

Bakkavor Group plc

Positive first half trading across the business

Bakkavor Group plc ("Bakkavor", "the Group" or "the Company"), the leading provider of fresh prepared food, today announces its half year unaudited results for the 26-week period ended 30 June 2018.

HIGHLIGHTS

- Group revenue increased to £910.4m, up 2.8% on a like-for-like basis
- International growth accelerated, with revenue up 15.4% on a like-for-like basis
- Adjusted EBITDA up 1.2% to £78.6m, and margins held in an inflationary environment
- Investments in operational efficiencies partly offset rising labour costs
- Basic EPS up 5.6p to 7.0p
- All four key development projects remain on track
- Interim dividend of 2p per share payable on 5 October 2018

£ million	H1 2018	H1 2017	Change
Group revenue	910.4	903.3	+0.8%
Like-for-like revenue ¹	910.1	885.7	+2.8%
Adjusted EBITDA ¹	78.6	77.7	+1.2%
Adjusted EBITDA ¹ margin	8.6%	8.6%	-
Profit before tax	47.1	8.2	+38.9
Basic EPS	7.0p	1.4p	+5.6p
Adjusted EPS ¹	7.4p	6.8p	+0.6p
Free cash flow ¹	32.4	30.2	+7.3%
Net debt	269.8	368.2	(98.4)
Interim dividend per share	2p	n/a	

Agust Gudmundsson, Chief Executive Officer of Bakkavor, said:

"We have delivered a positive performance in the first half as we continue 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.

"Looking ahead, we continue to remain cautious and anticipate little change in underlying economic and market trends. In particular, input price volatility continues which may in turn impact consumer demand going forward. Despite these pressures, our scale, passion for food and close partnerships with our customers leave us well placed and our expectations for the full year remain unchanged."

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 18.

PRESENTATION

A presentation of the half year results to analysts will take place today, 6 September 2018, 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>

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ABOUT BAKKAVOR

Bakkavor is the leading provider in the large and fast-growing UK fresh prepared food (FPF) market, comprising the four categories of Meals, Salads, Desserts and Pizza & Bread, and has a growing international presence in the US and China.

In the UK, the Group is the number one producer by market share in all four FPF categories, supplying the UK's leading grocery retailers including Tesco, M&S, Sainsbury's and Waitrose. The International segment has operations in the US and China, supplying both retail and foodservice customers.

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DISCLAIMER – FORWARD-LOOKING STATEMENTS

This interim 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.

KEY STATUTORY FINANCIAL INFORMATION

£ million	H1 2018	H1 2017	Change
Group revenue	910.4	903.3	+0.8%
Operating profit	54.1	54.6	(0.9%)
Profit before tax	47.1	8.2	+38.9
Profit after tax	40.5	7.3	+33.2
Basic EPS	7.0p	1.4p	+5.6p

BOARD AND MANAGEMENT CHANGES

During the period, Jane Lodge was appointed to the Board as an Independent Non-executive Director and chairs the Audit and Risk Committee. In July, the Group also welcomed Patrick Cook to the Board as a Non-executive Director, replacing Robert Berlin. In addition, Pippa Greenslade, Group HR Director, has indicated her wish to retire later this year. After an extensive recruitment process, the Group is pleased to announce that Donna-Maria Lee will be joining the Group as the new Group HR Director. Donna-Maria brings a wealth of experience from her previous senior roles within manufacturing, consumer and corporate functions.

The Board would like to record its thanks to both Robert and Pippa for their significant contributions to the development of the Group and to wish them well for the future.

DIVIDENDS

The Board has declared an interim dividend of 2p per share payable on 5 October 2018 to shareholders registered on the record date 14 September 2018.

CORPORATE DEVELOPMENTS

Anglia Crown Limited, a non-core business focusing on the provision of frozen and chilled meals to hospitals and care homes, was sold to its management team in July. This business contributed less than 1% of the Group's total revenue in financial year 2017.

OUTLOOK

Looking ahead, we continue to remain cautious and anticipate little change in underlying economic and market trends. In particular, input price volatility continues which may in turn impact consumer demand going forward. Despite these pressures, our scale, passion for food and close partnerships with our customers leave us well placed and our expectations for the full year remain unchanged.

OPERATIONAL REVIEW

Group Overview

£ million	H1 2018	H1 2017	Change
Group revenue	910.4	903.3	+0.8%
Like-for-like revenue	910.1	885.7	+2.8%
Adjusted EBITDA	78.6	77.7	+1.2%
Adjusted EBITDA margin	8.6%	8.6%	-
Free cash flow	32.4	30.2	+7.3%

Bakkavor delivered a positive performance during the first six months of the year, as the core strength of the business enabled the Group to deliver further growth. Our strategy continues to focus on building long-term sustainable growth in the UK, the US and China, and driving further improvements in operational efficiencies.

United Kingdom

£ million	H1 2018	H1 2017	Change
Revenue	816.6	816.9	-
Like-for-like revenue	810.4	799.3	1.4%
Adjusted EBITDA	74.5	74.0	0.7%
Adjusted EBITDA margin	9.1%	9.1%	-

The UK is Bakkavor's largest market, representing almost 90% of Group revenue. Long term macro trends remain attractive with consumers continuing to look for fresh, healthy and convenient choices from the chilled food market. However, growth this year has been impacted by retail price inflation and fairly subdued consumer demand. Against this backdrop, our scale, agility and breadth makes us a strong partner for our customers, working together to drive growth across our categories.

In the current economic environment, the business delivered a good performance in the period, with like-for-like revenue growth of 1.4%. After a relatively slow start to the year, volumes started to increase from April as expected. There has also been some benefit from pricing in this period, given the inflationary environment which began in the latter part of 2016, with recovery in line with historical levels.

In a period which included a Royal Wedding, the World Cup and extremes in weather, our experience managing our supply chain and our manufacturing flexibility were critical in successfully handling short term volatility in demand. For example, helped by recent investments in capacity and process, we were able to supply almost 10 million pizzas in the four weeks of the World Cup. In addition, our strength in consumer insight and commitment to innovation supported the launch of an exciting new range of vegan meals, and our scale and breadth meant that we were able to work with a key customer in refreshing almost 250 of our products across multiple categories as part of a major relaunch of their own label offering.

Pressure has continued across our cost base. Following significant raw material inflation in 2017, prices in most categories, particularly dairy, have continued to rise, and at a faster rate than anticipated at the start of the year. The scale and expertise of our procurement team has enabled us to minimise the impact of these increases, secure longer term supply where appropriate and benefit from our long term strategic relationships with suppliers.

Labour costs continue to rise, driven by further increases in the national living wage and a step-up in pension auto enrolment costs. We have offset much of the impact through our continued focus on generating productivity and efficiency benefits across our businesses. We are also focusing on lowering employee turnover rates which minimises recruitment costs and operational disruption. Furthermore, our capital investment plans also target efficiency benefits through numerous automation projects across the manufacturing and packing process.

Overall, with the benefit of improving volumes, a tight control of overheads and further productivity efficiencies, margins were maintained at 9.1% with adjusted EBITDA rising by £0.5 million to £74.5 million.

We continue to invest in a wide range of capital projects across the business. The investment in further capacity at our desserts site in Newark remains on track as we capitalise on the ongoing consolidation in the category. This will also extend our capabilities allowing us to develop new and innovative desserts for our customers. Elsewhere, our focus on efficiency has seen the continued rollout of an updated warehouse management system across the businesses, as well as a new costing and analysis application to support our product development teams.

International

£ million	H1 2018	H1 2017	Change
Revenue	93.8	86.4	8.6%
Like-for-like revenue	99.7	86.4	15.4%
Adjusted EBITDA	4.1	3.7	10.8%
Adjusted EBITDA margin	4.4%	4.3%	10 bps

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

Both international businesses reported strong growth in the period, with like-for-like revenues increasing by 15.4%, driven by increased volumes across our largest customers. On a reported basis, revenues grew by 8.6% to £93.8 million (H1 2017: £86.4 million), impacted by the strength in sterling in the period compared to the prior year.

After a year of relatively modest growth in 2017, our US business delivered a significant improvement in trading supported by particularly strong growth in the sale of burritos and ready meals with our two largest customers. The trend towards fresh prepared food is moving at pace within the US grocery market and this, together with the growth of a broader private label offering, continues to offer further opportunities for the Group. To capitalise on this, our major investment in a dedicated new factory for a key customer in Texas remains on track and is scheduled to start limited production later this year as planned.

In China, once again we delivered strong growth, driven by the rapid expansion of our customers' store and restaurant portfolios and the introduction of a wide range of new products. Working closely with their colleagues in the UK, our Chinese development teams continue to focus on differentiating the quality of our offering. For example, our new bread facility near Shanghai has allowed us to make a step change in the quality of our sandwich offering as well as providing the benefits of vertical integration. Our new state of the art factory in Haimen, East China, will also be operational in Q4 and will provide much needed capacity in this fast-growing region.

Adjusted EBITDA increased by 10.8% to £4.1 million (H1 2017: £3.7 million), with the efficiency benefits of higher volumes more than offsetting inflationary pressures on the cost base. This resulted in margins increasing by 10 bps to 4.4%.

FINANCIAL REVIEW

Revenue

Revenue increased by £7.1 million, or 0.8% from £903.3 million in H1 2017, to £910.4 million in H1 2018 due to the impact of businesses closed and sold, and the strengthening of sterling which partly offset the like-for-like growth in the period.

Like-for-like revenue increased by 2.8%, from £885.7 million in H1 2017, to £910.1 million in H1 2018. This increase was due to good growth in the Group's operating segments, as described below.

UK

In the UK segment, revenue decreased by £0.3 million, from £816.9 million in H1 2017 to £816.6 million in H1 2018.

Like-for-like revenue, which excludes our Melrow Salads business that was closed in November 2017 and the Anglia Crown business which was sold in July 2018, increased by 1.4% from £799.3 million in H1 2017 to £810.4 million in H1 2018. This increase in revenue was primarily due to good volume growth in the second quarter and there was some benefit in the period from price increases agreed with customers in response to further raw material inflation in the period.

International

In the International segment, revenue increased by £7.4 million, or 8.6%, to £93.8 million in H1 2018 from £86.4 million in H1 2017 as the strengthening of sterling partly offset the like-for-like growth in the period.

Like-for-like revenue grew by 15.4%, from £86.4 million in H1 2017, to £99.7 million in H1 2018. The increase in like-for-like revenues was primarily due to strong growth in both the US and China, where sales volumes increased with all key customers due to new store openings and the introduction of new product ranges.

Adjusted EBITDA

Adjusted EBITDA increased by £0.9 million, or 1.2%, from £77.7 million in H1 2017 to £78.6 million in H1 2018 with the margin flat at 8.6%. This increase was primarily due to the Group's continued focus on cost control and productivity improvements as volume benefits were largely offset by the impact of further inflationary pressures in the period.

Exceptional items

Included within administrative costs are exceptional items as follows:

£ million	H1 2018	H1 2017
Restructuring costs	-	3.5
New site costs	3.2	0.6
	3.2	4.1

H1 2018

The Group has incurred exceptional costs of £3.2 million in the period, all of which relates to initial start-up costs for the opening of new sites in the US and China.

H1 2017

The restructuring costs of £3.5 million in the period relates to the cost of closing a site in the UK and moving related operations to other sites. The remaining exceptional costs relate to the Group's US business in respect of initial start-up costs for a new factory.

Operating profit

Operating profit decreased by £0.5 million, or 0.9%, from £54.6 million in H1 2017 to £54.1 million in H1 2018 with margins decreasing by 10 basis points to 5.9%. This decrease was due to the improvement in trading performance being offset by an increase in depreciation following the completion of a number of capital projects across the business.

The operating profit for the UK segment increased by £2.0 million in the year from £53.6 million in H1 2017 to £55.6 million in H1 2018. Operating profit for H1 2017 was after £3.5 million of restructuring costs.

For the International segment, operating profit/loss moved by £2.5 million from £1.0 million profit in H1 2017 to a loss of £1.5 million in H1 2018 due to a year-on-year increase in initial start-up costs for the opening of new sites of £2.6 million.

Finance costs

Finance costs decreased by £20.3 million, from £27.0 million in H1 2017 to £6.7 million in H1 2018. The decrease is a result of the lowering of the Group cost of debt to 3.5% following the refinancing completed in March 2017 and lower average debt levels in 2018. In addition H1 2017 costs included a call premium of £9.9 million in respect of the early redemption of the 2020 Senior Secured Notes and £3.3 million for the accelerated amortisation of refinancing fees in relation to the previous debt facilities.

Other gains and losses

Other gains and losses decreased by £19.1 million, from a loss of £19.4 million in H1 2017, to a loss of £0.3 million in H1 2018. This was primarily due to a £17.2 million non-cash loss included in H1 2017 which, following redemption of the Notes in that period, reversed previous gains on the fair value of the call option within the 2020 Senior Secured Notes.

Tax

The tax charge for the period increased by £5.7 million, from £0.9 million in H1 2017 to £6.6 million in H1 2018. Excluding the impact of exceptional costs in the period, the tax charge on underlying activities for H1 2018 is £7.2 million and broadly in line with the charge for H1 2017.

The effective tax rate on underlying activities is 14.3% for H1 2018 compared to 17.1% for H1 2017. The rate is lower due to an overall increase in the value of the deferred tax asset held in respect of tax losses in the US and Belgium, and the H1 2018 rate is in line with previous guidance for the year of between 14% and 15%.

Earnings per share

Profit for the period increased by £33.2 million, from £7.3 million in H1 2017 to £40.5 million in H1 2018 with basic earnings per share increasing from 1.4p for H1 2017 to 7.0p in H1 2018.

Excluding the impact of exceptional items and refinancing costs in both years, adjusted earnings for the period have increased by £7.7 million to £43.1 million. Adjusted earnings per share has increased to 7.4p in H1 2018 from 6.8p in H1 2017 which reflects the improvement in underlying trading for the business in the year and a lowering of finance costs following the refinancing in March 2017.

The weighted average number of shares for H1 2018 was 579.4 million compared with 523.9 million for H1 2017, after adjusting for the 5 for 1 share split that took place in November 2017 in advance of the public listing.

Cash flow and debt

Free cash flow for H1 2018 of £32.4 million was £2.2 million higher than H1 2017 which reflects the strong cash generation of the business. There was a £8.3 million increase in working capital outflows in the half year due to short term phasing but this was more than offset by the £10.5 million reduction in interest costs following the refinancing in March 2017. Core capex of £22.5 million in the period was in line with the same period in 2017. The free cash generated was largely offset by £29.1 million of payments for development projects in the UK, US and China as outlined in the public listing prospectus in November 2017.

Overall this has resulted in a £0.9 million increase in operational net debt to £271.4 million since the year end. Leverage (the ratio of operational net debt to Adjusted EBITDA for a rolling twelve month period) was 1.8 times at the end of June 2018, in line with December 2017 and 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.

Pensions

Under the IAS 19 valuation principles that are required to be used for accounting purposes the Group recognised a surplus of £11.9 million for the UK defined benefit scheme as at 30 June 2018 (30 December 2017: £5.2 million). The increase in the surplus is largely due to an increase in the discount rates used to calculate the future liabilities.

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 £4.5 million payable for the year ended 31 March 2018 and £3.5 million for the year ending 31 March 2019.

Principal risks and uncertainties

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

The key areas of potential risk identified in the Group's 2017 Annual Report and Accounts are:

- Food safety and integrity;
- Raw material costs;
- Customer concentration;
- Labour scarcity and costs;
- IT systems/cyber risk;
- Health and safety and the environment;
- Loss of key employees;
- Exchange rate; and
- Liquidity and covenant compliance.

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

These risks are carefully monitored and managed, and further details are set out on pages 21 to 25 of the 2017 Annual Report and Accounts which is available on the Bakkavor Group plc website: <https://www.bakkavor.com/>

Related party transactions

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

Condensed consolidated income statement

		26 weeks ended 30 June 2018 (Unaudited)			26 weeks ended 1 July 2017 (Unaudited)		
£ million	Notes	Underlying activities	Other items (note 4)	Total	Underlying activities	Other items (note 4)	Total
Continuing operations							
Revenue	3	910.4	-	910.4	903.3	-	903.3
Cost of sales		(664.8)	-	(664.8)	(659.4)	-	(659.4)
Gross profit		245.6	-	245.6	243.9	-	243.9
Distribution costs		(37.7)	-	(37.7)	(38.4)	-	(38.4)
Other administrative costs		(150.9)	(3.2)	(154.1)	(147.1)	(4.1)	(151.2)
Share of results of associates		0.3	-	0.3	0.3	-	0.3
Operating profit/(loss)		57.3	(3.2)	54.1	58.7	(4.1)	54.6
Finance costs	5	(6.7)	-	(6.7)	(13.8)	(13.2)	(27.0)
Other gains and (losses)	6	(0.3)	-	(0.3)	(2.2)	(17.2)	(19.4)
Profit/(loss) before tax		50.3	(3.2)	47.1	42.7	(34.5)	8.2
Tax		(7.2)	0.6	(6.6)	(7.3)	6.4	(0.9)
Profit/(loss) for the period attributable to equity holders of the parent company		43.1	(2.6)	40.5	35.4	(28.1)	7.3
Earnings per share							
Basic	7			7.0p			1.4p
Diluted	7			6.9p			1.4p

Condensed consolidated statement of comprehensive income

£ million	26 weeks ended 30 June 2018 (Unaudited)	26 weeks ended 1 July 2017 (Unaudited)
Profit for the period	40.5	7.3
Other comprehensive income/(expense)		
Items that will not be reclassified to the income statement:		
Actuarial gain on defined benefit pension schemes	5.0	5.7
Tax relating to components of other comprehensive income	(0.9)	(1.0)
	4.1	4.7
Items that may subsequently be reclassified to the income statement:		
Exchange differences on translation of foreign operations	3.7	(4.2)
Total other comprehensive income	7.8	0.5
Total comprehensive income	48.3	7.8

Condensed consolidated statement of financial position

£ million	Notes	30 June 2018 (Unaudited)	30 December 2017 (Audited)
Non-current assets			
Goodwill	8	648.3	647.2
Other intangible assets		2.5	2.6
Property, plant and equipment	9	370.9	337.5
Interests in associates		12.0	12.0
Other investments		0.1	0.1
Deferred tax asset		7.4	3.2
Retirement benefit asset		11.9	5.2
Derivative financial instruments		0.1	0.1
		1,053.2	1,007.9
Current assets			
Inventories	10	52.1	54.8
Trade and other receivables	11	165.2	147.9
Cash and cash equivalents	13	19.7	20.9
Derivative financial instruments		0.5	1.6
		237.5	225.2
Total assets		1,290.7	1,233.1
Current liabilities			
Trade and other payables	12	(396.2)	(393.4)
Current tax liabilities		(6.5)	(3.7)
Borrowings	13	(4.1)	(2.3)
Provisions		(2.4)	(3.1)
Derivative financial instruments		-	(0.6)
Deferred income		(0.7)	(0.7)
		(409.9)	(403.8)
Non-current liabilities			
Trade and other payables	12	(0.4)	(0.4)
Borrowings	13	(285.4)	(285.2)
Provisions		(14.4)	(14.6)
Derivative financial instruments		-	(0.2)
Deferred tax liabilities		(19.2)	(16.6)
Deferred income		(1.8)	(2.2)
		(321.2)	(319.2)
Total liabilities		(731.1)	(723.0)
Net assets		559.6	510.1

Condensed consolidated statement of financial position (continued)

£ million		30 June 2018 (Unaudited)	30 December 2017 (Audited)
Equity			
Share capital	14	11.6	11.6
Share premium	14	-	366.1
Merger reserve		(130.9)	(130.9)
Translation reserve		29.8	26.1
Retained earnings		649.1	237.2
Total equity		559.6	510.1

Condensed consolidated statement of changes in equity

£ million	Equity attributable to equity holders of the Company						Total
	Share capital	Share premium	Merger reserve	Capital reserve	Translation reserve	Retained earnings	
Balance at 1 January 2017 (Audited)	1.0	-	54.9	98.8	33.7	190.4	378.8
Profit for the period	-	-	-	-	-	7.3	7.3
Other comprehensive income/ (expense) for the period	-	-	-	-	(4.2)	4.7	0.5
Total comprehensive income/(expense) for the period	-	-	-	-	(4.2)	12.0	7.8
Balance at 1 July 2017 (Unaudited)	1.0	-	54.9	98.8	29.5	202.4	386.6
Balance at 31 December 2017 (Audited)	11.6	366.1	(130.9)	-	26.1	237.2	510.1
Profit for the period	-	-	-	-	-	40.5	40.5
Other comprehensive income/ (expense) for the period	-	-	-	-	3.7	4.1	7.8
Total comprehensive income for the period	-	-	-	-	3.7	44.6	48.3
Cancellation of Share premium account (note 14)	-	(366.1)	-	-	-	366.1	-
Credit for share-based payments	-	-	-	-	-	1.2	1.2
Balance at 30 June 2018 (Unaudited)	11.6	-	(130.9)	-	29.8	649.1	559.6

Condensed consolidated statement of cash flows

£ million	Notes	26 weeks ended 30 June 2018 (Unaudited)	26 weeks ended 1 July 2017 (Unaudited)
Net cash generated from operating activities	15	50.0	34.5
Investing activities			
Dividends received from associates		0.6	0.4
Purchases of property, plant and equipment		(51.6)	(24.2)
Proceeds on disposal of property, plant and equipment		-	1.7
Net cash used in investing activities		(51.0)	(22.1)
Financing activities			
Increase in borrowings		-	405.0
Repayments of borrowings		-	(401.9)
Repayments of obligations under finance leases		(0.3)	(0.4)
Net cash (used in)/ generated from financing activities		(0.3)	2.7
Net (decrease)/increase in cash and cash equivalents		(1.3)	15.1
Cash and cash equivalents at beginning of period		20.9	22.5
Effect of foreign exchange rate changes		0.1	(0.5)
Cash and cash equivalents at end of period		19.7	37.1

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General information

Description of business

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. 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.

The information for the 26 weeks ended 30 June 2018 and 26 weeks ended 1 July 2017 is unaudited and does not constitute statutory accounts within the meaning of s435 (1) and (2) of the Companies Act 2006. These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting'. The condensed consolidated interim statement of financial position as at 30 December 2017 has been derived from the consolidated statement of financial position included in the Group's financial statements for the 52 weeks ended 30 December 2017, a copy of which has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include any reference to any matters to which the auditors drew attention by way of emphasis without qualifying the report and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

This financial information does not include all of the information and disclosure required in the annual consolidated financial statements and should be read in conjunction with the Bakkavor Group plc (the "Group") annual financial statements for the 52 weeks ended 30 December 2017, which have been 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 condensed financial statements.

IFRS 9 *Financial Instruments*

IFRS 9 *Financial Instruments* addressed 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. The adoption of IFRS 9 will impact both the recognition and disclosure of the Group's financial instruments but at this time it is not practical to quantify the future impact as further work is required to be conducted to complete the review and complete the assessment.

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 preliminary assessment is that the adoption of IFRS 15 will have no material 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. Further work is still required to complete the assessment in particular around variable consideration. Some contracts with customers offer discounts or volume rebates and the Group will review such arrangements to assess whether there is an impact on the timing of recognition of such variable consideration under 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. Furthermore, it is expected that operating profit will increase alongside an increase in finance costs resulting from the unwind of the lease liability. Assessments of the impact of IFRS 16 are ongoing and therefore it is not practicable to provide a quantification of the impact on the Financial Statements. Details of the Group's operating lease arrangements are included in Note 35 of the 2017 Annual Report.

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. The Directors have also considered the Group's level of available liquidity under its financing arrangements and consider that adequate headroom is available based on the forecasted cash requirements of the business.

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

3. Segment information

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

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

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

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' as defined in Note 18.

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

£ million	UK	International	Total
Revenue	816.6	93.8	910.4
Adjusted EBITDA	74.5	4.1	78.6
Depreciation	(17.7)	(2.3)	(20.0)
Amortisation	-	(0.2)	(0.2)
Exceptional items	-	(3.2)	(3.2)
Share scheme charges	(1.2)	-	(1.2)
Loss on disposal of property, plant and equipment	-	(0.2)	(0.2)
Share of results of associates	-	0.3	0.3
Operating profit/(loss)	55.6	(1.5)	54.1
Finance costs			(6.7)
Other gains and (losses)			(0.3)
Profit before tax			47.1
Tax			(6.6)
Profit for the period			40.5

3. Segment information (continued)

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

£ million	UK	International	Total
Revenue	816.9	86.4	903.3
Adjusted EBITDA	74.0	3.7	77.7
Depreciation	(16.6)	(2.0)	(18.6)
Amortisation	(0.1)	(0.3)	(0.4)
Exceptional items	(3.5)	(0.6)	(4.1)
Loss on disposal of property, plant and equipment	(0.2)	(0.1)	(0.3)
Share of results of associates	-	0.3	0.3
Operating profit	53.6	1.0	54.6
Finance costs			(27.0)
Other gains and (losses)			(19.4)
Profit before tax			8.2
Tax			(0.9)
Profit for the period			7.3

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. Underlying performance is 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 and it excludes items that are considered not to arise directly from trading activities.

Other items include exceptional items, expenses relating to the refinancing of debts and fair value adjustments relating to items, which are considered significant in nature and are important to users in understanding the business.

Included within Other administrative costs are exceptional items.

Other administrative costs

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

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Restructuring costs	-	3.5
New site costs	3.2	0.6
	3.2	4.1

The Group has incurred exceptional costs of £3.2 million in the period, all of which relates to initial start-up costs for the opening of new sites in the US and China.

Of the exceptional costs of £4.1 million in 2017, £3.5 million relates to the cost of closing a site in the UK and moving related operations to other sites. The remaining exceptional cost of £0.6 million related to the Group's International segment in respect of initial start-up costs for the opening of a new site in the US.

5. Finance costs

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Interest on borrowings	6.2	12.7
Interest on obligations under finance leases	0.1	0.1
Amortisation of refinancing costs	0.7	4.2
Call premium on redemption of Senior Secured Notes	-	9.9
Unwind of discount on provisions	0.2	0.1
	7.2	27.0
Less: amounts included in the cost of qualifying assets	(0.5)	-
	6.7	27.0

In 2017 the call premium of £9.9 million and the £3.3 million of accelerated amortisation of refinancing costs (included in the £4.2 million above) relating to the redemption of the 2018 and 2020 Senior Secured Notes have been classed as other items in the condensed 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 2.7% to expenditure on such assets.

6. Other gains and (losses)

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Foreign exchange losses	-	(1.3)
Change in fair value of derivative financial instruments	(0.3)	(0.9)
Change in fair value of call option	-	(17.2)
	(0.3)	(19.4)

Other gains and (losses) for the 26 weeks ended 1 July 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 condensed 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	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Profit attributable to equity shareholders of the Company	40.5	7.3

Number of shares

'000	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Weighted average number of Ordinary shares	579,426	523,870
Effect of potentially dilutive Ordinary shares	3,552	-
Weighted average number of Ordinary shares for diluted earnings per share	582,978	523,870

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.

	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Basic earnings per share	7.0p	1.4p
Diluted earnings per share	6.9p	1.4p

8. Goodwill

£ million

At 1 January 2017	651.5
Exchange rate difference during the period	(2.4)
At 1 July 2017	649.1
At 31 December 2017	647.2
Exchange rate difference during the period	1.1
At 30 June 2018	648.3

9. Property, plant and equipment

£ million

At 1 January 2017	304.5
Additions	25.8
Disposals	(2.0)
Depreciation charge for the period	(18.6)
Exchange rate difference during the period	(1.2)
At 1 July 2017	308.5
At 31 December 2017	337.5
Additions	52.2
Disposals	(0.2)
Depreciation charge for the period	(20.0)
Exchange rate difference during the period	1.4
At 30 June 2018	370.9

Additions in the 26 weeks ended 30 June 2018 include £29.1 million in respect of development projects.

10. Inventories

£ million	30 June 2018	30 December 2017
Raw materials and packaging	44.0	47.4
Work-in-progress	1.8	1.7
Finished goods	6.3	5.7
	52.1	54.8

11. Trade and other receivables

£ million	30 June 2018	30 December 2017
Amounts receivable from trade customers	131.7	120.8
Allowance for doubtful debts	(2.2)	(1.5)
Net amounts receivable from trade customers	129.5	119.3
Other receivables	18.3	19.1
Prepayments	17.4	9.5
Trade and other receivables due within one year	165.2	147.9

12. Trade and other payables

£ million	30 June 2018	30 December 2017
Trade payables	221.7	209.0
Other payables	31.2	31.4
Accruals	143.7	153.4
	396.6	393.8
Less amounts due after one year:		
Other payables	(0.4)	(0.4)
Trade and other payables due within one year	396.2	393.4

13. Net debt

£ million	30 June 2018	30 December 2017
Analysis of net debt		
Cash and cash equivalents	19.7	20.9
Interest accrual	(3.1)	(1.5)
Finance leases	(1.0)	(0.8)
Total debt due within one year	(4.1)	(2.3)
Borrowings	(287.5)	(287.5)
Unamortised fees	4.7	5.4
Finance leases	(2.6)	(3.1)
Total debt due after one year	(285.4)	(285.2)
Statutory net debt	(269.8)	(266.6)

Statutory net debt is the net 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.

14. Share capital and share premium

Issued share capital as at 30 June 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.

15. Notes to the condensed consolidated statement of cash flows

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Operating profit	54.1	54.6
Adjustments for:		
Share of results of associates	(0.3)	(0.3)
Depreciation of property, plant and equipment	20.0	18.6
Amortisation of intangible assets	0.2	0.4
Loss on disposal of property, plant and equipment	0.2	0.3
Share scheme charges	1.2	-
Net retirement benefits charge less contributions	(1.7)	(1.0)
Operating cash flows before movements in working capital	73.7	72.6
Decrease in inventories	2.7	3.8
(Increase)/decrease in receivables	(17.8)	19.2
Increase/(decrease) in payables	2.5	(24.4)
Decrease in provisions	(1.0)	(0.2)
Cash generated by operations	60.1	71.0
Income taxes paid	(5.8)	(5.6)
Interest paid	(4.3)	(30.9)
Net cash generated from operating activities	50.0	34.5

16. Retirement benefits scheme

An actuarial valuation of scheme assets and the present value of the defined benefit obligation for funding purposes was carried out as at 31 March 2016. The results were updated for IAS 19 'Employee Benefits' purposes to 30 June 2018 by a qualified independent actuary with Willis Towers Watson.

17. Events after the statement of financial position date

On 2 July 2018 the Group completed the sale of Anglia Crown Limited, a non-core business, to its management.

18. Alternative performance measures

The Group uses various non-IFRS financial measures to help 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 and it excludes items that are considered not to arise directly from 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 adjusts for the effects of any acquisitions, disposals, closures and currency fluctuations, thereby allowing for a more meaningful comparison of trends from period to period.

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

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	% change
Statutory revenue	910.4	903.3	0.8%
Revenue from closed and sold businesses	(6.2)	(17.6)	
Effect of currency movements	5.9	-	
Like-for-like revenue	910.1	885.7	2.8%

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

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	% change
Statutory revenue	816.6	816.9	-
Revenue from closed and sold businesses	(6.2)	(17.6)	
Like-for-like revenue	810.4	799.3	1.4%

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

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017	% change
Statutory revenue	93.8	86.4	8.6%
Effect of currency movements	5.9	-	
Like-for-like revenue	99.7	86.4	15.4%

18. 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 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 sets forth a reconciliation from the Group's Operating profit to Adjusted EBITDA.

£ million	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Operating profit	54.1	54.6
Depreciation	20.0	18.6
Amortisation	0.2	0.4
EBITDA	74.3	73.6
Exceptional items	3.2	4.1
Share scheme charges	1.2	-
Loss on disposal of property, plant and equipment	0.2	0.3
Share of results of associates	(0.3)	(0.3)
Adjusted EBITDA	78.6	77.7

18. 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 sets out the reconciliation from the Group's statutory net debt to the Group's operational net debt.

£ million	30 June 2018	30 December 2017
Statutory net debt	(269.8)	(266.6)
Unamortised fees	(4.7)	(5.4)
Interest accrual	3.1	1.5
Operational net debt	(271.4)	(270.5)
Adjusted EBITDA (last 12 months)	153.5	152.6
Leverage (Operational net debt/Adjusted EBITDA)	1.8	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	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Net cash generated from operating activities	50.0	34.5
Dividends received from associates	0.6	0.4
Purchases of property, plant and equipment	(51.6)	(24.2)
Purchases of property, plant and equipment relating to development projects	29.1	-
Proceeds on disposal of property, plant and equipment	-	1.7
Cash impact of exceptional items	4.3	1.5
Refinancing costs	-	16.3
Free cash flow	32.4	30.2

18. 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 condensed 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	26 weeks ended 30 June 2018	26 weeks ended 1 July 2017
Profit attributable to equity shareholders of the Company	40.5	7.3
Exceptional items	3.2	4.1
Finance costs	-	13.2
Change in fair value of call option	-	17.2
Tax on the above items	(0.6)	(6.4)
Adjusted earnings	43.1	35.4
Add back: Tax on underlying activities	7.2	7.3
Adjusted profit before tax	50.3	42.7
Effective tax rate on underlying activities (Tax on underlying activities/Adjusted profit before tax)	14.3%	17.1%
Number 000's		
Weighted average number of Ordinary shares	579,426	523,870
Effect of dilutive Ordinary shares	3,552	-
Weighted average number of Ordinary shares for diluted earnings per share	582,978	523,870
Adjusted basic earnings per share	7.4p	6.8p
Adjusted diluted earnings per share	7.4p	6.8p

Statement of Directors' responsibilities

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

The Board of Directors that served during the six months ended 30 June 2018, and their respective responsibilities, can be found on pages 38 and 39 of the 2017 Annual Report & Accounts. In addition, Jane Lodge was appointed to the Group Board as an Independent Non-executive Director and Chair of the Audit Committee on 3 April 2018.

This responsibility statement has been approved by the Directors of the Company ("the Group Board") and signed on its behalf on 5 September 2018 by:

Agust Gudmundsson
CEO

Peter Gates
CFO

INDEPENDENT REVIEW REPORT TO BAKKAVOR GROUP PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 30 June 2018 which comprises the condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of changes in equity, condensed consolidated statement of cash flow and related notes 1 to 18. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Bakkavor Group plc are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor
Deloitte LLP
1 New Street Square
London
EC4A 3BZ

5 September 2018