

28 February 2019

Bakkavor Group plc

### Robust performance in challenging market conditions

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 29 December 2018.

#### HIGHLIGHTS

- Group revenue increased 2.2% to £1,855.2m, up 3.2% on a like-for-like<sup>1</sup> basis
  - positive performance in the UK despite a tough market, with like-for-like<sup>1</sup> growth of 1.8%
  - accelerated growth in both the US and China, with a like-for-like<sup>1</sup> increase of 16%
- UK adjusted EBITDA<sup>1</sup> margin maintained, with Group adjusted EBITDA<sup>1</sup> up 0.6% to £153.5m in a year of cost inflation and significant transition in the US
- All four key development projects on track – two new US sites opened, Shanghai construction completed and expansion of UK desserts site progressing well
- Acquisition of Haydens Bakery Limited further increases capacity and capability in our desserts category and already delivering synergy benefits
- Final dividend of 4p per share proposed, giving a total dividend of 6p per share for the year

£ million	FY 2018	FY 2017	Change
Group revenue	<b>1,855.2</b>	1,814.8	2.2%
Like-for-like revenue <sup>1</sup>	<b>1,842.0</b>	1,784.6	3.2%
Adjusted EBITDA <sup>1</sup>	<b>153.5</b>	152.6	0.6%
Adjusted EBITDA <sup>1</sup> margin	<b>8.3%</b>	8.4%	(10) bps
Profit before tax	<b>77.9</b>	39.0	38.9
Basic EPS	<b>11.6p</b>	5.8p	5.8p
Adjusted EPS <sup>1</sup>	<b>14.7p</b>	13.3p	1.4p
Free cash flow <sup>1</sup>	<b>55.1</b>	71.1	(16.0)
Net debt	<b>306.6</b>	266.6	(40.0)
Total dividend proposed	<b>6p</b>	n/a	n/a

**Agust Gudmundsson, Chief Executive Officer, said:** "We delivered a robust performance in 2018, successfully driving growth across our UK and International businesses against a backdrop of significant market challenges. This reflects our market-leading expertise in producing great tasting fresh food, the quality of our people and our strong partnerships with customers.

"Subdued consumer confidence and inflationary pressures have continued into 2019, and therefore we remain cautious and expect little improvement in underlying market conditions. Consequently, we expect limited growth in the UK and a corresponding decline in the Group's EBITDA margin in the first half of the year.

"However, in the second half, we anticipate an uplift in UK revenues as we benefit from recently secured new business. Given this additional volume, together with the actions we are taking to protect profitability, we expect a significant improvement in our trading in the second half of the year and our full year Group performance to be broadly in line with 2018.

"Looking further ahead, we remain confident that our strategy, combined with our scale and expertise leaves us well-placed to capitalise on further growth opportunities within the attractive FPF market, both in the UK and overseas."

<sup>1</sup>Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 19 of the Notes to the Consolidated Financial Information.

## KEY STATUTORY FINANCIAL INFORMATION

£ million	FY 2018	FY 2017	Change
Group revenue	<b>1,855.2</b>	1,814.8	2.2%
Operating profit	<b>85.6</b>	96.2	(10.6)
Profit before tax	<b>77.9</b>	39.0	38.9
Profit after tax	<b>67.2</b>	31.0	36.2
Basic EPS	<b>11.6p</b>	5.8p	5.8p

### ENQUIRIES

#### Institutional investors and analysts:

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#### Presentation:

A presentation of the Full Year results to analysts will take place today, 28 February 2019, at 10am 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://www.bakkavor.com/investor-relations/reports-and-presentations/2018>

### ABOUT BAKKAVOR

Bakkavor is the leading provider of fresh prepared food ("FPF") in the UK, with a growing international presence in the United States and China. The Group is the number one by market share in the UK in the four FPF product categories of Meals, Salads, Desserts and Pizza & Bread, providing high-quality, fresh, healthy and convenient food. Its customers include some of the UK's leading grocery retailers, including Tesco, Marks & Spencer, Sainsbury's and Waitrose.

The Group's International segment operates in the US and China. As these FPF markets continue to grow, Bakkavor seeks to leverage its UK expertise in order to build its presence in these territories.

Bakkavor was founded in 1986 and has its headquarters in London. The Group has 20,000 employees and operates 25 factories in the UK, 5 in the US and 9 in China.

### DISCLAIMER – FORWARD-LOOKING STATEMENTS

This full year results 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.

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## GROUP OVERVIEW

### Performance summary

During the year, we made further strategic progress and continued to focus on the drivers of long-term sustainable growth; leveraging our number one position in the UK fresh prepared food market, accelerating growth in high potential international markets and further improving our operational efficiency. Once again, our excellent customer relationships, together with our scale and expertise, reinforced our market-leading position across our fresh prepared food categories.

Group reported revenue increased by 2.2% from £1,814.8 million to £1,855.2 million in 2018, with like-for-like revenue<sup>1</sup> up 3.2% in the year to £1,842.0 million. This was a robust performance given the continued challenging market conditions in the UK, especially the high levels of inflation and weak consumer confidence.

Adjusted EBITDA<sup>1</sup> increased by 0.6% from £152.6 million to £153.5 million in 2018. Operating profit decreased by 11% from £96.2 million to £85.6 million in 2018. This decrease was primarily due to an increase in pre-commissioning and start-up costs for the international business. Trading performance before these costs, in an environment of limited volume growth, improved slightly compared with the prior year as efficiency benefits and a tight control of overheads helped offset inflationary pressures.

The business generated strong free cash flow<sup>1</sup> of £55.1 million compared to £71.1 million in the prior year. The decrease was largely due to higher capital expenditure and a small working capital outflow in the year.

### Strategic progress

In the UK, we continued to leverage our number one position, further increasing our overall market share. In particular, we extended our leading position in the desserts category supported by a major investment at our site in Newark and the acquisition of Haydens Bakery Limited ("Haydens") in September 2018 for a total consideration of £11.4 million.

We also completed the sale in July 2018 of Anglia Crown Limited, a non-core business focusing on the provision of frozen and chilled meals to hospital and care homes.

In the US, we opened two new factories in San Antonio and Charlotte, continuing to build our presence in this important market and introducing the premium artisan bread category to US consumers.

In China, we completed the construction of our new state-of-the-art facility in Shanghai, which will bring us much needed additional capacity in this important region.

### Board developments

During the year, there were a number of changes to both the Group and Management Boards. In April, the Group Board was further strengthened with the appointment of Jane Lodge, a highly experienced finance professional, as an Independent Non-executive Director and chair of the Audit and Risk Committee. In July, Patrick Cook joined the Group Board as a Non-executive Director, replacing Robert Berlin. Patrick is a Principal at The Baupost Group and has significant investment experience across the food sector.

At a Management Board level, Donna-Maria Lee joined as Group HR Director, replacing Pippa Greenslade who retired in September. After the year end, Ben Waldron, previously Head of Strategic Development, relocated to Charlotte, North Carolina as President of Bakkavor US and Ivan Clingan, his predecessor, is returning to the UK following completion of his three-year assignment.

### Dividend

The Group paid an interim dividend of 2p per ordinary share on 5 October 2018 and will propose a final dividend of 4p per ordinary share at the Company's AGM on 23 May 2019. This will result in a total dividend for financial year 2018 of 6p per ordinary share. The Board expects to maintain a progressive dividend policy in the medium term.

## Outlook

Subdued consumer confidence and inflationary pressures have continued into 2019, and therefore we remain cautious and expect little improvement in underlying market conditions. Consequently, we expect limited growth in the UK and a corresponding decline in the Group's EBITDA margin in the first half of the year.

However, in the second half, we anticipate an uplift in UK revenues as we benefit from recently secured new business. Given this additional volume, together with the actions we are taking to protect profitability, we expect a significant improvement in our trading in the second half of the year and our full year Group performance to be broadly in line with 2018.

Looking further ahead, we remain confident that our strategy, combined with our scale and expertise leaves us well-placed to capitalise on further growth opportunities within the attractive FPF market, both in the UK and overseas.

## OPERATIONAL REVIEW

### United Kingdom

Against a backdrop of challenging market conditions, we reinforced our leading position across the attractive FPF categories, continued to work in close partnership with our strategic customers and gained overall market share.

### Financial highlights

£ million	FY 2018	FY 2017	Change
Revenue	<b>1,653.6</b>	1,636.3	1.1%
Like-for-like revenue <sup>1</sup>	<b>1,635.0</b>	1,606.1	1.8%
Adjusted EBITDA <sup>1</sup>	<b>147.7</b>	145.2	1.7%
Adjusted EBITDA margin <sup>1</sup>	<b>8.9%</b>	8.9%	-

<sup>1</sup>Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 19 of the Notes to the Consolidated Financial Information.

### Performance summary

Our UK business generated £1,653.6 million of reported revenue in 2018, up 1.1% compared to the prior year. Like-for-like revenue<sup>1</sup> was £1,635.0 million, 1.8% up on 2018.

As expected, the start of the year saw a period of low volume growth as a consequence of further retail price inflation and subdued consumer sentiment. Volumes picked up from April through the summer period, helped by better weather and events such as the World Cup and the Royal Wedding. However, from September consumer confidence noticeably weakened across the grocery sector as shoppers reverted to more cautious spending patterns. With underlying market growth limited, volume uplifts in our UK business in the second half of 2018 were largely due to a number of business wins in our core categories.

Adjusted EBITDA<sup>1</sup> for the year was £147.7 million and up on the £145.2 million reported in 2017. The year saw further significant raw material inflation, driven particularly by dairy products in the first half and protein and vegetables in the final quarter. The scale and expertise of our central procurement team enabled us to leverage our buying power and limit the consequences of these industry-wide cost pressures. In parallel, our commercial teams continued to work closely with our customers, reviewing product design, promotional strategies and pricing to minimise the inflationary impact.

The UK business also continued to be impacted by rising labour costs. In a period of high employment and wage growth at a 10-year-high, we also saw particular pressures from further increases in the National Living Wage, a step-up in auto-enrolment pension contributions and the full year impact of the Apprenticeship Levy.

The combination of limited volume growth and an inflationary environment resulted in margins being under pressure throughout the year. However, through a combination of productivity improvements and tight cost control across the business we were able to maintain the adjusted EBITDA<sup>1</sup> margin at 8.9%.

As we continue to focus on additional ways to optimise business performance, in the latter part of 2018 we reviewed the organisational structure of our UK business and will be introducing a simplified model in early 2019. The new structure will enable us to leverage our asset base more effectively under our four key categories and further strengthen our strategic customer partnerships under this new structure.

In addition, our operational teams remain focused on reviewing capacity and capabilities across our sites to optimise efficiencies and maximise profitability. As a consequence of this ongoing process, we have started a consultation process regarding the proposed closure of one of our meals sites in Lincolnshire. This business has experienced a number of challenges in recent years such that it was loss-making in 2018, with a further decline expected in 2019.

### **Business review**

Our product portfolio remains well balanced across categories, price points and seasonal changes in consumer eating patterns. This year-round offering, combined with the strength of our operating model for producing FPF products at scale, continued to give us a competitive advantage in the UK market.

For example, unusually cold weather in February and March, followed by record summer temperatures, presented considerable challenges to our salads supply chain. However, our central procurement expertise, combined with strong relationships with growers, enabled us to maintain production and continuity of supply. The summer months also saw our customers launch a number of promotional and marketing initiatives based around major events such as a Royal Wedding and the World Cup. These events generated a material uplift in volumes and it is thanks to our proven operating model that we were able to manage the short-term spikes in demand.

Our extensive knowledge and experience of great-tasting food, combined with our ability to anticipate the latest food trends, is widely recognised by our customers. For example, our expertise in new product development enabled us to work with one of our strategic customers in refreshing almost 250 of its products across multiple categories as part of a major relaunch of its own label offering. In addition, during the Christmas period, always a busy time in our business, we once again showcased a number of innovative seasonal items across our core categories, many of which were well publicised in the media.

Consumer trust in food quality is a key part of our business model. During the year, we had numerous unannounced technical audits at our sites from our central team, our customers and external bodies, all of which confirmed we are operating to the highest standards.

Looking forward there remains a high level of uncertainty surrounding the outcome of Brexit. We continue to review the potential impacts on the business and update our operational plans accordingly to limit any possible risks. These include the implementation of an enhanced employee retention programme and taking measures to minimise disruption to our raw materials supply chain.

### **Capital investment**

During 2018, we made further investments in the UK to both manage our capacity and support our customers' growth plans. For example, we have an ongoing programme to enhance our leaf processing capabilities which is due to be completed in early 2019. Furthermore, our capital investment plans continued to target efficiency benefits through numerous automation projects across the manufacturing and packing process.

In 2017, we announced our intention to invest £35 million to expand our desserts site in Newark, increasing capacity and capability to support a major business win and introducing state-of-the-art automation to support efficiency. The investment, which markedly strengthens our desserts business, is now in its final phase of development and is expected to be fully operational in Q3 2019.

During the year, we also broadened our desserts offering through the acquisition of Haydens from Real Good Food PLC for a total consideration of £11.4 million. Haydens is a leading manufacturer of sweet bakery products for the major UK grocery retailers and also provides a distribution operation for a leading retailer. A recent capital investment of £15 million into the site by its previous owners transformed Haydens

into a best-in-class bakery operator. This acquisition further increases the scale of our bakery desserts offering and has already started to realise operational synergies following a smooth integration.

## International

Our International segment now represents around 11% of Group revenue. Both our US and China businesses continue to operate in highly attractive markets and delivered good underlying volume growth in the year. Whilst we have continued to invest in operations and infrastructure in both regions, it has also been a year of transition for our US business, and this has had an impact on overall profitability. Operating profit decreased by £15.5 million from a £1.3 million profit in 2017 to a loss of £14.2 million. This decrease was primarily due to the start-up and pre-commissioning of factories in the US and China, combined with disruption costs incurred as we repurposed part of an existing US site to capitalise on the growing prepared meals market.

### Financial highlights

£ million	FY 2018	FY 2017	Change
Revenue	<b>201.6</b>	178.5	12.9%
Like-for-like revenue <sup>1</sup>	<b>207.0</b>	178.5	16.0%
Adjusted EBITDA <sup>1</sup>	<b>5.8</b>	7.4	(21.6)%
Adjusted EBITDA margin <sup>1</sup>	<b>2.9%</b>	4.1%	(120)bps

<sup>1</sup>Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 19 of the Notes to the Consolidated Financial Information.

The International segment generated £201.6 million in revenue in the year compared with £178.5 million in the prior year. On a like-for-like basis, revenues increased by 16% in the year to £207.0 million.

Adjusted EBITDA<sup>1</sup> for our International segment was £5.8 million for the year, compared with £7.4 million in 2017. Both businesses have been particularly impacted by rising labour costs and further investment in our technical infrastructure to support the pace of growth.

### United States

In the US, consumers continue to move away from frozen and long-life products in favour of fresh and healthy chilled products. US retailers in turn continue to develop their chilled proposition to capitalise on this increased demand by extending the range they offer and giving it greater prominence in-store – our largest customer in Texas for example has invested heavily to reconfigure stores to showcase their offering. These dynamics have supported significant revenue growth in 2018 for our US business.

As we expand and develop our product range across sites, this pace of change can present operational challenges. During the year, we reviewed the manufacturing processes behind some of our key products, particularly hummus, to improve quality and reinforce leading technical standards. In the short term, this led to an increase in operating costs while we embed these changes to our processes, but we expect this project to be completed by the autumn of 2019 when we will start to realise the benefits.

In addition, we made substantial changes to our site in California, repurposing part of the factory to give us the capabilities to manufacture ready meals in volume, and as expected this project caused some level of disruption. Construction work is largely completed, and we will now be focussed on building up sales volumes and improving efficiencies.

In October we officially opened a new factory in San Antonio dedicated to supplying a key customer with an increased range of branded fresh meals. The 'Meals Simple' range has been extended following completion of our new facility, and we have a joint business plan in place with the customer to drive future growth. The project, which benefited from our UK expertise across key functions, was delivered on time and to budget.

We also opened another new factory in Charlotte, North Carolina to manufacture a range of high-quality artisan breads that can be distributed nationally across the US. We are in the final stages of commissioning the site and expect to launch these products during Q2 2019 in response to good levels of interest from a number of potential customers.

## China

In China, we continued to develop our presence in the international and local foodservice markets as our key customers rapidly expand their store and restaurant portfolios. Looking ahead, this gives us a platform to continue our investment programme to keep pace with our customers' growth ambitions.

Our Chinese business reported a good year with strong growth on the back of significant planned investment. Our reputation and credibility continues to improve in this dynamic market, and the transfer of our UK expertise has been an important factor in this success. In addition, our investment in new product development capabilities has broadened our offering to major customers, including for example the development of a fresh soup offering.

This year has seen the introduction of three new factories in China. The first is a new state-of-the-art, multi-product and multi-customer factory in Shanghai. The site is now in early production phase delivering a range of salad and 'Food to Go' products and will provide much needed additional capacity in this high-growth market.

Secondly, we completed a £3 million investment in a new high-quality bread facility near Shanghai which gives our Chinese business the opportunity to capitalise on the Group's in-depth knowledge of this category. Finally, a further £3 million was spent on a new facility in Chengdu, Western China to supply a number of our customers as they expand in this vibrant region.

We also continue to develop our supply chain and bring more of our raw material supply in-house. For example, we are investing in an innovative greenhouse complex using the latest hydroponics technology that both improves quality and broadens seasonal availability.

## FINANCIAL REVIEW

### Revenue

Reported revenue increased by £40.4 million, or 2.2% from £1,814.8 million in 2017, to £1,855.2 million in 2018.

Like-for-like revenue<sup>1</sup> was up 3.2%, from £1,784.6 million in 2017, to £1,842.0 million in 2018. This increase was primarily due to good growth in the Group's operating segments, as described below.

#### United Kingdom:

In the UK segment, reported revenue increased by £17.3 million, or 1.1%, from £1,636.3 million in 2017 to £1,653.6 million in 2018.

Like-for-like revenue<sup>1</sup> which excludes Anglia Crown and Melrow Salads that were sold and closed in July 2018 and November 2017 respectively and Haydens which was acquired in September 2018, increased by 1.8%, from £1,606.1 million in 2017, to £1,635.0 million in 2018. Anglia Crown contributed revenues of £6.2 million in 2018 for the period up to its sale. Haydens contributed £12.4 million to reported revenue in the four-month period following its acquisition.

This like-for-like revenue<sup>1</sup> increase for the year was split equally between the impact of higher prices and volumes. The raw material inflation seen last year continued into 2018 and consequently further significant price increases were recovered from customers, particularly in the first half of the year. Volume growth has been limited for the year as a whole as consumer confidence weakened in the current economic environment. The growth that has been seen in the second half of 2018 was largely due to business wins in our core categories.

#### International:

In the International segment, reported revenue increased by £23.1 million, or 12.9%, to £201.6 million in 2018 from £178.5 million in 2017. The strengthening of sterling in the year adversely impacted reported revenue in 2018 by £5.4 million.

Like-for-like revenue<sup>1</sup>, which is at constant currency, increased by 16.0%, from £178.5 million in 2017 to £207.0 million in 2018. The increase was primarily due to strong growth in both the US and China, where sales volumes increased across all key customers helped by a broader offering in these two markets.

## Adjusted EBITDA<sup>1</sup>

Adjusted EBITDA<sup>1</sup> increased by £0.9 million, or 0.6%, from £152.6 million in 2017 to £153.5 million in 2018. This small increase was due to efficiency benefits and a tight control of overheads more than offsetting the inflationary pressures in the year.

## Other items

Included within Other administrative costs are Other items which are adjusted for in 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. The Other items comprise the following:

£ million	2018	2017
Public listing costs	-	10.4
Restructuring costs	-	3.1
Legal cases	-	0.6
New site costs	<b>12.4</b>	1.3
Disruption costs	<b>2.6</b>	-
Onerous lease provision	<b>1.7</b>	-
GMP equalisation	<b>2.6</b>	-
Impairment of tangible assets	<b>3.5</b>	-
Gain on bargain purchase	<b>(1.3)</b>	-
	<b>21.5</b>	15.4

### 2018

The Group incurred £21.5 million of net costs presented as Other Items 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 our existing factory in California was repurposed for ready meal manufacturing. In addition, an onerous lease provision was made of £1.7 million 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 are 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.

### 2017

In 2017, the Group incurred costs presented as Other Items of £15.4 million, of which £10.4 million were in connection with the public listing in November 2017 and restructuring costs of £3.1 million in the year related to the cost of closing a site in the UK and moving related operations to other sites. The remaining costs related to the Group's US business, of which £1.3 million was in respect of initial start-up costs for a new factory and the remaining £0.6 million was due to ongoing employment litigation.

## Operating profit

Operating profit decreased by £10.6 million, or 11.0%, from £96.2 million in 2017 to £85.6 million in 2018 with margins decreasing by 70 basis points to 4.6%, primarily due to the performance of the International businesses and a number of Other items as explained above.

The Operating profit for the UK segment, which is after a loss of £4.6 million from the sale of the Anglia Crown business in July 2018, increased by £4.9 million in the year from £94.9 million in 2017 to £99.8 million mainly due to a small improvement in trading performance and a reduction in the UK Other items in the year.

For the International segment operating profit decreased by £15.5 million from a £1.3 million profit in 2017 to a loss of £14.2 million. This decrease was primarily due to an increase in International costs for the start-

up and pre-commissioning of factories in the US and China combined with disruption costs incurred as we repurposed part of an existing US site to capitalise on the growing prepared meals market.

Before Other items and the loss on disposal of a subsidiary, which are not expected to reoccur in the future, the Group operating margins for 2018 were 10 basis points lower than 2017 at 6.0%.

### **Finance costs**

Finance costs significantly decreased by £21.8 million, or 62.3%, from £35.0 million in 2017 to £13.2 million in 2018. The decrease is largely due to 2018 reflecting the full year benefits of the refinancing of the Group's lending facilities carried out in March 2017 and the initial benefit from the primary proceeds from the public listing that year. In addition, 2017 included the payment of a call premium of £9.9 million in respect of the early redemption of the 2020 Senior Secured Notes and accelerated amortisation of £3.3 million for refinancing fees in relation to the previous debt, following the refinancing that year. Excluding these costs and the capitalisation of interest for qualifying assets, finance costs decreased by £7.3 million in 2018, which reflects the benefits of lower average debt levels and the reduction in the cost of debt to circa 3.5% per annum.

### **Other gains and losses**

Other gains and losses moved by £27.7 million, from a loss of £22.2 million in 2017, to a profit of £5.5 million in 2018. This change was primarily due to the inclusion of a £17.2 million non-cash loss in 2017 on the fair value of the call option within the 2020 Senior Secured Notes following redemption of the Notes in March 2017 which reversed previous gains. In addition, in 2018 our results included a £4.2 million gain on the release of an amount in other payables, held at fair value, in respect of a potential liability for a disputed historic claim which has not materialised and is now time-barred. The Group also recorded mark to market gains of £1.1 million on its financial derivatives in 2018 compared to a loss of £2.1 million for 2017 and foreign exchange losses of £2.9 million in 2017 that reversed to a £0.2 million gain in 2018.

### **Tax**

The Group tax charge for the year was £10.7 million, which was an increase of £2.7 million over last year. The £10.7 million charge represents an effective tax rate of 13.7% on profit before tax of £77.9 million. Most of the Group's profits were earned in the UK, where the statutory tax rate was 19% for 2018. The main reason for the lower effective rate was because of the increased recognition of deferred tax assets in respect of losses in overseas subsidiaries. These are only recognised to the extent that the losses are expected to be used against future profits. Excluding Other items, the effective tax rate was 14.9%. It is expected that the effective tax rate will rise to between 15% and 16% in 2019.

### **Profit for the period**

As a result of the foregoing, profit for the period increased by £36.2 million, or 116.8%, from £31.0 million in 2017 to £67.2 million in 2018. Excluding the impact of Other items, the profit for the year has increased by £14.4 million to £84.9 million.

### **Earnings per share**

Basic earnings per share has increased from 5.8p for 2017 to 11.6p in 2018, reflecting a marginal improvement in trading performance, lower Other items and the benefit from the refinancing and the primary proceeds received from the public listing from 2017.

Adjusted earnings per share<sup>1</sup>, which is calculated before Other items that are not expected to reoccur in future years, has increased from 13.3p for 2017 to 14.7p in 2018 which reflects both the improvement in trading for the business and a reduction in finance costs in the year. The weighted average number of shares for 2018 was 579,425,585 and for 2017 was 530,738,162. The weighted average is lower for 2017 as the primary shares in the public listing were issued in November 2017.

### **Cash flow**

Net cash from operating activities which is calculated before capital expenditure but after payments for Other items increased by £5.7 million from £93.4 million in 2017 to £99.1 million. This was largely due to the significant reduction in interest costs, including refinancing fees, of £25.7 million more than offsetting the working capital increase in the year of £14.2 million and the increase in tax paid of £2.8 million.

Net cash used in investing activities increased by £47.8 million in the year from £75.9 million in 2017 to £123.7 million in 2018. The increase is primarily due to a £29 million increase in payments for the Group's four key development projects, and an £8.5 million payment for the acquisition of Haydens in the year and a £3.2 million cash contribution paid to the new owners of Anglia Crown that was sold during the year.

Free cash flow<sup>1</sup> for the year, which is the key measure the Directors use to manage cash flow in the business, was £16.0 million lower than the previous year at £55.1 million. This was largely due to expenditure on core capital (excluding development projects) being £4.6 million higher than 2017 as a number of projects were re-phased from the latter half of 2017 and into 2018. Working capital remains tightly managed but there was a small outflow this year of £7.8 million as we increased our inventory for certain ingredients to obtain favourable pricing and our new international factories opened towards the end of the year. Interest payments were £9.4 million lower this year as we saw the full year benefits from the refinancing in March 2017 and a temporary benefit from the primary proceeds received from last year's public listing.

### **Capital, debt and leverage**

At 29 December 2018 the Group has committed debt facilities of £447.5 million comprising 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.

Whilst the Group has continued to generate good free cash flow in 2018, payments of £52.1 million have been made in the year in respect of the four key development projects identified at the time of the public listing. The finance for these projects was raised from the primary proceeds from the public listing in November 2017 and the final payments for these projects are due to be made by Q3 2019. In addition, the Group has funded the acquisition of Haydens in the year at a cost of £10.9 million. These payments, combined with the interim dividend paid of £11.6 million and payments for Other items have resulted in an increase of £38.8 million in operational net debt to £309.3 million. Leverage (the ratio of operational net debt<sup>1</sup> to adjusted EBITDA<sup>1</sup>) was 2.0 times at December 2018 and, as expected, is an increase from the 1.8 times at the end of 2017 largely due to expenditure on the development projects. It remains within the Group's target range of 1.5 – 2.0 times. The Group's liquidity position remains strong with good headroom against all financial covenants.

### **Return on invested capital<sup>1</sup>**

The increase in invested capital in 2018 has resulted in a decrease in the Group's Return on Invested Capital<sup>1</sup> ("ROIC") from 12.2% in 2017 to 11.6% in 2018. Over the medium term, the Group plans to continue to spend circa 3.5% per annum of revenues on capital investment and would also expect the key development projects to deliver improvements in returns.

### **Pensions**

Under the IAS 19 valuation principles that are required to be used for accounting purposes, the Group recognised a deficit of £0.5 million for the UK defined benefit scheme as at 29 December 2018 (2017: surplus of £5.2 million). The movement from a surplus in the prior year to a small deficit is largely due to a 1.1% increase in liabilities, amounting to £2.6 million, to meet the equalisation requirements for GMP following the Lloyds Banking Group ruling in October 2018.

The Group and the Trustee agreed in April 2017 the triennial valuation of the UK defined benefit pension scheme as at 30 March 2016. This resulted in a funding shortfall which continues to be paid over an agreed eight-year recovery period ending on 31 March 2024. The recovery contributions over that period amount to £22.5 million with £3.5 million payable for the year ending 31 March 2019.

<sup>1</sup>Alternative Performance Measures ("APMs"), including 'like-for-like', 'adjusted' and 'underlying' are used as a guide to performance. The definitions and calculations for APMs are set out in Note 19 of the Notes to the Consolidated Financial Information.

## Consolidated income statement

		52 weeks ended 29 December 2018 (Unaudited)			52 weeks ended 30 December 2017 (Audited)		
£ million	Notes	Underlying activities	Other items	Total	Underlying activities	Other items (Note 4)	Total
<b>Continuing operations</b>							
Revenue	3	1,855.2	-	1,855.2	1,814.8	-	1,814.8
Cost of sales		(1,368.6)	-	(1,368.6)	(1,329.1)	-	(1,329.1)
<b>Gross profit</b>		<b>486.6</b>	-	<b>486.6</b>	485.7	-	485.7
Distribution costs		(77.2)	-	(77.2)	(77.2)	-	(77.2)
Other administrative costs	4	(298.1)	(21.5)	(319.6)	(297.5)	(15.4)	(312.9)
Loss on disposal of subsidiary	16	-	(4.6)	(4.6)	-	-	-
Share of results of associates		0.4	-	0.4	0.6	-	0.6
<b>Operating profit/(loss)</b>		<b>111.7</b>	(26.1)	<b>85.6</b>	111.6	(15.4)	96.2
Finance costs	5	(13.2)	-	(13.2)	(21.8)	(13.2)	(35.0)
Other gains and (losses)	6	1.3	4.2	5.5	(5.0)	(17.2)	(22.2)
<b>Profit/(loss) before tax</b>		<b>99.8</b>	(21.9)	<b>77.9</b>	84.8	(45.8)	39.0
Tax		(14.9)	4.2	(10.7)	(14.3)	6.3	(8.0)
<b>Profit/(loss) for the period attributable to equity holders of the parent company</b>		<b>84.9</b>	(17.7)	<b>67.2</b>	70.5	(39.5)	31.0
<b>Earnings per share</b>							
Basic	7			<b>11.6p</b>			5.8p
Diluted	7			<b>11.5p</b>			5.8p

**Consolidated statement of comprehensive income**

£ million	52 weeks ended 29 December 2018 (Unaudited)	52 weeks ended 30 December 2017 (Audited)
<b>Profit for the period</b>	<b>67.2</b>	<b>31.0</b>
<b>Other comprehensive income/(expense)</b>		
<b>Items that will not be reclassified to the income statement:</b>		
Actuarial (loss)/gain on defined benefit pension schemes	(6.3)	12.3
Tax relating to components of other comprehensive income	1.0	(2.1)
	<b>(5.3)</b>	<b>10.2</b>
<b>Items that may subsequently be reclassified to the income statement:</b>		
Exchange differences on translation of foreign operations	7.7	(7.6)
<b>Total other comprehensive income</b>	<b>2.4</b>	<b>2.6</b>
<b>Total comprehensive income</b>	<b>69.6</b>	<b>33.6</b>

**Consolidated statement of financial position**

£ million	Notes	29 December 2018 (Unaudited)	30 December 2017 (Audited)
<b>Non-current assets</b>			
Goodwill	9	<b>650.2</b>	647.2
Other intangible assets		<b>3.0</b>	2.6
Property, plant and equipment	10	<b>426.9</b>	337.5
Interests in associates		<b>12.5</b>	12.0
Other investments		<b>0.1</b>	0.1
Deferred tax asset		<b>19.6</b>	3.2
Retirement benefit asset		-	5.2
Derivative financial instruments		<b>0.2</b>	0.1
		<b>1,112.5</b>	1,007.9
<b>Current assets</b>			
Inventories	11	<b>62.8</b>	54.8
Trade and other receivables	12	<b>142.7</b>	147.9
Cash and cash equivalents	14	<b>12.4</b>	20.9
Derivative financial instruments		<b>1.9</b>	1.6
		<b>219.8</b>	225.2
<b>Total assets</b>		<b>1,332.3</b>	1,233.1
<b>Current liabilities</b>			
Trade and other payables	13	<b>(391.3)</b>	(393.4)
Current tax liabilities		<b>(6.5)</b>	(3.7)
Borrowings	14	<b>(6.6)</b>	(2.3)
Provisions		<b>(3.3)</b>	(3.1)
Derivative financial instruments		-	(0.6)
Deferred income		<b>(0.7)</b>	(0.7)
		<b>(408.4)</b>	(403.8)
<b>Non-current liabilities</b>			
Trade and other payables	13	<b>(0.4)</b>	(0.4)
Borrowings	14	<b>(312.4)</b>	(285.2)
Provisions		<b>(15.0)</b>	(14.6)
Derivative financial instruments		-	(0.2)
Deferred tax liabilities		<b>(24.3)</b>	(16.6)
Retirement benefit obligation		<b>(0.5)</b>	-
Deferred income		<b>(1.9)</b>	(2.2)
		<b>(354.5)</b>	(319.2)
<b>Total liabilities</b>		<b>(762.9)</b>	(723.0)
<b>Net assets</b>		<b>569.4</b>	510.1

**Consolidated statement of financial position (continued)**

£ million	29 December 2018 (Unaudited)	30 December 2017 (Audited)
<b>Equity</b>		
Share capital	15	11.6
Share premium	15	-
Merger reserve	(130.9)	(130.9)
Translation reserve	33.8	26.1
Retained earnings	654.9	237.2
<b>Total equity</b>	<b>569.4</b>	510.1

**Consolidated statement of changes in equity**

£ million	Equity attributable to equity holders of the Company						
	Share capital	Share premium	Merger reserve	Capital reserve	Translation reserve	Retained earnings	Total
<b>Balance at 1 January 2017 (Audited)</b>	1.0	-	54.9	98.8	33.7	190.4	<b>378.8</b>
Profit for the period	-	-	-	-	-	31.0	<b>31.0</b>
Other comprehensive income/ (expense) for the period	-	-	-	-	(7.6)	10.2	<b>2.6</b>
<b>Total comprehensive income/(expense) for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(7.6)</b>	<b>41.2</b>	<b>33.6</b>
Issue of share capital	10.6	374.1	-	-	-	-	<b>384.7</b>
Share issue costs	-	(8.0)	-	-	-	4.6	<b>(3.4)</b>
Recognition of merger reserve	-	-	(185.8)	(98.8)	-	-	<b>(284.6)</b>
Credit for share-based payments	-	-	-	-	-	0.8	<b>0.8</b>
Deferred tax on share schemes	-	-	-	-	-	0.2	<b>0.2</b>
<b>Balance at 30 December 2017 (Audited)</b>	<b>11.6</b>	<b>366.1</b>	<b>(130.9)</b>	-	26.1	237.2	<b>510.1</b>
Profit for the period	-	-	-	-	-	67.2	<b>67.2</b>
Other comprehensive income/ (expense) for the period	-	-	-	-	7.7	(5.3)	<b>2.4</b>
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>7.7</b>	<b>61.9</b>	<b>69.6</b>
Dividends paid (Note 8)	-	-	-	-	-	(11.6)	<b>(11.6)</b>
Cancellation of Share premium account (Note 15)	-	(366.1)	-	-	-	366.1	-
Credit for share-based payments	-	-	-	-	-	1.5	<b>1.5</b>
Deferred tax on share schemes	-	-	-	-	-	(0.2)	<b>(0.2)</b>
<b>Balance at 29 December 2018 (Unaudited)</b>	<b>11.6</b>	<b>-</b>	<b>(130.9)</b>	-	33.8	654.9	<b>569.4</b>

**Consolidated statement of cash flows**

£ million	Notes	52 weeks ended 29 December 2018 (Unaudited)	52 weeks ended 30 December 2017 (Audited)
<b>Net cash generated from operating activities</b>	17	<b>99.1</b>	93.4
<b>Investing activities</b>			
Dividends received from associates		0.7	0.7
Purchases of property, plant and equipment		(112.7)	(79.1)
Proceeds on disposal of property, plant and equipment		-	2.5
Acquisition of subsidiary	16	(8.5)	-
Disposal of subsidiary net of cash disposed of	16	(3.2)	-
<b>Net cash used in investing activities</b>		<b>(123.7)</b>	(75.9)
<b>Financing activities</b>			
Dividends paid	8	(11.6)	-
Net proceeds from share issue		-	96.6
Increase in borrowings		28.7	325.0
Repayments of borrowings		-	(439.4)
Repayments of obligations under finance leases		(1.1)	(0.8)
<b>Net cash generated from / (used in) financing activities</b>		<b>16.0</b>	(18.6)
<b>Net decrease in cash and cash equivalents</b>		<b>(8.6)</b>	(1.1)
Cash and cash equivalents at beginning of period		20.9	22.5
Effect of foreign exchange rate changes		0.1	(0.5)
<b>Cash and cash equivalents at end of period</b>		<b>12.4</b>	20.9

## NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

### 1. General information

#### Description of business

Two of the Company's directors, Agust Gudmundsson and Lydur Gudmundsson, through their beneficial ownership of Carrion Enterprises Limited and Umbriel Ventures Limited are treated as acting in concert and are therefore controlling shareholders of the Company. Carrion Enterprises Limited and Umbriel Ventures Limited hold 290,666,260 ordinary shares representing 50.2% of the total issued ordinary share capital of Bakkavor Group plc.

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 30 December 2017 which do not contain any statement under s498 of the Companies Act 2006 and are unqualified. The statutory accounts for the 52 weeks ended 30 December 2017 have been delivered to the Registrar of Companies. The audit of the statutory accounts for the year ended 29 December 2018 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 29 December 2018 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.

#### 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).

### New standards and interpretations

A number of new standards and amendments to standards and interpretations are effective for annual reporting periods beginning from 1 January 2018 and have not been applied in preparing these financial statements.

#### **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. The Group will apply the standard for the reporting period commencing 30 December 2018. A complete review and assessment of IFRS 9 has been conducted with the conclusion that the introduction of the standard will have no material impact on the Group.

#### **IFRS 15 Revenue from Contracts with Customers**

IFRS 15 *Revenue from Contracts with Customers* specifies how and when an IFRS reporter will recognise revenue as well as requiring such entities to provide users of financial statements with more informative, relevant disclosures. The standard replaces IAS 18 *Revenue* and IAS 11 *Construction Contracts*. The Standard provides a single, principles based five-step model to be applied to all contracts with customers. The Group will apply the standard for the reporting period commencing 30 December 2018. Management's assessment is that the adoption of IFRS 15 will have no impact on the timing of revenue recognition compared to that adopted under IAS 18. The principal reason for this is that the Group only has an enforceable right to bill once the product is delivered to the customer. A complete assessment has been carried out, focussing in particular on variable consideration. Some agreements with customers offer discounts or volume rebates and the Group has reviewed these arrangements and concluded that there will be no change to the timing of recognising such variable consideration as a result of the introduction of IFRS 15.

#### **IFRS 16 Leases**

IFRS 16 *Leases* sets out the principle for the recognition, measurement, presentation and disclosure of leases for both lessee and lessor. It eliminates the classification of leases as either operating leases or finance leases and introduces a single lessee accounting model where the lessee is required to recognise assets and liabilities for all material leases that have a term of greater than a year. The Group will apply the standard for the reporting period commencing 30 December 2018. The Group intends to retrospectively adopt the standard, without restating comparatives, by using the modified retrospective, asset equals liability approach.

## 2. Significant accounting policies (continued)

### IFRS 16 Leases (continued)

The estimated impact on the financial statements in the year of transition is expected to be as follows:

£ million	Range low to high
Depreciation increase	(11) (13)
Finance costs increase	(2) (3)
Other administrative costs decrease	12 13
Profit after tax decrease	(1) (3)
Basic and diluted earnings per share decrease	(0.2)p (0.3)p
Total assets increase at date of transition	75 83
Total liabilities increase at date of transition	(75) (83)

Total equity as previously reported will remain unchanged under the approach taken by the Group.

### Going concern

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

Consequently, the Directors believe 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 in the US and China.

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as defined in Note 19.

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

£ million	UK	International	Un-allocated	Total
<b>Revenue</b>	<b>1,653.6</b>	<b>201.6</b>	-	<b>1,855.2</b>
<b>Adjusted EBITDA</b>	<b>147.7</b>	<b>5.8</b>	-	<b>153.5</b>
Depreciation	(35.1)	(4.8)	-	(39.9)
Amortisation	-	(0.4)	-	(0.4)
Other items (Note 4)	(6.5)	(15.0)	-	(21.5)
Share scheme charges	(1.5)	-	-	(1.5)
Loss on disposal of property, plant and equipment	(0.2)	(0.2)	-	(0.4)
Loss on disposal of subsidiary	(4.6)	-	-	(4.6)
Share of results of associates	-	0.4	-	0.4
<b>Operating profit/(loss)</b>	<b>99.8</b>	<b>(14.2)</b>	-	<b>85.6</b>
Finance costs				(13.2)
Other gains and (losses)				5.5
Profit before tax				77.9
Tax				(10.7)
<b>Profit for the period</b>				<b>67.2</b>
<b>Other segment information:</b>				
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	931.3	181.0	0.2	1,112.5

### 3. Segment information (continued)

The following table provides an analysis of the Group's segment information for the period from 1 January 2017 to 30 December 2017:

£ million	UK	International	Un-allocated	Total
<b>Revenue</b>	<b>1,636.3</b>	<b>178.5</b>	-	<b>1,814.8</b>
<b>Adjusted EBITDA</b>	<b>145.2</b>	<b>7.4</b>	-	<b>152.6</b>
Depreciation	(35.6)	(4.0)	-	(39.6)
Amortisation	(0.1)	(0.6)	-	(0.7)
Other items (Note 4)	(13.5)	(1.9)	-	(15.4)
Share scheme charges	(0.8)	-	-	(0.8)
Loss on disposal of property, plant and equipment	(0.3)	(0.2)	-	(0.5)
Share of results of associates	-	0.6	-	0.6
<b>Operating profit</b>	<b>94.9</b>	<b>1.3</b>	-	<b>96.2</b>
Finance costs				(35.0)
Other gains and (losses)				(22.2)
Profit before tax				39.0
Tax				(8.0)
<b>Profit for the period</b>				<b>31.0</b>
<b>Other segment information:</b>				
Capital additions	52.4	25.3	-	77.7
Interests in associates	-	12.0	-	12.0
Total assets	1,074.1	136.4	22.6	1,233.1
Non-current assets	896.2	111.6	0.1	1,007.9

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

#### 4. Other items

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

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

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Public listing costs	-	10.4
Restructuring costs	-	3.1
Legal costs	-	0.6
New site costs	<b>12.4</b>	1.3
Disruption costs	<b>2.6</b>	-
Onerous lease provision	<b>1.7</b>	-
GMP equalisation	<b>2.6</b>	-
Impairment of tangible assets	<b>3.5</b>	-
Gain on bargain purchase	<b>(1.3)</b>	-
	<b>21.5</b>	<b>15.4</b>

The Group has incurred £21.5 million of Other items costs in the period, 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 Carson in the US was expanded. 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 GMP equalisation for the defined benefit pension scheme following the Lloyds Banking Group which came into force from October 2018. The Group also incurred an impairment charge of £3.5 million in the period in respect of property, plant and equipment as the relevant assets no longer have any future value for the Group. The Group's acquisition of Haydens Bakery Limited (see Note 16) resulted in a £1.3 million gain on a bargain purchase, which is required to be released to income.

In 2017, the Group incurred Other items costs of £15.4 million, of which £10.4 million relates to costs incurred for the public listing in November 2017 and restructuring costs of £3.1 million related to the cost of closing a site in the UK and moving related operations to other sites. The remaining costs related to the Group's International segment of which £1.3 million were in respect of initial start-up costs for the opening of a new factory in the US with the remaining costs of £0.6 million due to ongoing employment litigation in the US.

## 5. Finance costs

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Interest on borrowings	12.7	19.9
Interest on obligations under finance leases	0.2	0.2
Amortisation of refinancing costs	1.4	4.9
Call premium on redemption of Senior Secured Notes	-	9.9
Unwind of discount on provisions	0.4	0.3
	14.7	35.2
Less: amounts included in the cost of qualifying assets	(1.5)	(0.2)
	13.2	35.0

In 2017 the call premium of £9.9 million and the £3.3 million of accelerated amortisation of refinancing costs (included in the £4.9 million above) relating to the redemption of the 2018 and 2020 Senior Secured Notes were classed as Other items in the consolidated income statement, as they were one-off and related to the previous financing structure.

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 2.8% to expenditure on such assets.

## 6. Other gains and (losses)

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Foreign exchange gains/(losses)	0.2	(2.9)
Change in fair value of derivative financial instruments	1.1	(2.1)
Release of other payable	4.2	-
Change in fair value of call option	-	(17.2)
	5.5	(22.2)

Other gains and (losses) for the 52 weeks ended 29 December 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 historic claim which has not materialised and is now time-barred.

Other gains and (losses) for the 52 weeks ended 30 December 2017 includes a loss of £17.2 million for the reversal of the mark-to-market asset held at 31 December 2016 in respect of the call option for the 2020 Senior Secured Notes, following the redemption of those Notes in March 2017. This loss in 2017 has been classed as other items in the consolidated income statement due to the fact this was one-off and related to the previous financing structure.

## 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 29 December 2018	52 weeks ended 30 December 2017
Profit attributable to equity shareholders of the Company	67.2	31.0

### Number of shares

'000	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Weighted average number of Ordinary shares	579,426	530,738
Effect of potentially dilutive Ordinary shares	2,993	857
Weighted average number of Ordinary shares for diluted earnings per share	582,419	531,595

The weighted average number of shares in the prior period has been adjusted to account for the 5 for 1 share split that occurred in November 2017.

	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
Basic earnings per share	11.6p	5.8p
Diluted earnings per share	11.5p	5.8p

## 8. Dividends paid and proposed

On 6 September 2018, Bakkavor Group plc declared an interim dividend for the period ended 29 December 2018 of 2.0p per share to each of the Ordinary shareholders which totalled £11,588,512 and was paid on 5 October 2018. A final dividend of 4.0p has been proposed for approval at the AGM on 23 May 2019 and will be payable on 29 May 2019 to shareholders on the register at 3 May 2019.

No dividends were declared for the period ended 30 December 2017.

## 9. Goodwill

£ million	
<b>At 1 January 2017</b>	<b>651.5</b>
Exchange rate difference during the period	(4.3)
<b>At 30 December 2017</b>	<b>647.2</b>
Exchange rate difference during the period	3.0
<b>At 29 December 2018</b>	<b>650.2</b>

## 10. Property, plant and equipment

£ million	
<b>At 1 January 2017</b>	<b>304.5</b>
Additions	77.7
Disposals	(2.9)
Depreciation charge for the period	(39.6)
Exchange rate difference during the period	(2.2)
<b>At 30 December 2017</b>	<b>337.5</b>
Additions	119.1
Acquisition of subsidiary	11.1
Disposals	(0.8)
Depreciation charge for the period	(39.9)
Impairment	(3.5)
Exchange rate difference during the period	3.4
<b>At 29 December 2018</b>	<b>426.9</b>

Additions in the 52 weeks ended 29 December 2018 include £52.1 million (2017: £23.1 million) in respect of development projects.

## 11. Inventories

£ million	29 December 2018	30 December 2017
Raw materials and packaging	54.6	47.4
Work-in-progress	1.8	1.7
Finished goods	6.4	5.7
	<b>62.8</b>	<b>54.8</b>

## 12. Trade and other receivables

£ million	29 December 2018	30 December 2017
Amounts receivable from trade customers	115.3	120.8
Allowance for doubtful debts	(2.0)	(1.5)
Net amounts receivable from trade customers	113.3	119.3
Other receivables	18.8	19.1
Prepayments	10.6	9.5
<b>Trade and other receivables due within one year</b>	<b>142.7</b>	<b>147.9</b>

## 13. Trade and other payables

£ million	29 December 2018	30 December 2017
Trade payables	232.6	209.0
Other payables	25.5	31.4
Accruals	133.6	153.4
	<b>391.7</b>	<b>393.8</b>
Less amounts due after one year:		
Other payables	(0.4)	(0.4)
<b>Trade and other payables due within one year</b>	<b>391.3</b>	<b>393.4</b>

#### 14. Net debt

£ million	29 December 2018	30 December 2017
<b>Analysis of net debt</b>		
Cash and cash equivalents	12.4	20.9
Borrowings	(3.7)	-
Interest accrual	(1.3)	(1.5)
Finance leases	(1.6)	(0.8)
<b>Total debt due within one year</b>	<b>(6.6)</b>	<b>(2.3)</b>
Borrowings	(312.5)	(287.5)
Unamortised fees	4.0	5.4
Finance leases	(3.9)	(3.1)
<b>Total debt due after one year</b>	<b>(312.4)</b>	<b>(285.2)</b>
<b>Statutory net debt</b>	<b>(306.6)</b>	<b>(266.6)</b>

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 finance lease liabilities.

#### 15. Share capital and share premium

Issued share capital as at 29 December 2018 amounted to £11.6 million (30 December 2017: £11.6 million).

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

## 16. Acquisitions and disposals

### Acquisition of subsidiary

On 6 September 2018, the Group completed the acquisition of 100% of the issued share capital of Haydens Bakery Limited from Real Good Food plc for total consideration of £11.4 million. The consideration comprised £0.5 million in cash and assumed borrowings of £8.5 million that was repaid immediately and £2.4 million of existing finance leases.

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	0.7
Property, plant and equipment	11.1
Inventories	1.5
Trade and other receivables	4.0
Cash and cash equivalents	0.5
Trade and other payables	(4.4)
Obligations under finance leases	(2.4)
Provisions	(0.6)
Deferred tax liabilities	(0.1)
Net identifiable assets acquired	10.3
Gain on bargain purchase	(1.3)
Total cash consideration for share capital and assumed borrowings repaid	9.0

The net cash outflow arising on acquisition was:

£ million	
Cash consideration for share capital	0.5
Immediate repayment of borrowings	8.5
	9.0
Cash and cash equivalents acquired on acquisition	(0.5)
Cash outflow on acquisition of business	8.5

Acquisition related costs of £0.3 million were incurred and included in other administrative costs in the consolidated income statement.

The results of Haydens Bakery Limited have been consolidated in the Group's consolidated income statement from 6 September 2018 and contributed £12.4 million of revenue and a loss of £0.2 million 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 £1,877.1 million and £65.0 million respectively.

### Disposal of subsidiary

On 2 July 2018, the Group completed the sale of Anglia Crown Limited to Anglia Crown Management. The transaction resulted in a cash payment of £3.2 million and a loss on disposal of £4.6 million being recorded in the consolidated income statement.

## 17. Notes to the consolidated statement of cash flows

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
<b>Operating profit</b>	<b>85.6</b>	96.2
<b>Adjustments for:</b>		
Share of results of associates	(0.4)	(0.6)
Depreciation of property, plant and equipment	39.9	39.6
Amortisation of intangible assets	0.4	0.7
Loss on disposal of property, plant and equipment	0.4	0.5
Loss on disposal of subsidiary (Note 16)	4.6	-
Gain on bargain purchase (Note 16)	(1.3)	-
Impairment of assets	3.5	-
Share scheme charges	1.5	0.8
Net retirement benefits charge less contributions	(2.9)	(2.9)
<b>Operating cash flows before movements in working capital</b>	<b>131.3</b>	134.3
(Increase)/decrease in inventories	(7.4)	4.4
Decrease in receivables	5.8	41.7
Decrease in payables	(3.3)	(39.2)
Increase in provisions	0.5	2.9
<b>Cash generated by operations</b>	<b>126.9</b>	144.1
Income taxes paid	(14.7)	(11.9)
Interest paid	(13.1)	(38.8)
<b>Net cash generated from operating activities</b>	<b>99.1</b>	93.4

## 18. Events after the statement of financial position date

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

## 19. 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. They are used by management to monitor and aid comparability of the financial performance of the Group from year to year. They exclude items that management believe are not a direct consequence of ongoing trading activities.

### 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 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 29 December 2018	52 weeks ended 30 December 2017	% change
<b>Statutory revenue</b>	<b>1,855.2</b>	1,814.8	2.2%
Revenue from acquisitions	(12.4)	-	
Revenue from closed and sold businesses	(6.2)	(30.2)	
Effect of currency movements	5.4	-	
<b>Like-for-like revenue</b>	<b>1,842.0</b>	1,784.6	3.2%

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

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017	% change
<b>Statutory revenue</b>	<b>1,653.6</b>	1,636.3	1.1%
Revenue from acquisitions	(12.4)	-	
Revenue from closed and sold businesses	(6.2)	(30.2)	
<b>Like-for-like revenue</b>	<b>1,635.0</b>	1,606.1	1.8%

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

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017	% change
<b>Statutory revenue</b>	<b>201.6</b>	178.5	12.9%
Effect of currency movements	5.4	-	
<b>Like-for-like revenue</b>	<b>207.0</b>	178.5	16.0%

## 19. Alternative performance measures (continued)

### Adjusted EBITDA

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as this measure excludes 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, we further exclude the share of results of associates, restructuring costs, asset impairments, share scheme charges (non-cash) and those additional charges or credits that are considered significant or one-off in nature.

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

£ million	52 weeks ended 29 December 2018	52 weeks ended 30 December 2017
<b>Operating profit</b>	<b>85.6</b>	96.2
Depreciation	39.9	39.6
Amortisation	0.4	0.7
<b>EBITDA</b>	<b>125.9</b>	136.5
Other items (Note 4)	21.5	15.4
Loss on disposal of property, plant and equipment	0.4	0.5
Share scheme charges	1.5	0.8
Loss on disposal of subsidiary	4.6	-
Share of results of associates	(0.4)	(0.6)
<b>Adjusted EBITDA</b>	<b>153.5</b>	152.6

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

## 19. Alternative performance measures (continued)

### Operational net debt and leverage

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

£ million	29 December 2018	30 December 2017
<b>Statutory net debt</b>	<b>(306.6)</b>	(266.6)
Unamortised fees	(4.0)	(5.4)
Interest accrual	1.3	1.5
<b>Operational net debt</b>	<b>(309.3)</b>	(270.5)
<b>Adjusted EBITDA (last 12 months)</b>	<b>153.5</b>	152.6
<b>Leverage (Operational net debt/Adjusted EBITDA)</b>	<b>2.0</b>	1.8

### 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), but before payments of refinancing fees. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the 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 29 December 2018	52 weeks ended 30 December 2017
<b>Net cash generated from operating activities</b>	<b>99.1</b>	93.4
Dividends received from associates	0.7	0.7
Purchases of property, plant and equipment	(112.7)	(79.1)
Purchases of property, plant and equipment relating to development projects (Note 10)	52.1	23.1
Proceeds on disposal of property, plant and equipment	-	2.5
Cash impact of exceptional items	15.9	14.2
Refinancing costs	-	16.3
<b>Free cash flow</b>	<b>55.1</b>	71.1

## 19. 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 other items as presented in the consolidated income statement. 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 29 December	52 weeks ended 30 December
	2018	2017
Profit attributable to equity shareholders of the Company	67.2	31.0
Other items (Note 4)	21.5	15.4
Finance costs (Note 5)	-	13.2
Loss on disposal of subsidiary (Note 16)	4.6	-
Release of other payable (Note 6)	(4.2)	-
Change in fair value of call option (Note 6)	-	17.2
Tax on the above items	(4.2)	(6.3)
<b>Adjusted earnings</b>	<b>84.9</b>	<b>70.5</b>
Add back: Tax on underlying activities	14.9	14.3
<b>Adjusted profit before tax</b>	<b>99.8</b>	84.8
Effective tax rate on underlying activities (Tax on underlying activities/Adjusted profit before tax)	14.9%	16.9%

### Number 000's

Weighted average number of Ordinary shares	579,426	530,738
Effect of dilutive Ordinary shares	2,993	857
Weighted average number of Ordinary shares for diluted earnings per share	582,419	531,595
Adjusted basic earnings per share	14.7p	13.3p
Adjusted diluted earnings per share	14.6p	13.3p

## 19. 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 period. 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. Management utilises ROIC to measure how effectively it uses invested capital. Average invested capital is the simple average of invested capital at the beginning and 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 forth the calculations of adjusted operating profit after tax and invested capital used in the calculation of ROIC.

£ million	52 weeks ended 29 December 2018	53 weeks ended 30 December 2017
<b>Operating profit</b>	<b>85.6</b>	96.2
Other items (Note 4)	21.5	15.4
Loss on disposal of subsidiary	4.6	-
<b>Adjusted operating profit</b>	<b>111.7</b>	111.6
Taxation at the underlying effective rate	(16.6)	(18.9)
<b>Adjusted operating profit after tax</b>	<b>95.1</b>	92.7
<b>Invested capital</b>		
Total assets	1,332.3	1,233.1
Total liabilities	(762.9)	(723.0)
Net debt at period end	306.6	266.6
Derivatives not designated as hedges	(2.1)	(0.9)
Retirement benefit scheme deficit/(surplus)	0.5	(5.2)
Deferred tax (asset)/liability on retirement benefit scheme	(0.1)	0.9
<b>Invested capital</b>	<b>874.3</b>	771.5
Average invested capital for ROIC calculation	822.9	761.2
<b>ROIC (%)</b>	<b>11.6%</b>	12.2%

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