity improvements that help offset ongoing increases in labour inflation. Going forward, we will be strengthening our Operational Finance Team, who are charged with identifying opportunities and delivering efficiency improvement projects. These can range from small low risk investments such as low-level depositing solutions to more complex step change investments like upgrading our Factory Management Reporting and Control System.

Brexit planning

Throughout 2019, the political and economic uncertainty linked to Brexit continued to impact our business, creating uncertainty for our employees and potential disruption across our supply base. The availability of raw materials remained our biggest focus and our central procurement team undertook a detailed risk analysis to evaluate the origins of all our ingredients and raw materials, putting in place plans to increase stock holdings of key ingredients where possible and if necessary. In addition, we continued to work closely with our customers to review various scenarios, including reduced stock availability, possible SKU reductions, product reformulations and review of promotional strategies.

Around 50% of our UK employees are EU citizens and whilst we have seen little change in our overall employee turnover rates, we continue to support those potentially impacted by the implications of the UK's exit from the EU. We have an active engagement and support programme across all sites, including facilitating workshops on the practicalities of the settlement scheme application process.

People

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

In an environment of rising labour costs and high employment, 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 streamlines talent acquisition and all HR administration, improving efficiency and our end-to-end HR process.

In addition, in response to our recent employee engagement survey, we have launched a talent Initiative which prioritises 'early careers', performance management and learning as key areas that are important to our employees.

Corporate Responsibility

During the period, we continued to actively support our customers' sustainability programmes and targets through our technical, commercial and category teams. This included a focus on environmental targets around waste, packaging and plastics. In the UK we are part of the industry commitment to the UK Plastics Pact and we are well on our way to the 2025 goal of eliminating problematic plastics, using only materials that are recyclable or biodegradable.

We are also committed to ensuring that our responsible sourcing and supply chain practices remain best-in-class and address social issues. For example, we collaborated with a strategic customer to assess specific human rights risks in the Thai poultry sector and established effective mechanisms for grievance remedy and worker voice.

International

£ million	FY 2019	FY 2018	Change
Revenue	**233.4**	201.6	15.8%
Like-for-like revenue[1]	**227.4**	201.6	12.8%
Adjusted EBITDA[1] pre IFRS 16	**6.4**	5.8	10.3%
Adjusted EBITDA[1] margin pre IFRS 16	**2.7%**	2.9%	(20bps)
Operating loss	**(20.2)**	(14.2)	-
Operating loss margin	**(8.7%)**	(7.0%)	(170bps)

[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.

Delivering good underlying volume growth

Our International segment now represents around 12% of Group revenue. Both businesses in the US and China continue to operate in highly attractive markets and delivered good underlying volume growth in the year, as we start to benefit from recent capacity investments.

Like-for-like revenue[1], which is at constant currency, increased by 12.8%, from £201.6 million in 2018 to £227.4 million in 2019. On a reported basis the increase was £31.8 million or 15.8% (including a £6.0 million benefit from the weakening of Sterling), to £233.4 million in 2019.

Whilst we have continued to invest in operations and infrastructure in both regions, it has also been a year of consolidation for our US business, and this has had an impact on overall profitability. Adjusted EBITDA[1] for our International segment was £6.4 million for the year, compared with £5.8 million in 2018. At an operating level the loss for this segment increased by £6.0 million to a loss of £20.2 million. Both businesses have been particularly impacted by rising labour costs and further investment in our technical infrastructure to support the pace of growth. In addition, start-up losses in certain of our sites increased by £3.1 million, and depreciation increased by £3.5 million following recent heavy investments.

United States

Our business continues to benefit from the growing demand for fresh prepared meals as US retailers are looking for experienced manufacturing partners to develop or expand their chilled proposition. However, the size of the US can often mean distribution of short shelf-life products is challenging. To address this, we have focused on either partnering with regional retailers or working with those that have well invested and effective supply chains.

Our new state-of-the-art meals facility in Texas is an example of partnering with a retailer that is committed to the fresh meals proposition. The site has been fully operational throughout the year and sales growth has been strong, reaching 30% of capacity by December. This pace of growth has presented operational challenges for the business particularly with a shortage of local experience in chilled food manufacturing and its related supply chain. However, we have been able to leverage our expertise across the Group to train and develop our local management team and embed a strong foundation to support future growth.

In July, we launched our first ready meals range available nationally with a retailer that has established one of the most effective supply chains in the US. We are currently supplying meals out of our facilities on both the East and West Coast. Whilst currently at a relatively small scale, this is an exciting opportunity for the business and has provided good start-up volumes for our new ready meals facility in our existing Carson site.

Our dips category, particularly hummus, continues to remain an important part of our business and we are investing to improve quality and to reinforce leading technical standards. We are trialling new and exciting technologies to differentiate ourselves in the hummus market and expect this project to continue through this year.

In July, we launched our new range of artisan breads that can be distributed nationally across the US. Initial sales have been encouraging and we will look to expand the range in 2020 to capitalise on growth within the market. Our new bakery has room to expand as sales increase with the next phase of investment expected to start in 2021.

Despite the short-term profit challenges, the prospects for our US business remain positive and strategic relationships with our retailers have strengthened. Operational expertise will determine our speed to deliver growth and we are investing heavily to build talent across the business and leverage experience from the UK.

China

China remains a highly attractive growth market, and we continue to position ourselves as the partner of choice for western foodservice providers seeking to expand in the region. Our key foodservice customers continued to build their store and restaurant portfolios rapidly and Bakkavor has been the first-choice supplier for a number of high-profile new entrants into the market.

Our state-of-the-art, multi-product facility near Shanghai was fully operational throughout the year with all production transferred from the existing smaller site during the first quarter. Since then we have seen a step up in operational performance and an improvement in year on year results. This new facility also enabled us to launch ready meals into the market, complementing our meal salads and other ‘food to go’ ranges. This exciting development is expected to become a key category for our business in the coming years, and we expect it to drive further growth for us in the region.

The investments made in our greenhouses, incorporating the latest hydroponic technology have now been completed, with encouraging performance seen during the year. In particular, we have seen an improvement in raw material quality, local growing seasons extended and the opportunity to develop new varieties of leaf supply. These projects have earned praise and recognition from both customers and government agencies.

In close partnership with our existing customers we opened a new facility last year in Chengdu which extends our reach into another fast-growing region of China. Sales are continuing to build as we expand our offering of ‘food to go’, meals and salads. We have also started work on a new facility in Wuhan and later this year construction is planned to start in Xian. These replacement sites will deliver significant improvements in capacity, operational efficiency and production capability. They will also allow for our continued growth in the Central China region as we maintain our market leading position and broaden our supply capabilities.

Despite the short-term impact this year from the recent outbreak of Coronavirus, market fundamentals are strong and we remain excited about our prospects in China.

FINANCIAL REVIEW

Revenue

Reported revenue increased by £28.7 million, or 1.5%, from £1,857.2 million in 2018 to £1,885.9 million in 2019. Like-for-like revenue[1] was up 1.7%, from £1,757.9 million in 2018 to £1,787.2 million in 2019. This increase was primarily due to good growth in the Group's International operating segment.

Segmental Breakdown

UK

In the UK segment, reported revenue decreased slightly by 0.2%, or £3.1 million, from £1,655.6 million in 2018 to £1,652.5 million in 2019.

Like-for-like revenue[1], which excludes Freshcook and Anglia Crown that were closed and sold in April 2019 and July 2018 respectively and Blueberry Foods and Haydens Bakery which were acquired in June 2019 and September 2018 respectively, increased marginally by 0.2%, from £1,556.3 million in 2018 to £1,559.8 million in 2019. Freshcook contributed revenues of £21.4 million in 2019 for the period up to its closure. Blueberry Foods contributed £31.0 million to reported revenue in the six-month period following its acquisition and Haydens Bakery contributed £40.2 million in 2019.

This like-for-like revenue[1] growth for the year was due to volume increases of 0.5% being partly offset by price decreases of 0.3% as we saw raw material deflation in the second half of 2019. Underlying volume growth has been limited for the year as a whole as consumer confidence remained weak in the current economic environment. The growth that has been seen was largely due to business wins in our meals category.

International

In the International segment, reported revenue increased by £31.8 million, or 15.8%, to £233.4 million in 2019 from £201.6 million in the prior year. The weakening of Sterling in the year helped to increase reported revenue in 2019 by £6.0 million.

Like-for-like revenue[1], which is at constant currency, increased by 12.8%, from £201.6 million in 2018 to £227.4 million in 2019. The increase was primarily due to strong growth in both our International markets, where sales volumes increased across all key customers as we start to benefit from recent investments to increase our capacity in the US and China.

Exceptional Items

Included within Other administrative costs and cost of sales are exceptional items which are adjusted for when determining the Group's APMs as management consider they should be disclosed by virtue of their nature or amount to determine the underlying performance of the business. Exceptional items comprise the following:

£ million	**2019**	2018
New sites	**–**	12.4
Disruption	**6.6**	2.6
GMP equalisation	**–**	2.6
Restructuring, impairment and onerous lease provision	**13.7**	5.2
Gain on bargain purchase	**–**	(1.3)
Loss on disposal of subsidiary	**–**	4.6
	20.3	26.1

[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.

2019

The Group incurred £20.3 million of net costs presented as exceptional items in 2019 of which £6.6 million related to disruption costs; £2.8 million as our factory in California was repurposed for ready meal manufacturing and changes made to the hummus production process and £3.8 million in the UK as the business prepared for the launch of significant new products in Q3 2019. In addition, the Group incurred £13.7 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. A further charge of £4.3 million has been recognised for the closure of the Group's non-core UK fast casual restaurant business. The remaining £1.7 million is primarily for redundancy costs following changes to our commercial and marketing structure.

2018

The Group incurred £26.1 million of exceptional costs in 2018 of which £12.4 million related to the initial start-up and pre-commissioning costs of new factories in the US and China and £2.6 million for disruption costs as the existing factory in California was repurposed for ready meal manufacturing. In addition, an onerous lease provision of £1.7 million was made in respect of the Group's non-core UK fast casual restaurant business and there was a charge of £2.6 million in respect of meeting the change in Guaranteed Minimum Pension ("GMP") for the defined benefit pension scheme which came into force from October 2018. The Group also incurred an impairment charge of £3.5 million in the year in respect of tangible fixed assets as the relevant assets no longer have any future value to the Group, and also recorded a gain of £1.3 million on the acquisition of Haydens in September 2018 and a loss on disposal of Anglia Crown in July 2018 of £4.6 million.

Operating Profit

Operating profit decreased by £16.2 million, or 18.9%, from £85.6 million in 2018 to £69.4 million in 2019 with margins decreasing by 90 basis points to 3.7%, primarily due to an increase in the depreciation charge following recent capital investments, a number of exceptional items as explained above and ongoing start-up losses for new sites. In addition, operating profit includes a year on year net credit of £4.9m (2018: £3.1m) arising from the reassessment of the need for certain commercial accruals and the requirement for provisions under the Group's short-term bonus scheme.

Before exceptional items and start-up losses for new sites and the loss on disposal of a subsidiary in 2018, which are not expected to reoccur, the operating margins for 2019 were 40 basis points lower than 2018 at 5.6%.

Adjusted EBITDA[1]

Adjusted EBITDA[1] for the year was £153.5 million, in line with 2018. Overall trading in 2019 reflects volume and efficiency benefits which more than offset labour inflation in the year and higher losses of £1.4 million at one of our meal's businesses in Lincolnshire prior to its closure in April 2019.

Finance Costs

Finance costs increased by £5.5 million, or 41.7%, from £13.2 million in 2018 to £18.7 million in 2019. The increase is partly due to the recognition of £2.8 million of lease liability costs following the transition to IFRS 16 from the start of the 2019. The balance of the increase is due to an increase in borrowing costs from higher average debt levels in the period following further capital investment. The Group's cost of debt remains at circa 3.5% per annum.

Other Gains and Losses

Other gains and losses moved by £12.4 million, from a gain of £5.5 million in 2018, to a loss of £6.9 million in 2019. This is due to the Group recording mark-to-market losses of £7.3 million on its financial derivatives in 2019, compared to a gain of £1.1 million for 2018, following the relative strengthening of Sterling against the Euro in recent months. In addition, in 2018 our results benefitted from a £4.2 million exceptional gain on the release of an amount in other payables, held at fair value, in respect of a potential liability for a disputed historical claim which has not materialised and is now time-barred.

Tax

The Group tax charge for the year was £6.9 million, which was a decrease of £3.8 million over last year. The £6.9 million charge represents an effective tax rate of 15.8% on profit before tax of £43.8 million. Most of the Group's profits were earned in the UK, where the statutory tax rate was 19% for 2019. The main reason for the lower effective rate is that the US tax rate is higher than the UK and therefore this increases the value of the deferred tax asset on US losses expected to be used against future profits. Excluding exceptional items and other adjusting items, the effective tax rate[1] was 17.5% and it is expected that the effective tax rate will rise to between 18% and 19% in 2020 as the UK statutory tax rate is now expected to remain at 19% from April 2020.

Profit for the period

As a result of the above, profit for the period decreased by £30.3 million, or 45.1%, from £67.2 million in 2018 to £36.9 million in 2019. Excluding the impact of exceptional items and other adjusting items, the profit for the year[1] has decreased by £10.5 million to £73.5 million.

Earnings per share

Basic earnings per share has decreased from 11.6 pence for 2018 to 6.4 pence in 2019, reflecting the start-up losses for new sites, an increase in depreciation following recent investments, mark-to-market losses on derivatives and the impact of the introduction of IFRS 16.

Adjusted earnings per share[1], which is calculated before exceptional items, start-up losses for new sites, the impact of the introduction of IFRS 16 and the change in fair value of derivative financial instruments has decreased from 14.5 pence for 2018 to 12.7 pence in 2019, reflecting an increase in depreciation as assets come into use following recent investment, a higher effective tax rate[1], and an increase in borrowing costs as average debt levels have increased. The weighted average number of shares in issue during both 2018 and 2019 was 579,425,585.

Cash Flow

Net cash from operating activities, which is calculated before capital expenditure but after payments for exceptional items, increased by £14.9 million from £99.1 million in 2018 to £114.0 million. This was largely due to the benefit from a year on year working capital decrease of £15.8 million more than offsetting an increase in interest paid of £5.0 million, of which £2.8 million is due to the transition to IFRS 16 from the start of 2019.

Net cash used in investing activities decreased by £9.3 million in the year from £123.7 million in 2018 to £114.4 million in 2019. This was primarily due to a £13.8 million decrease in capital expenditure as the Group's key development projects in Shanghai and Newark were completed during 2019. This decrease in capital expenditure was partly offset by a £5.1 million year on year increase in payments for acquisitions and disposals of businesses.

Free cash flow[1] for the year, which is the key measure the Directors use to manage cash flow in the business, was £4.0 million lower than the previous year at £51.1 million. This was principally due to expenditure on core capital (excluding development projects) being £20.8 million higher than 2018 as the Group continues with its capital investment plan. Working capital remains tightly managed and delivered a year on year improvement of £16.7 million largely due to increases in supplier payment terms and due to new sites being in operation for a full financial year. Interest payments were £2.2 million higher as average debt levels increased across the year following further investment.

Capital, Debt and Leverage

At 28 December 2019 the Group had committed debt facilities of £517.5 million including a revolving credit facility of £200 million maturing in June 2021 and term loans totalling £247.5 million, of which £210 million mature in June 2021 with the balance maturing in June 2024. Of the remaining debt facilities of £70 million, £20 million matures in November 2020, £25 million in August 2020 and £25 million in September 2026. The Group is currently in the process of refinancing its existing debt facilities and expects to complete the process in the coming months.

Whilst the Group has continued to generate good free cash flow in 2019, payments of £17.5 million have been made in the year in respect of the completion of the final two key development projects in Shanghai and Newark that were identified at the time of the public listing, finance for which was raised from the proceeds of the primary offering in November 2017. In addition, the Group has funded the acquisition of Blueberry Foods Limited in the year at a cost of £16.8 million. These payments, combined with the dividend of £34.8 million and payments for exceptional Items and start-up losses for new sites of £28.5 million, have resulted in an increase of £45.5 million in operational net debt to £354.8 million. Leverage (the ratio of operational net debt to adjusted EBITDA) was 2.3 times at December 2019 and, as expected, is an increase from the 2.0 times at the end of 2018, largely due to the expenditure on the development projects and acquisition payments.

The Group continues to target a medium-term range of 1.5 – 2.0 times. 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 2019 has been to increase operating profit by £0.6 million and to reduce earnings by £1.9 million. In terms of borrowings, the Group recognised £78.8 million of lease liabilities at 28 December 2019 which resulted in statutory net debt of £432.4 million at the end of the period.

Return on Invested Capital[1]

The increase in invested capital in 2019 has resulted in a decrease in the Group's Return on Invested Capital[1] ("ROIC") from 11.6% in 2018 to 9.6% in 2019. Excluding expenditure on the Group's Development Projects ROIC was 11.0% in 2019 (2018: 12.6%). Over the medium term, the Group plans to continue to spend circa 4% per annum of revenues on capital investment.. The Group would also expect the key development projects which have required substantial capital expenditure over the past two years to deliver improvements in returns through the latter part of 2020 and into 2021.

Pensions

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a surplus of £9.7 million for the UK defined benefit scheme as at 28 December 2019 (2018: deficit of £0.5 million).The movement from a small deficit in the prior year to a surplus is due to an increase in the value of assets combined with the benefits from liability hedging.

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 £2.5 million payable for the year ending 31 March 2020. The next triennial valuation as at 31 March 2019 is ongoing.

Dividend

The Group paid an interim dividend of 2 pence per Ordinary share on 11 October 2019 and will propose a final dividend of 4 pence per Ordinary share at the Company's AGM on 21 May 2020. This will result in a total dividend for financial year 2019 of 6 pence per Ordinary share, unchanged from the prior year. The Board expects to maintain a progressive dividend policy in the medium term.

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.

We have reviewed the risk descriptions presented in the Group's 2018 Annual Report and Accounts and have updated the risks as set out below. These will be disclosed in further detail in the Group's 2019 Annual Report and Accounts.

- Food safety and integrity
- Raw material and input cost inflation
- Reliance on small number of key customers
- Labour availability and costs
- IT systems and cyber risk
- Health and safety
- Recruitment and retention of key employees
- Strategic growth and change programmes
- Treasury and pensions
- Brexit disruption
- Disruption to Group operations
- Sustainability
- Consumer behaviour and demand
- Competitors
- Legal and regulatory

In addition, the current Coronavirus outbreak is disrupting our operations in China and presents a material short-term financial impact to our International business in 2020.

Related Party Transactions

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

Consolidated income statement

£ million	Notes	52 weeks ended 28 December 2019 (Unaudited)			Restated* 52 weeks ended 29 December 2018 (Audited)		
		Underlying activities	**Exceptional items (note 4)**	**Total**	Underlying activities	Exceptional items (note 4)	Total
Continuing operations							
Revenue	3	**1,885.9**	**-**	**1,885.9**	1,857.2	-	1,857.2
Cost of sales		**(1,375.0)**	**(1.6)**	**(1,376.6)**	(1,370.6)	-	(1,370.6)
Gross profit		**510.9**	**(1.6)**	**509.3**	486.6	-	486.6
Distribution costs		**(77.1)**	**-**	**(77.1)**	(77.2)	-	(77.2)
Other administrative costs		**(344.6)**	**(18.7)**	**(363.3)**	(298.1)	(21.5)	(319.6)
Loss on disposal of subsidiary		**-**	**-**	**-**	-	(4.6)	(4.6)
Share of results of associates after tax		**0.5**	**-**	**0.5**	0.4	-	0.4
Operating profit/(loss)		**89.7**	**(20.3)**	**69.4**	111.7	(26.1)	85.6
Finance costs	5	**(18.7)**	**-**	**(18.7)**	(13.2)	-	(13.2)
Other gains and (losses)	6	**(6.9)**	**-**	**(6.9)**	1.3	4.2	5.5
Profit/(loss) before tax		**64.1**	**(20.3)**	**43.8**	99.8	(21.9)	77.9
Tax		**(10.9)**	**4.0**	**(6.9)**	(14.9)	4.2	(10.7)
Profit/(loss) for the period attributable to equity holders of the parent company		**53.2**	**(16.3)**	**36.9**	84.9	(17.7)	67.2
Earnings per share							
Basic	7			**6.4p**			11.6p
Diluted	7			**6.3p**			11.5p

* See Note 2 for details of the restatement.

Consolidated statement of comprehensive income

£ million	**52 weeks ended 28 December 2019 (Unaudited)**	52 weeks ended 29 December 2018 (Audited)
Profit for the period	**36.9**	67.2
Other comprehensive income/(expense)		
Items that will not be reclassified to the income statement:		
Actuarial gain on defined benefit pension schemes	**8.3**	(6.3)
Tax relating to components of other comprehensive income	**(1.4)**	1.0
	6.9	(5.3)
Items that may subsequently be reclassified to the income statement:		
Exchange differences on translation of foreign operations	**(6.8)**	7.7
Total other comprehensive income net of tax	**0.1**	2.4
Total comprehensive income	**37.0**	69.6

Consolidated statement of financial position

£ million	Notes	**28 December 2019 (Unaudited)**	29 December 2018 (Audited)
Non-current assets			
Goodwill	9	**651.2**	650.2
Other intangible assets		**2.7**	3.0
Property, plant and equipment	10	**553.7**	426.9
Interests in associates and other investments		**12.6**	12.6
Deferred tax asset		**27.2**	19.6
Retirement benefit asset		**9.7**	-
Derivative financial instruments		**-**	0.2
		1,257.1	1,112.5
Current assets			
Inventories	11	**64.4**	62.8
Trade and other receivables	12	**131.7**	142.7
Cash and cash equivalents	14	**25.9**	12.4
Derivative financial instruments		**-**	1.9
		222.0	219.8
Total assets		**1,479.1**	1,332.3
Current liabilities			
Trade and other payables	13	**(390.4)**	(392.0)
Current tax liabilities		**(3.9)**	(6.5)
Borrowings	14	**(48.5)**	(6.6)
Provisions		**(5.9)**	(3.3)
Derivative financial instruments		**(3.3)**	-
		(452.0)	(408.4)
Non-current liabilities			
Trade and other payables	13	**(0.6)**	(2.3)
Borrowings	14	**(409.8)**	(312.4)
Provisions		**(14.4)**	(15.0)
Derivative financial instruments		**(0.2)**	-
Deferred tax liabilities		**(28.5)**	(24.3)
Retirement benefit obligation		**-**	(0.5)
		(453.5)	(354.5)
Total liabilities		**(905.5)**	(762.9)
Net assets		**573.6**	569.4
Equity			
Share capital	16	**11.6**	11.6
Merger reserve		**(130.9)**	(130.9)
Translation reserve		**27.0**	33.8
Retained earnings		**665.9**	654.9
Total equity		**573.6**	569.4

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	-	-	-	-	67.2	**67.2**
Other comprehensive income/ (expense) for the period	-	-	-	7.7	(5.3)	**2.4**
Total comprehensive income for the period	**-**	**-**	**-**	**7.7**	**61.9**	**69.6**
Cancellation of share premium	-	(366.1)	-	-	366.1	**-**
Dividends paid (Note 8)	-	-	-	-	(11.6)	**(11.6)**
Credit for share-based payments	-	-	-	-	1.5	**1.5**
Deferred tax on share schemes	-	-	-	-	(0.2)	**(0.2)**
Balance at 29 December 2018 (Audited)	**11.6**	**-**	**(130.9)**	**33.8**	**654.9**	**569.4**
Profit for the period	-	-	-	-	36.9	**36.9**
Other comprehensive income/ (expense) for the period	-	-	-	(6.8)	6.9	**0.1**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**(6.8)**	**43.8**	**37.0**
Dividends paid (Note 8)	-	-	-	-	(34.8)	**(34.8)**
Credit for share-based payments	-	-	-	-	1.9	**1.9**
Deferred tax on share schemes	-	-	-	-	0.1	**0.1**
Balance at 28 December 2019 (Unaudited)	**11.6**	**-**	**(130.9)**	**27.0**	**665.9**	**573.6**

Consolidated statement of cash flows

£ million	Notes	**52 weeks ended 28 December 2019 (Unaudited)**	52 weeks ended 29 December 2018 (Audited)
Net cash generated from operating activities	18	**114.0**	99.1
Investing activities			
Dividends received from associates		**0.2**	0.7
Purchases of property, plant and equipment		**(98.9)**	(112.7)
Proceeds on disposal of property, plant and equipment		**1.1**	-
Acquisition of subsidiary	17	**(16.8)**	(8.5)
Disposal of subsidiary net of cash disposed of		**-**	(3.2)
Net cash used in investing activities		**(114.4)**	(123.7)
Financing activities			
Dividends paid	8	**(34.8)**	(11.6)
Increase in borrowings		**62.2**	28.7
Payment of lease liabilities (2018: Payment of finance lease liabilities)		**(12.9)**	(1.1)
Net cash generated from financing activities		**14.5**	16.0
Net increase/(decrease) in cash and cash equivalents		**14.1**	(8.6)
Cash and cash equivalents at beginning of period		**12.4**	20.9
Effect of foreign exchange rate changes		**(0.6)**	0.1
Cash and cash equivalents at end of period		**25.9**	12.4

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. General Information

The financial information, which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position, consolidated statement of changes in equity, consolidated statement of cash flows and related notes is unaudited and does not constitute statutory accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. The auditors have reported on the Group's statutory accounts for the 52 weeks ended 29 December 2018 which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for the 52 weeks ended 29 December 2018 have been delivered to the Registrar of Companies. The audit of the statutory accounts for the year ended 28 December 2019 is not yet complete. These accounts will be finalised on the basis of the financial information presented by the Directors in this preliminary announcement and will be delivered to the Registrar of Companies following the Company's annual general meeting.

This financial information has been extracted from the annual consolidated financial statements for the 52 weeks ended 28 December 2019 of Bakkavor Group plc (the "Group"), which will be delivered to the Registrar of Companies when they become available. These financial statements will be 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 share 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 52 weeks ended 29 December 2018 to conform with the current year presentation. This has the impact of reducing revenue and cost of sales by £3.6 million for the 52 weeks ended 29 December 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 £5.6 million in the 52 weeks ended 29 December 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 apart from the application of new standards as set out below.

There have been no changes in the period to the items that the Group considers to be 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. IFRS 16 is effective for periods beginning on or after 1 January 2019 but the Group has chosen to early adopt the Standard. 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. On transition the Group has used the modified retrospective, asset equals liability approach. 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 52 weeks ended 29 December 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 Group has also used the practical expedient of applying a single discount rate to a portfolio of similar leases (paragraph 10).

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. Future lease payments are discounted at the Group's weighted average incremental borrowing rate;
b) the lease term used is as per the contract. Where there are termination options in the contract it is assumed that these will not be exercised and when there are extension options the Group assumes that these will be exercised;
c) recognise depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement; and
d) 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.

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

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.

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 paragraph 6. This expense is presented within other administrative costs 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.

2. Significant accounting policies (continued)

Impact on the Financial Statements

The following tables summarise the impact of adopting IFRS 16 on the consolidated income statement for the period ended 28 December 2019, the consolidated statement of financial position as at 28 December 2019 and the consolidated statement of cash flows for the period ended 28 December 2019.

Consolidated income statement

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Continuing operations			
Revenue	1,885.9	-	1,885.9
Cost of sales	(1,376.6)	-	(1,376.6)
Gross profit	509.3	-	509.3
Distribution costs	(77.1)	-	(77.1)
Other administrative costs	(363.9)	0.6	(363.3)
Share of results of associates after tax	0.5	-	0.5
Operating profit	68.8	0.6	69.4
Finance costs	(15.9)	(2.8)	(18.7)
Other gains and (losses)	(6.9)	-	(6.9)
Profit/(loss) before tax	46.0	(2.2)	43.8
Tax	(7.2)	0.3	(6.9)
Profit/(loss) for the period attributable to equity holders of the parent company	38.8	(1.9)	36.9
Earnings per share – basic	6.7p	(0.3p)	6.4p
Earnings per share – diluted	6.7p	(0.4p)	6.3p

In addition, there is a £2.4 million post-tax exceptional charge relating to the impairment of the right-of-use asset recognised in the now closed UK restaurant business.

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

Consolidated statement of financial position

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Non-current assets			
Property, plant and equipment	480.3	73.4	553.7
All other non-current assets	703.4	-	703.4
	1,183.7	73.4	1,257.1
Current assets			
Trade and other receivables	132.4	(0.7)	131.7
All other current assets	90.3	-	90.3
	222.7	(0.7)	222.0
Total assets	1,406.4	72.7	1,479.1
Current liabilities			
Trade and other payables	(391.2)	0.8	(390.4)
Current tax liabilities	(4.8)	0.9	(3.9)
Borrowings	(38.1)	(10.4)	(48.5)
Provisions	(6.0)	0.1	(5.9)
Derivative financial instruments	(3.3)	-	(3.3)
	(443.4)	(8.6)	(452.0)
Non-current liabilities			
Trade and other payables	(0.6)	-	(0.6)
Borrowings	(341.4)	(68.4)	(409.8)
Provisions	(14.4)	-	(14.4)
Derivative financial instruments	(0.2)	-	(0.2)
Deferred tax liabilities	(28.5)	-	(28.5)
	(385.1)	(68.4)	(453.5)
Total liabilities	(828.5)	(77.0)	(905.5)
Net assets	577.9	(4.3)	573.6

2. Significant accounting policies (continued)

IFRS 16 *Leases* (continued)

Consolidated statement of cash flows

£ million	Excluding IFRS 16 adjustments	IFRS 16 adjustments	As reported
Operating profit	68.8	0.6	69.4
Depreciation of property, plant and equipment	47.4	12.3	59.7
Net impact of all other operating cash flows before movements in working capital	5.6	-	5.6
Operating cash flows before movements in working capital	121.8	12.9	134.7
Movements in working capital	10.2	1.2	11.4
Cash generated by operations	132.0	14.1	146.1
Income taxes paid	(14.0)	-	(14.0)
Interest paid	(15.3)	(2.8)	(18.1)
Net cash generated from operating activities	102.7	11.3	114.0
Investing activities			
Net cash used in investing activities	(114.4)	-	(114.4)
Financing activities			
Payment of lease liabilities	(1.6)	(11.3)	(12.9)
Net impact of all other financing activities	27.4	-	27.4
Net cash generated from financing activities	25.8	(11.3)	14.5
Net increase in cash	14.1	-	14.1

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 2018 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. On transition the Group has used the modified retrospective approach. No significant judgements had to be made in applying this Standard.

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.

The Group’s accounting policy is as follows:

Financial assets

Classification

From 30 December 2018, the Group classifies its financial assets in the following measurement categories:

a) those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss); and

b) those to be measured at amortised cost

For assets measured at fair value, gains and losses are recorded either in profit or loss or in OCI.

Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Subsequent measurement depends on the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

a) Amortised cost: Assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost. Impairment losses are presented as a separate line item in the income statement.

b) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets’ cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses, which are recognised in the income statement.

c) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. Any fair value movements are recognised in the income statement and presented net within other gains and (losses) in the period in which it arises.

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. The Group classifies its trade receivable balances dependent on its objectives with respect to the collection of contractual cash flows. The Group operates non-recourse debtor factoring arrangements with four of its significant customers. Receivables generated from goods sold to these customers are subsequently measured at fair value through the income statement as the objective of management is to sell the receivables (Held to sell business model). All other trade receivables are held with the objective of collecting the contractual cash flows, and so these are measured subsequently at amortised cost using the effective interest method (Held to collect business model).

Derivatives are initially recognised at fair value on the date that a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The Group does not apply hedge accounting, and therefore changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in profit or loss and are included in other gains and (losses).

2. Significant accounting policies (continued)

IFRS 9 Financial Instruments (continued)

Impairment

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. The expected loss rates are based on the payment profiles of sales before 28 December 2019 or 29 December 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Trade receivables and contract assets are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 90 days past due.

Impairment losses on trade receivables and contract assets are presented in other administrative costs within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

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 resulted in a change to the Group policy with respect to variable consideration, which is now recognised only when it is highly probable a significant reversal in the cumulative amount of revenue will not occur. On transition this was a full retrospective application but no retrospective adjustments were required. No significant judgements had to be made in applying this Standard.

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 introduction of IFRS 15 has not changed when the Group recognises revenue from that when applying the previous standard IAS 18 Revenue. 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. The Group’s goods are fresh prepared food and fresh produce. When the Group has satisfied its performance obligations the customer will make payment in-line with agreed payment terms. The Group does not expect to have any contracts where the period between transfer of the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction price for the time value of money.

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 in the period in which the arrangement applies only when it is highly probable a significant reversal in the cumulative amount of revenue will not occur. 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. For goods returned the Group will recognise an obligation and reduce revenue accordingly at the time of the notification.

Going concern

The Directors, in their detailed consideration of going concern, have reviewed the Group’s future revenue projections and cash requirements through to March 2021, 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. At the date of this report the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so.

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 28 December 2019:

£ million	**UK**	**International**	**Un-allocated**	**Total**
Revenue	**1,652.5**	**233.4**	**-**	**1,885.9**
Adjusted EBITDA pre IFRS 16 (Note 21)	**147.1**	**6.4**	**-**	**153.5**
IFRS 16 impact	10.2	2.7	-	12.9
Adjusted EBITDA post IFRS 16 (Note 21)	**157.3**	**9.1**	**-**	**166.4**
Depreciation pre IFRS 16	(39.1)	(8.3)	-	(47.4)
Depreciation - IFRS 16 impact	(9.7)	(2.6)	-	(12.3)
Amortisation	(0.1)	(0.4)	-	(0.5)
Exceptional items (Note 4)	(17.5)	(2.8)	-	(20.3)
Start-up losses for new sites	-	(15.5)	-	(15.5)
Share scheme charges	(1.9)	-	-	(1.9)
Profit/(loss) on disposal of property, plant and equipment	0.6	(0.2)	-	0.4
Share of results of associates after tax	-	0.5	-	0.5
Operating profit/(loss)	**89.6**	**(20.2)**	-	**69.4**
Finance costs				(18.7)
Other gains and (losses)				(6.9)
Profit before tax				43.8
Tax				(6.9)
Profit for the period				**36.9**
Other segment information:				
Capital additions	**77.2**	**22.5**	**-**	**99.7**
Interests in associates	**-**	**12.5**	**-**	**12.5**
Total assets	**1,213.2**	**240.0**	**25.9**	**1,479.1**
Non-current assets	**1,038.2**	**182.0**	**-**	**1,220.2**

The un-allocated assets of £25.9 million relate to cash and cash equivalents which cannot be readily allocated because of the Group cash-pooling arrangements in place that provide funds to businesses across the Group. Non-current assets exclude the deferred tax asset and the retirement benefit asset.

3. Segment information (continued)

The following table provides an analysis of the Group's segment information for the period from 31 December 2017 to 29 December 2018:

£ million	UK	International	Un-allocated	Total
Revenue as previously reported	**1,653.6**	**201.6**	**-**	**1,855.2**
Restatement (Note 2)	**2.0**	**-**	**-**	**2.0**
Revenue restated	**1,655.6**	**201.6**	**-**	**1,857.2**
Adjusted EBITDA (Note 21)	**147.7**	**5.8**	**-**	**153.5**
Depreciation	(35.1)	(4.8)	-	(39.9)
Amortisation	-	(0.4)	-	(0.4)
Exceptional items (Note 4)	(11.1)	(15.0)	-	(26.1)
Share scheme charges	(1.5)	-	-	(1.5)
Loss on disposal of property, plant and equipment	(0.2)	(0.2)	-	(0.4)
Share of results of associates after tax	-	0.4	-	0.4
Operating profit/(loss)	**99.8**	**(14.2)**	**-**	**85.6**
Finance costs				(13.2)
Other gains and (losses)				5.5
Profit before tax				77.9
Tax				(10.7)
Profit for the period				**67.2**
Other segment information:				
Capital additions	66.3	52.8	-	119.1
Interests in associates	-	12.5	-	12.5
Total assets	1,098.9	218.9	14.5	1,332.3
Non-current assets (excluding deferred tax)	929.8	162.9	0.2	1,092.9

The un-allocated total assets of £14.5 million relate to cash and cash equivalents of £12.4 million which cannot be readily allocated because of the Group cash-pooling arrangements in place that provide funds to businesses across the Group and £2.1 million relates to derivative financial instruments. The un-allocated amount of £0.2 million in non-current assets relates to derivative financial instruments.

Major customers

For the 52 weeks ended 28 December 2019, the Group's four largest customers accounted for 76.0% (52 weeks ended 29 December 2018: 76.2%) 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:

	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
Customer A	**32.3%**	30.2%
Customer B	**22.7%**	25.0%
Customer C	**10.9%**	11.5%
Customer D	**10.1%**	9.5%

3. Segment information (continued)

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

Revenue by geographical region

The Group derives revenue in the following geographical regions:

£ million	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
UK	**1,652.5**	1,655.6
US	**130.6**	112.9
China	**102.8**	88.7
Group revenue	**1,885.9**	1,857.2

4. Exceptional items

The Group's financial performance is analysed in two ways; underlying performance (which does not include exceptional items) and exceptional items. The Directors consider that the underlying activities results better represent the ongoing operations and key metrics of the Group.

Exceptional items include material items that are non-recurring, significant in nature and are important to users in understanding the business, including restructuring costs, disruption costs, pre-commissioning and start-up losses for new manufacturing facilities, impairment of assets, disposals of subsidiaries and associates and fair value adjustments:

£ million	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
New sites	-	12.4
Disruption	**6.6**	2.6
GMP equalisation	-	2.6
Restructuring, impairment and onerous lease provision	**13.7**	5.2
Gain on bargain purchase	-	(1.3)
Loss on disposal of subsidiary	-	4.6
Operating profit	**20.3**	26.1
Release of other payable	-	(4.2)
Profit before tax	**20.3**	21.9
Tax on exceptional items	**(4.0)**	(4.2)
Profit after tax	**16.3**	17.7

2019

The Group incurred £20.3 million of costs presented as exceptional items in 2019 of which £6.6 million related to disruption costs; £2.8 million as our factory in California was repurposed for ready meal manufacturing and changes to the hummus production process and £3.8 million in the UK as the business prepared for the launch of significant new products later in Q3 2019. In addition, the Group incurred £13.7 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. A further charge of £4.3 million has been recognised for the closure of the Group's non-core UK fast casual restaurant business. The remaining £1.7 million is primarily for redundancy costs following changes to our commercial and marketing structure.

2018

The Group incurred £21.9 million of exceptional costs in 2018 of which £12.4 million related to the initial start-up and pre-commissioning of new factories in the US and China and £2.6 million for disruption costs as the existing factory in California was repurposed for ready meal manufacturing. In addition, an onerous lease provision of £1.7 million was made in respect of the Group's non-core UK fast casual restaurant business and there was a charge of £2.6 million in respect of meeting the change in Guaranteed Minimum Pension ("GMP") for the defined benefit pension scheme which came into force from October 2018. The Group also incurred an impairment charge of £3.5 million in the year in respect of tangible fixed assets as the relevant assets no longer had any future value to the Group, recorded a gain of £1.3 million on the acquisition of Haydens Bakery in September 2018 and a loss on disposal of Anglia Crown in July 2018 of £4.6 million. In addition, 2018 includes a gain of £4.2 million on the release of an amount in other payables that was held at fair value in respect of a potential liability for a disputed historical claim which has not materialised and was time-barred**.**

5. Finance costs

£ million	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Interest on borrowings	**16.6**	14.1
Interest on lease liabilities (2018: Interest on finance leases)	**3.0**	0.2
Unwind of discount on provisions	**0.2**	0.4
	19.8	14.7
Less: amounts included in the cost of qualifying assets	**(1.1)**	(1.5)
	18.7	13.2

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: 2.8%) to expenditure on such assets. Interest on lease liabilities for 52 weeks ended 28 December 2019 includes a £2.8 million charge following the application of IFRS 16.

6. Other gains and (losses)

£ million	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Foreign exchange gains	**0.4**	0.2
Change in fair value of derivative financial instruments	**(7.3)**	1.1
Release of other payable (Note 4)	**-**	4.2
	(6.9)	5.5

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	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
Profit attributable to equity shareholders of the Company	**36.9**	67.2

Number of shares

‘000	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of potentially dilutive Ordinary shares	**3,922**	2,993
Weighted average number of Ordinary shares for diluted earnings per share	**583,348**	582,419

	52 weeks ended 28 December 2019	52 weeks ended 29 December 2018
Basic earnings per share	**6.4p**	11.6p
Diluted earnings per share	**6.3p**	11.5p

8. Dividends

At the AGM on 23 May 2019 a final dividend of 4 pence 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.

On 10 September 2019, the Company declared an interim dividend for the period ended 28 December 2019 of 2 pence per share to each of the Ordinary shareholders totalling £11,588,512 which was paid on 11 October 2019.

A final dividend of 4 pence per share has been proposed for approval at the AGM on 21 May 2020 for the period ended 28 December 2019. The total amount of £23,177,023 will be payable on 28 May 2020 to Ordinary shareholders on the register at 1 May 2020.

9. Goodwill

£ million	
At 31 December 2017	**647.2**
Exchange rate difference during the period	3.0
At 29 December 2018	**650.2**
Recognised on acquisition of a subsidiary (Note 17)	2.5
Exchange rate difference during the period	(1.5)
At 28 December 2019	**651.2**

10. Property, plant and equipment

£ million	
At 31 December 2017	**337.5**
Additions	119.1
Acquisition of subsidiary	11.1
Disposals	(0.6)
Disposal of subsidiary	(0.2)
Depreciation charge for the period	(39.9)
Impairment	(3.5)
Exchange rate difference during the period	3.4
At 30 December 2018	**426.9**
Adjustment for change in accounting policy (Note 2)	80.2
Restated opening balance	**507.1**
Additions	99.7
Acquisition of subsidiary (Note 17)	17.6
Disposals	(0.6)
Depreciation charge for the period	(59.7)
Impairment	(6.0)
Exchange rate difference during the period	(4.4)
At 28 December 2019	**553.7**

Additions in the 52 weeks ended 28 December 2019 include £17.5 million (2018: £52.1 million) in respect of development projects.

11. Inventories

£ million	**28 December 2019**	29 December 2018
Raw materials and packaging	**55.5**	54.6
Work-in-progress	**2.2**	1.8
Finished goods	**6.7**	6.4
	64.4	62.8

12. Trade and other receivables

£ million	**28 December 2019**	29 December 2018
Amounts receivable from trade customers	**107.3**	115.3
Expected credit loss	**(1.6)**	(2.0)
Net amounts receivable from trade customers	**105.7**	113.3
Other receivables	**15.4**	18.8
Prepayments	**10.6**	10.6
Trade and other receivables due within one year	**131.7**	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. At 28 December 2019 £134 million was drawn under factoring facilities, an increase of £8 million compared to 29 December 2018 representing cash collected before it was contractually due from the customer.

12. Trade and other receivables (continued)

As at 28 December 2019, the Group's amounts receivable from trade customers includes £49.4 million (2018: £50.2 million) which could be factored under the non-recourse trade receivable factoring arrangement.

13. Trade and other payables

£ million	28 December 2019	29 December 2018
Trade payables	**244.4**	232.6
Other taxation	**2.4**	2.0
Other payables	**23.9**	23.5
Accruals and deferred income	**120.3**	136.2
	391.0	394.3
Less amounts due after one year:		
Other payables	**-**	(0.4)
Accruals and deferred income	**(0.6)**	(1.9)
	(0.6)	(2.3)
Trade and other payables due within one year	**390.4**	392.0

During the period, the Group set up an arrangement to provide financing for our suppliers. This is a voluntary programme that potentially gives suppliers earlier access to cash. At 28 December 2019, trade payables amounting to £18.7 million (2018: £nil) were subject to these arrangements. These balances are classified as trade payables and the related payments as cash flows from operating activities because the original obligation to the supplier remains and has not been replaced with a new obligation to the bank.

Other payables include the Group's liabilities in respect of payroll taxes.

14. Net debt

£ million	28 December 2019	29 December 2018
Cash and cash equivalents	**25.9**	12.4
Borrowings	**(35.1)**	(3.7)
Interest accrual	**(1.6)**	(1.3)
Lease liabilities	**(11.8)**	(1.6)
Total debt due within one year	**(48.5)**	(6.6)
Borrowings	**(343.3)**	(312.5)
Unamortised fees	**2.8**	4.0
Lease liabilities	**(69.3)**	(3.9)
Total debt due after one year	**(409.8)**	(312.4)
Group net debt	**(432.4)**	(306.6)

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.

The Group is currently in the processing of refinancing its current debt facilities and this process is expected to be completed in the coming months.

15. Financial Instruments

The categories of financial instruments are as follows:

£ million	28 December 2019	29 December 2018
Financial assets		
Fair value through profit and loss:		
Trade receivables	**49.4**	50.2
Derivative financial instruments	**-**	2.1
Loans and receivables at amortised cost:		
Trade receivables	**56.3**	63.1
Other receivables	**15.4**	18.8
Cash and cash equivalents	**25.9**	12.4
	147.0	146.6

£ million	28 December 2019	29 December 2018
Financial liabilities		
Fair value through profit and loss:		
Derivative financial instruments	**3.5**	-
Other financial liabilities at amortised cost:		
Trade payables	**244.4**	232.6
Other payables	**23.9**	23.5
Accruals	**118.9**	133.6
Borrowings	**377.2**	313.5
Lease liabilities	**81.1**	5.5
	849.0	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

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

Issued share capital as at 28 December 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)).

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 a total consideration of £16.8 million. The consideration comprised £3.0 million in cash and assumed borrowings of £13.8 million that were immediately repaid.

The primary reason for the acquisition was to increase the breadth and depth of the Group's desserts range.

The 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	1.0
Trade and other receivables	6.5
Trade and other payables	(4.7)
Lease liabilities	(6.3)
Net identifiable assets acquired	14.3
Goodwill	2.5
Total consideration	16.8

The net cash outflow arising on acquisition was:

£ million	
Cash consideration for share capital	3.0
Immediate repayment of amounts owed to previous owner	13.8
Cash outflow on acquisition of business	16.8

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 £31.0 million of revenue and a loss of £0.5 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 £1,908.7 million and £36.8 million respectively.

The Trade and other receivables amount is net of £0.1 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	52 weeks ended 29 December 2019	52 weeks ended 28 December 2018
Operating profit	**69.4**	85.6
Adjustments for:		
Share of results of associates after tax	**(0.5)**	(0.4)
Depreciation of property, plant and equipment	**59.7**	39.9
Amortisation of intangible assets	**0.5**	0.4
(Profit)/loss on disposal of property, plant and equipment	**(0.4)**	0.4
Loss on disposal of subsidiaries	**-**	4.6
Gain on bargain purchase	**-**	(1.3)
Impairment of assets	**6.0**	3.5
Share scheme charges	**1.9**	1.5
Net retirement benefits charge less contributions	**(1.9)**	(2.9)
Operating cash flows before movements in working capital	**134.7**	131.3
Increase in inventories	**(0.6)**	(7.4)
Decrease in receivables	**15.5**	5.8
Decrease in payables	**(6.9)**	(3.3)
Increase in provisions	**3.4**	0.5
Cash generated by operations	**146.1**	126.9
Income taxes paid	**(14.0)**	(14.7)
Interest paid	**(18.1)**	(13.1)
Net cash generated from operating activities	**114.0**	99.1

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 obligation that is not considered remote, we anticipate any potential financial impact to be immaterial.

20. Events after the statement of financial position date

The impact of the Coronavirus outbreak in China is considered to be a non-adjusting post balance sheet event. Further details are given in the Outlook section on page 6.

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	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018	% change
Statutory revenue as reported	**1,885.9**	1,855.2	
Restatement (Note 2)	**-**	2.0	
Statutory revenue restated	**1,885.9**	1,857.2	1.5%
Revenue from acquisitions	**(71.3)**	(12.4)	
Revenue from closed and sold businesses	**(21.4)**	(86.9)	
Effect of currency movements	**(6.0)**	-	
Like-for-like revenue	**1,787.2**	1,757.9	1.7%

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

£ million	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018	% change
Statutory revenue as reported	**1,652.5**	1,653.6	
Restatement (Note 2)	**-**	2.0	
Statutory revenue restated	**1,652.5**	1,655.6	(0.2%)
Revenue from acquisitions	**(71.3)**	(12.4)	
Revenue from closed and sold businesses	**(21.4)**	(86.9)	
Like-for-like revenue	**1,559.8**	1,556.3	0.2%

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

£ million	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018	% change
Statutory revenue	**233.4**	201.6	15.8%
Effect of currency movements	**(6.0)**	-	
Like-for-like revenue	**227.4**	201.6	12.8%

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	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Operating profit	**69.4**	85.6
Depreciation	**59.7**	39.9
Amortisation	**0.5**	0.4
EBITDA	**129.6**	125.9
Exceptional items (Note 4)	**20.3**	26.1
Start-up losses for new sites	**15.5**	-
Share scheme charges	**1.9**	1.5
(Profit)/loss on disposal of property, plant and equipment	**(0.4)**	0.4
Share of results of associates after tax	**(0.5)**	(0.4)
Adjusted EBITDA post IFRS 16	**166.4**	153.5
Less IFRS 16 impact	**(12.9)**	-
Adjusted EBITDA pre IFRS 16	**153.5**	153.5

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	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Operating profit	**69.4**	85.6
Exceptional items (Note 4)	**20.3**	26.1
Start-up losses for new sites	**15.5**	-
Adjusted Operating profit	**105.2**	111.7

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	**28 December 2019**	29 December 2018
Group net debt	**(432.4)**	(306.6)
Unamortised fees	**(2.8)**	(4.0)
Interest accrual	**1.6**	1.3
Lease liabilities recognised under IFRS 16	**78.8**	-
Operational net debt	**(354.8)**	(309.3)
Adjusted EBITDA (last 12 months and excluding IFRS 16 impact)	**153.5**	153.5
Leverage (Operational net debt/Adjusted EBITDA pre IFRS 16)	**2.3**	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. Free cash flow has benefitted from non-recourse factoring of receivables as set out in Note 12 and the extension of payment terms for certain suppliers as described in Note 13. 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	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Net cash generated from operating activities	**114.0**	99.1
Dividends received from associates	**0.2**	0.7
Purchases of property, plant and equipment	**(98.9)**	(112.7)
Purchases of property, plant and equipment relating to development projects (Note 10)	**17.5**	52.1
Proceeds on disposal of property, plant and equipment	**1.1**	-
Cash impact of exceptional items	**13.0**	15.9
Cash impact of start-up losses for new sites	**15.5**	-
IFRS 16 capital element of lease liability payments	**(11.3)**	-
Free cash flow	**51.1**	55.1

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 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	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Profit attributable to equity shareholders of the Company	**36.9**	67.2
Exceptional items (Note 4)	**20.3**	21.9
Start-up losses for new sites	**15.5**	-
Impact of IFRS 16	**2.2**	-
Change in fair value of derivative financial instruments	**7.3**	(1.1)
Tax on the above items	**(8.7)**	(4.0)
Adjusted earnings	**73.5**	84.0
Add back: Tax on adjusted profit before tax	**15.6**	14.7
Adjusted profit before tax	**89.1**	98.7
Effective tax rate on underlying activities (Tax on adjusted profit before tax/Adjusted profit before tax)	**17.5%**	14.9%

Number 000's		
Weighted average number of Ordinary shares	**579,426**	579,426
Effect of dilutive Ordinary shares	**3,922**	2,993
Weighted average number of Ordinary shares for diluted earnings per share	**583,348**	582,419
Adjusted basic earnings per share	**12.7p**	14.5p
Adjusted diluted earnings per share	**12.6p**	14.4p

21. Alternative performance measures (continued)

Return on invested capital (ROIC)

The Group defines ROIC as Adjusted operating profit after tax divided by the average invested capital for the year. Adjusted operating profit after tax is defined as operating profit from continuing operations excluding the impact of exceptional items, impairment of assets, and profit on disposal of subsidiaries less tax at the Group's effective tax rate. Invested capital is defined as total assets less total liabilities excluding net debt at the period end, pension assets and liabilities (net of deferred tax) and fair values for derivatives not designated in a hedging relationship. The Group utilises ROIC to measure how effectively it uses invested capital. Average invested capital is the simple average of invested capital at the beginning of the period and the end of the period.

The Directors believe that ROIC is a useful indicator of the amount returned as a percentage of shareholders' invested capital. The Directors believe that ROIC can assist analysts, investors and stakeholders to evaluate the Group's profitability and the efficiency with which its invested capital is employed.
The following table sets out the calculations of adjusted operating profit after tax and invested capital used in the calculation of ROIC.

£ million	**52 weeks ended 28 December 2019**	52 weeks ended 29 December 2018
Operating profit	**69.4**	85.6
Exceptional items (Note 4)	**20.3**	26.1
Start-up losses for new sites	**15.5**	-
Adjusted operating profit	**105.2**	111.7
Taxation at the underlying effective rate	**(18.4)**	(16.6)
Adjusted operating profit after tax	**86.8**	95.1
Invested capital		
Total assets	**1,479.1**	1,332.3
Total liabilities	**(905.5)**	(762.9)
Less IFRS 16 Property, plant and equipment	**(73.4)**	-
Net debt at period end	**432.4**	306.6
Derivatives not designated as hedges	**3.5**	(2.1)
Retirement benefit scheme (surplus)/deficit	**(9.7)**	0.5
Deferred tax liability/(asset) on retirement benefit scheme	**1.6**	(0.1)
Invested capital	**928.0**	874.3
Average invested capital for ROIC calculation	**901.1**	822.9
ROIC (%)	**9.6%**	11.6%

ROIC excluding development projects		
Adjusted operating profit	**105.2**	111.7
Depreciation on development projects	**4.2**	2.5
Adjusted operating profit excluding development projects	**109.4**	114.2
Taxation at the underlying effective rate	**(19.1)**	(17.0)
Adjusting operating profit after tax excluding development projects	**90.3**	97.2
Invested capital	**928.0**	874.3
Development projects	**(92.7)**	(75.2)
Invested capital excluding development projects	**835.3**	799.1
Average invested capital excluding development projects	**817.2**	773.8
ROIC excluding development projects (%)	**11.0%**	12.6%