7 September 2022

Bakkavor Group plc

Robust first half performance, full year outlook in line with expectations

Bakkavor Group plc (the "Company") and its subsidiaries ("Bakkavor" or "the Group"), the leading international provider of fresh prepared food ("FPF"), today announces its unaudited half year results for the 26-week period ended 25 June 2022.

Robust trading performance and in a position of financial strength

- Strong revenue momentum; reported revenue up 10.3% to £1,010.2m, like-for-like revenue[1] up 9.2% on a constant currency basis to £1,000.2m
- Adjusted operating profit[1] of £42.5m, down 9.5%, (H1 2021 £47.0m); UK performance broadly in line with the prior period, while our international performance has been impacted by COVID-19 restrictions and inflation
- Leverage[1] maintained at 1.9 times within target range
- Basic earnings per share up 4.8% to 4.4p
- Interim dividend per share of 2.77p, up 5.0% on the prior period

Continuing progress, focused on successfully navigating macro uncertainties and inflationary headwinds

- UK revenue up by 7.9%, primarily led by price increases, with volume growth outperforming the FPF market
- Successfully executed pricing and cost actions, along with productivity improvements, to mitigate significant levels of inflation and largely protected profitability in the UK
- Strong demand driving significant momentum in the US with like-for-like revenue up 34.6%, albeit a lag in inflation recovery and operational disruption from onboarding new business has held back margin
- China was severely impacted by COVID-19 restrictions from March, and whilst the environment remains uncertain, we are encouraged by the early signs of volume recovery
- Meaningful progress made within our Trusted Partner strategy; focus on building data to measure performance effectively and developing our roadmap to reach net zero by 2040

Full year outlook remains in line with market expectations[2]

- Revenue momentum has continued through July and August, with full year revenue expected to be in line with the upper end of market expectations[2]
- In the UK, our broad portfolio of products across categories and competitive price points positions us well to cater to consumers changing needs. We are confident of ongoing gains in our share of the FPF market, underpinned by a strong pipeline of launches
- In the US, sustained demand supports the continuation of our strong growth trajectory. We expect to see some margin improvement in H2 2022 as price recovery and efficiency improvements take effect
- In China, the government's zero-tolerance COVID-19 policy means the near-term outlook remains uncertain, but we are working closely with customers to drive growth in our categories as the market recovers
- We remain confident in delivering adjusted operating profit within the range of market expectations[2] for 2022, as we continue to focus on managing costs, price recovery and driving performance
- While significant levels of inflation and consumer spending headwinds are expected to persist in 2023, we remain well-placed to capitalise on our attractive, medium to long term opportunity

FINANCIAL SUMMARY

£ million (unless otherwise stated)	**H1 2022**	H1 2021	*Change*
Group revenue	1,010.2	915.7	*10.3%*
Like-for-like revenue[1]	1,000.2	915.7	*9.2%*
Adjusted EBITDA pre IFRS 16[1]	70.3	74.1	*(5.1)%*
Adjusted operating profit[1]	42.5	47.0	*(9.5)%*
Adjusted operating profit margin[1]	4.2%	5.1%	*(90)bps*
Operating profit	41.1	47.0	*(12.5)%*
Operating profit margin	4.1%	5.1%	*(100)bps*
Profit before tax	32.5	34.6	*(6.1)%*
Basic earnings per share	4.4p	4.2p	*0.2p*
Adjusted earnings per share[1]	4.6p	4.8p	*(0.2)p*
Free cash flow[1]	36.6	39.7	*(3.1)*
Operational net debt[1]	(290.1)	(324.5)	*34.4*
Interim dividend per share	2.77p	2.64p	*0.13p*

1. Alternative performance measures are referred to as 'like-for-like', 'adjusted', 'underlying' and are applied consistently throughout this document. These are defined in full and reconciled to the reported statutory measures in Note 21.
2. Based on company compiled consensus ("Consensus") which includes the following institutions; Berenberg, Citi, Goodbody, HSBC, Investec, Kepler, Numis and Peel Hunt. Revenue consensus range of £1,991m to £2,089m, with consensus at £2,034m. Operating profit consensus range for 2022 of £89.9m to £95.0m, with consensus at £92.0m. Last updated on 6 September 2022.

AGUST GUDMUNDSSON, CEO commented:

"Against a backdrop of macro uncertainties and inflationary headwinds, our operational delivery has been strong and we have continued to deliver for our customers. This, once again, demonstrates the continuing resilience of the Group, underpinned by the strength of our customer partnerships, supply chain management, scale and category leadership.

"We remain confident in our ability to deliver a full year performance in line with the range of market expectations as we continue to focus on managing costs, price recovery, and driving demand in our categories. The current geo-political uncertainty, however, will result in significant levels of inflation and consumer spending headwinds persisting through 2023.

"We remain well-placed to capitalise on our attractive, medium to long term opportunity, with strong foundations, an experienced team and the financial strength to enable targeted strategic investment to support growth, drive efficiency and deliver returns to shareholders."

Presentation

A copy of these results is available on www.bakkavor.com

We will be presenting to analysts via a webcast at 09.00 am, 7 September 2022, through the Investor section of the Group's website at: https://q4-emea.wavecast.io/bakkavor-earnings/half-year. The presentation can also be accessed via a replay service shortly after the presentation has concluded.

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About Bakkavor
We are the leading provider of fresh prepared food ("FPF") in the UK, and our presence in the US and China positions the Group well in these high-growth markets. We leverage our consumer insight and scale to provide innovative food that offers quality, choice, convenience, and freshness. Our c.19,000 colleagues operate from 46 sites across our three markets supplying a portfolio of over 3,200 products across meals, pizza & bread, salads and desserts to leading grocery retailers in the UK and US, and international food brands in China. Find out more at www.bakkavor.com and see our investor fact sheet here: Bakkavor-Group-PLC-Fact-Sheet-July-2022.pdf (q4cdn.com).

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Disclaimer – forward-looking statements

This statement, prepared by Bakkavor, may contain forward-looking statements about Bakkavor. These represent expectations for the Group's business, and involve known and unknown risks and uncertainties, many of which are beyond the Group's control. The Group has based these forward-looking statements on current expectations and projections about future events. These forward-looking statements may generally, but not always, be identified using words such as 'will', 'aims', 'anticipates', 'continue', 'could', 'should', 'expects', 'is expected to', 'may', 'estimates', 'believes', 'intends', 'projects', 'targets', or the negative thereof, or similar expressions, but their absence does not mean that a statement is not forward-looking.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may or may not occur in the future and reflect the Group's current expectations and assumptions as to such future events and circumstances that may not prove accurate. Several material factors could cause actual results and developments to differ materially from those expressed or implied by forward-looking statements. There may be risks and uncertainties that the Group is unable to predict at this time or that the Group currently does not expect to have a material adverse effect on its business. You should not place undue reliance on any forward-looking statements. These forward-looking statements are made as of the date of this announcement. None of the Company or any of its associates or Directors, officers or advisers provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. The Group expressly disclaims any obligation to publicly update or review these forward-looking statements other than as required by law. Some numbers and period on period percentages in this statement have been rounded or adjusted to ensure consistency with the financial information.

GROUP CHIEF EXECUTIVE'S REVIEW

A robust performance navigating current macro uncertainties and inflationary headwinds

In the first half, the Group delivered a robust performance against an increasingly challenging backdrop.

Revenue growth was strong, with like-for-like revenue[1] up 9.2% in H1 2022, reflecting double-digit volume growth in the US and price increases that accelerated through the period in the UK. This was partially offset by the impact on volumes in China from the severe COVID-19 related restrictions.

The geo-political environment has continued to impact the global economy, resulting in unprecedented cost pressures and supply chain disruption. The accelerating cost inflation we have experienced has been effectively managed. Inflation recovery through timely price increases and our disciplined cost control, along with operational efficiency improvements have helped to mitigate the impact on profitability. Whilst we have not been immune to the global supply chain challenges, which resulted in disruption across the group, we have continued to deliver high levels of customer service.

As a result, the UK delivered a robust performance, having broadly maintained its adjusted operating profit despite the anticipated dilutionary impact on margin from increased cost prices. Group operating profit, however, was held back by COVID-19 related restrictions in China and a lag in inflation recovery and disruption from onboarding new business in the US.

Despite the challenges in the first half, we have increased our market share in the UK and the Group is well-placed for the considerable growth and recovery opportunities in our US and Chinese markets respectively. We have good visibility of costs for the remainder of 2022, with contracts, pricing agreements and pass-through mechanisms in place, and we expect cost inflation to be 12% to 14% for the full year. Further, our balance sheet is in a strong position; we have maintained leverage within our target range and our liquidity headroom remains significant. The Bakkavor team are at the heart of our success, and I would like to extend my thanks for their continued hard work and commitment.

United Kingdom: *Robust trading performance and strong operational delivery*

£ million	H1 2022	H1 2021	Change
Revenue	**849.5**	787.5	7.9%
Like-for-like revenue[1]	**849.5**	787.5	7.9%
Adjusted operating profit[1]	**43.7**	44.0	(0.7)%
Adjusted operating profit margin[1]	**5.1%**	5.6%	(50)bps
Operating profit	**42.3**	44.0	(3.9)%
Operating profit margin	**5.0%**	5.6%	(60)bps

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

In the UK, like-for-like revenue grew by 7.9% driven by pricing in the wake of significant inflation across our cost base. The volume growth we delivered in the period outperformed the FPF market and enabled us to gain market share.

We have broadly held our Adjusted operating profit at £43.7 million (H1 2021 £44.0 million), through proactive management and recovery of ongoing cost inflation. However, this has had some dilutionary impact on adjusted operating profit margin. Due to a change in accounting policy, £1.4m of costs for software as a service ('SaaS') projects previously capitalised, were expensed in the period and have been excluded from Adjusted operating profit. There were no exceptional items in either period.

UK category review

The FPF market has started to see the impact of changes in consumer behaviour as the cost of living increases; shoppers are more carefully managing their budgets and visiting stores less frequently. Whilst desserts and pizza and bread volumes have been impacted by reduced discretionary spend and a pullback in promotions respectively, demand for meals remains robust and salads has continued to recover strongly, with food-to-go volumes back above pre-COVID-19 levels. The breadth of our product portfolio across categories, customers and price points has enabled us to succeed in this changing market and gain share in the first half.

We continued to drive consumers to our categories through innovation, with over 200 new products launched in the first half of the year. This included a new stir-fry range as part of a multi-category business win with a strategic customer, and we have also reviewed existing recipes to ensure they are cost effective whilst retaining their quality.

We have supported our desserts category through the strong performance of our *The Delicious Dessert Company* brand; we launched its range of eclairs with another customer and expanded the product range.

UK strategic and operational actions

Our operational delivery has been strong, with high levels of customer service and a good performance across food safety and health and safety metrics. We have worked hard to minimise the impact of persistent inflationary pressures and largely protected our profitability. This was achieved through a combination of cost price increases, via pass-through mechanisms and traditional pricing discussions, self-help actions to tightly manage costs and drive performance, and forward purchasing to lock-in prices.

We have not been immune to the well-publicised, global supply chain challenges, exacerbated in recent months by the conflict in Ukraine. We have seen some temporary disruption to supply, along with heightened costs, but have continued to work hard to minimise the impact on our business.

Across our workforce, we are seeing the benefit of our engagement efforts and rate of pay increases take effect. Levels of absence and vacancies have reduced from previously elevated levels. While labour availability has remained tight, our continued investment in productivity improvements and dynamic ways of working have helped to mitigate the impact. In particular, delivering on peak volumes for our customers through the summer period is reflective of these efforts; we transferred production of certain salads to meals sites, and completed investment at a salads site to increase capacity and efficiency, and reduce headcount requirements.

We have maintained tight control of capital spend while investing to maintain our infrastructure and enhance productivity. The returns from our investment in the 'smart' manufacturing system are delivering ahead of target, with implementation at the remaining five sites expected to complete by early 2023.

This roll-out is part of our broader focus on driving efficiency improvements and operational excellence across people, process and performance. This is based on robust data, standardising our ways of working, training and upskilling our people, and creating a culture of continual improvement. As part of this programme, the Board has approved investment in our bread site at Crewe to increase capacity and enhance operational efficiency.

Looking ahead, whilst we remain cautious about underlying volumes, we will continue to work in partnership with our customers to adapt to changes in consumer behaviour. Our broad portfolio of products across meal occasions and categories, along with the diversity of price points from value through to premium, means we are well placed to cater to consumers evolving needs.

As we have seen in prior recessionary periods, we expect to benefit as consumers trade down from eating out to purchasing meal equivalents in the supermarket. We remain committed to delivering value for our customers and our strong pipeline of launches is expected to deliver further gains in market share.

Managing our costs and driving performance remain our focus, ensuring we continue to deliver for our customers through this tough operating environment.

United States: ***Strong demand driving significant revenue momentum and capacity expansion***

£ million	H1 2022	H1 2021	Change
Revenue	**116.6**	81.3	43.4%
Like-for-like revenue[1]	**109.3**	81.3	34.6%
Operating profit	**3.1**	4.5	(32.1)%
Operating profit margin	**2.6%**	5.5%	(290)bps

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

Significant revenue momentum within our US business has continued, with like-for-like revenue up 34.6% to £109.3 million. Strong volume growth was driven by the supply of fresh meals to our strategic customers, with this category comprising over 50% of revenue.

Operating profit was down by £1.4 million to £3.1 million in H1 2022 due to intensifying input cost inflation and a lag in pricing recovery. Temporary operational disruption, as higher volumes were on-boarded, also impacted margin. More positively, price increases started to come into effect towards the end of the period, and plans are now well-established to improve operating leverage.

US strategic and operational actions

Demand for our fresh prepared products remains strong and customers see our offering as a key differentiator to attract consumers to their stores. The national meals program launched last year with a strategic customer is delivering well and we launched 33 new products in the first half.

Inflationary headwinds across our cost base have remained acute and a 77% increase in the price of chicken, our largest ingredient, since January is having a material impact *(Source: Urner Barry Chicken Index)*. However, we have continued to engage with our customers on inflation recovery and successfully secured price increases towards the end of the period. In addition to price, we have used other levers to help mitigate inflationary pressure, such as alternative sourcing strategies and a heightened focus on operational efficiency, the benefit of which is expected to start to come through in the second half.

In common with the wider industry, labour availability remains a challenge, and we continue to be agile in our approach to attracting and retaining talent to our business. We have accelerated our recruitment process and reduced agency reliance, and also continued to invest in our central and sites teams to support our future growth.

There remains substantial growth potential in the US and we are seeing significant inbound interest from customers for our fresh, high-quality meals. We expect to see some margin improvement in H2 2022 as we remain focused on operational delivery, with improvement plans in place to drive margin across labour and materials, and price recovery takes effect. Strategic investment to further increase fresh meals capacity in our East and West Coast sites commenced in the period. This is part of a two-year programme of investment across our existing sites which we believe will provide capacity to deliver $500 million in revenue.

China: *COVID-19 driven headwinds; well-placed for recovery in an attractive market*

£ million	H1 2022	H1 2021	Change
Revenue	**44.1**	46.9	(6.0)%
Like-for-like revenue[1]	**41.4**	46.9	(12.0)%
Operating loss	**(4.3)**	(1.5)	(184.3)%
Operating loss margin	**(9.7%)**	(3.2%)	(650)bps

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

In China, regional COVID-19 related restrictions significantly impacted performance in the period, with like-for-like revenues down 12.0% to £41.4 million and an operating loss of £4.3 million. This compares to an operating loss of £1.5m in H1 2021.

China strategic and operational actions

Although the year started well, with good momentum in retail and office catering channels, the business was severely impacted when Shanghai and the surrounding cities went into lockdown from March 2022. Many of our customers were forced to close stores or saw a significant reduction in demand, and we temporarily closed our head office and bakery site. Lockdown restrictions started to ease from early June, and the external trading environment began to gradually improve thereafter.

Given the challenging operating environment, we focused on supporting our customers and our people, alongside protecting the business through tight cost control. While inflationary pressures have persisted, our strong relationships with suppliers have helped mitigate the impact.

Construction of our new site in Xi'an is complete. After a six month delay due to COVID-19, we received government approval to manufacture at this new site in June, and we expect to transfer production from our existing site by the end of 2022.

We remain cautious about the near-term outlook whilst the government's zero-tolerance COVID-19 policy remains in place, however, we are encouraged by the recovery in volumes seen since early June, as customer stores have reopened and mobility restrictions have eased. We expect the business to remain loss making at an operating profit level for 2022 as we navigate the post COVID-19 recovery. We believe the market remains highly attractive, and we are confident of delivering profitable and sustainable growth in the medium-term and beyond. Our customers are committed to their own growth plans, and we have a well-invested footprint ready to capitalise on this opportunity.

Developing our talent and culture

The skills and experience of our diverse workforce are key to the future growth of the Group, and we have continued to drive several initiatives across the business to enhance our employee value proposition, culture, and talent.

We launched campaigns to raise employee awareness of our new values and help embed these values to shape our culture. This included employee forum sessions with our workforce engagement director, which have been very positively received.

We have made good progress with developing our own talent through our early careers programme. We have more than doubled the size of our apprenticeship programme to 94 places (up from 44 last year), and we were pleased to be voted the leading company for Apprentices in the FMCG sector for the third year running, with our graduate programme awarded second place.

We have started to see positive trends across several of our people metrics as the benefit of our recruitment initiatives, along with our wider engagement efforts and rate of pay increases, are taking effect. The availability of people has increased, and vacancy levels have come down, with reduced absences seen in the UK and stable in the US.

Trusted Partner progress

Despite the challenging operating environment, we have made further progress on our Trusted Partner ESG strategy. In June we formed a separate ESG Committee, now decoupled from the Nomination Committee, to oversee progress in this area, which reports directly into the Group Board.

We remain focused on our climate change strategy, and we are developing a roadmap to achieve our commitment to reach Net Zero by 2040. Other areas of focus include food waste reduction, where we continue to deliver good progress, and the sustainability of our packaging, where we have removed over 148 tonnes of plastic with one customer alone through packaging changes. We are also continuing to develop the necessary data and processes to measure the performance of sustainability linked metrics more effectively.

We remain passionate about making Bakkavor an equal, inclusive and engaging workplace where everyone can thrive. To support gender equality within the organisation, we launched a female mentoring programme and remain a major sponsor of the Diversity and Inclusion in Grocery Programme, that aims to bring together FMCG businesses to deliver change.

Outlook

We remain confident in our ability to deliver within the range of market expectations for the full year. This is underpinned by our continued focus on managing costs, price recovery, driving demand in our categories and delivering high levels of service, working in close partnership with our customers and suppliers.

The current geo-political uncertainty, however, will result in significant levels of inflation and consumer spending headwinds persisting through 2023. We remain well placed to capitalise on our attractive, medium to long term opportunity, with strong foundations, an experienced team, and the financial strength to enable targeted strategic investment to support growth, drive efficiency and deliver returns to shareholders.

FINANCIAL REVIEW

Revenue

Reported revenue increased by £94.5 million, or 10.3%, from £915.7 million in H1 2021 to £1,010.2 million in H1 2022. Like-for-like revenue was up 9.2%, from £915.7 million in H1 2021 to £1,000.2 million in H1 2022. This increase was mainly driven by pricing, as the Group sought to recover increases in its cost base.

In the UK, reported and like-for-like revenue increased by 7.9%, or £62.0 million, from £787.5 million in H1 2021 to £849.5 million in H1 2022. This was primarily driven by price increases to mitigate the significant inflation seen across our cost base, and some volume growth.

In the US, reported revenue increased by 43.4%, or £35.3 million, from £81.3 million in H1 2021 to £116.6 million in H1 2022. £7.3 million of the increase was due to the strengthening of the Dollar in the period. Like-for-like revenue, which is at constant currency, increased by 34.6% from £81.3 million in H1 2021 to £109.3 million. This was driven by continued volume growth from our existing customers combined with pricing increases to partially offset raw material inflation.

In China, reported revenue decreased by 6.0%, or £2.8 million, from £46.9 million in H1 2021 to £44.1 million in H1 2022. Like-for-like revenue, which is at constant currency, decreased by 12.0%, or £5.5 million, from £46.9 million in H1 2021 to £41.4 million, with volumes heavily impacted by severe COVID-19 lockdown restrictions.

Operating profit

Operating profit for the period was £41.1 million, down £5.9 million, or 12.5% compared to H1 2021 with operating margins down 100 basis points at 4.1%

There were no exceptional items reported in H1 2022 or H1 2021. However, £1.4 million of costs incurred in the period associated with the configuration and customisation of software as a service ('SaaS') projects are treated as an adjusting item. Therefore, Adjusted operating profit decreased £4.5 million or 9.5% from £47.0 million in H1 2021 to £42.5 million. Adjusted operating margins were down 90 basis points to 4.2%.

In the UK, Adjusted operating profit in H1 2022 was £0.3 million lower than H1 2021 at £43.7 million. The US business reported Adjusted operating profit of £3.1 million, down £1.4 million on H1 2021, driven by the impact of the significant inflationary pressure on the cost base and a lag in pricing recovery. Operational challenges in the period have also affected short-term profitability in the US. China recorded an Adjusted operating loss of £4.3 million which was £2.8 million more than the prior period, due to the severe regional lockdowns, which heavily impacted volumes and reduced efficiency.

The decrease in operating profits in the UK and the US was driven by the impact of the significant inflationary pressure on the cost base. Whilst strict cost control has been applied and pricing actions have been implemented to protect profitability in the challenging environment, these actions lag inflationary cost increases and, therefore, margins have been negatively impacted.

Finance costs

Finance costs were £8.9 million in both H1 2022 and H1 2021. In 2021, the Group voluntarily repaid £37.5 million of its most expensive debt that was due to mature in June 2024. The reduced finance costs associated with the repayment of this debt have been partly offset by the impact of rising interest rates during H1 2022.

The Group closely monitors its interest rate exposure and has £150 million of fixed rate interest swaps in place until March 2024. In July 2022, the Group put in place a further £30 million of fixed rate interest swaps from March 2024 until March 2026. The Group's cost of debt is c.3.5% per annum.

Tax

The Group tax charge for the period was £7.0 million in H1 2022 (H1 2021: £10.0m). The £7.0 million charge represents an effective tax rate of 21.5% on profit before tax of £32.5 million, in line with the forecasted group annual effective tax rate. Excluding adjusting items and the change in fair value of derivative financial instruments, the underlying effective tax rate was 21.2% compared to the 27.7% underlying rate for the corresponding period last year.

The effective tax rate is 2.5% higher (H1 2021: 10.0%) than the UK statutory tax rate of 19% (H1 2021: 19%). The main item which increases the effective rate by 2.4% (H1 2021: 9.2%) is a deferred tax charge provided at a rate of 25%. This in line with the Government announcement that UK corporation tax will increase to 25% effective from 1 April 2023, being the rate at which timing differences are expected to reverse. This does not impact current taxes.

Earnings per share

Basic earnings per share increased by 0.2 pence, from 4.2 pence in H1 2021 to 4.4 pence in H1 2022. This is mainly due to the impact of a reduction in the effective tax rate in the current period more than offsetting the decrease in trading profits in H1 2022.

Adjusted earnings per share decreased by 0.2 pence from 4.8 pence in H1 2021 to 4.6 pence in H1 2022. This is calculated before costs associated with the configuration and customisation of software as a service ('SaaS') projects and the change in fair value of derivative financial instruments.

Cash flow

Net cash from operating activities, which is calculated before capital expenditure but after payments for exceptional items, increased by £2.2 million from £57.0 million in H1 2021 to £59.2 million in H1 2022. The Group achieved a higher cash inflow despite reduced operating profit through tight control of working capital. The Group's interest paid also decreased by £0.9 million to £8.2 million in H1 2022.

Net cash used in investing activities increased from £18.9 million in the prior period to £23.5 million in H1 2022. This was primarily due to an increase in capital expenditure, with spend starting to return to more normal levels in the first half of the year. This compares to H1 2021 when action was taken to limit spend to mitigate against the impact of COVID-19 restrictions in place at that time.

Net cash used in financing activities decreased by £18.4 million, from £40.0 million in H1 2021 to £21.6 million in H1 2022. This decrease reflects the repayment of borrowings the Group made in H1 2021 of £23.8 million, compared to a smaller repayment of £2.1 million in the current period. Included in the Group's financing cash outflow is £2.7 million relating to the purchase of the Group's own ordinary shares through an Employment Benefit Trust to satisfy share awards under the Group's share scheme plans.

Free cash flow for H1 2022, which is the key measure the Directors use to manage cash flow in the business, was an inflow of £36.6 million, a decrease of £3.1 million on the prior year due to the factors set out above.

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Operating profit	**41.1**	47.0
Depreciation and other non-cash items	**34.2**	34.6
Net retirement benefits charge less contributions	**(1.0)**	(1.0)
Working capital movements	**(3.7)**	(11.4)
Interest and tax paid	**(11.4)**	(12.2)
Net cash generated from operating activities	**59.2**	57.0
Purchases of property, plant and equipment	**(21.2)**	(18.9)
Purchases of intangible assets	**(2.3)**	-
Cash impact of exceptional items	**-**	0.7
Refinancing fees	**0.9**	0.9
Free cash flow	**36.6**	39.7

Debt and leverage

Since December 2021, operational net debt has reduced by £3.6 million to £290.1 million at the end of H1 2022. Leverage (the ratio of operational net debt to adjusted EBITDA) at June 2022 has been maintained at 1.9 times and remains within our medium term target range of 1.5 to 2.0 times. The Group's liquidity position remains strong, with significant liquidity headroom of over £195 million against facilities of £486 million, of which £430 million mature in March 2026. The Group continues to have comfortable headroom against all financial covenants.

Dividend

During the period the Group paid £22.8 million in respect of the final dividend for FY 2021.

The strength of our balance sheet and cash generation supports our long-term growth aspirations and commitment to increasing returns to shareholders, and we recognise the importance of a progressive dividend to our shareholders. The Board has, therefore, resolved to pay an interim dividend of 2.77 pence per Ordinary share, up 5.0% on the prior period. The interim dividend is expected to comprise approximately 40% of the total annual dividend. The interim dividend will be paid on 14 October 2022 to shareholders registered on the record date at 16 September 2022.

Going forward, the Board expects to maintain a progressive dividend policy over the medium term.

Investment and returns

The Group's ROIC for the 12 months to 25 June 2022 has been maintained at 7.2%, consistent with the 12 months to 25 December 2021. Despite a slight reduction in Adjusted operating profit before tax, the reduction in effective tax rate during 2022 increased Adjusted operating profit after tax in the current period. The Group has maintained tight control of capital spend and, therefore, invested capital which has limited the increase and avoided any erosion of ROIC.

Pensions

Under the IAS 19 valuation principles, the Group recognised a surplus of £37.4 million for the UK defined benefit scheme as at 25 June 2022 (26 December 2021: surplus of £37.2 million). The decrease in value of plan assets of c.£85m was almost exactly offset by a decrease in the defined benefit obligation of the same amount due to the liability hedging that is in place. The Group and the Trustee agreed in November 2020 the triennial valuation of the UK defined benefit pension scheme as at 31 March 2019. This resulted in a funding shortfall of £11.7 million, which will be paid over an agreed recovery period ending on 31 March 2024, with payments of £2.5 million per annum.

Capital allocation

We maintain a disciplined approach to capital allocation, with the overriding objective to enhance shareholder value. The allocation of capital is split across capital investment, reduction and maintenance of leverage, and dividends, with inorganic opportunities considered where they are a strategic fit for our business. In the medium-term, we remain committed to investing to enhance returns, maintaining leverage within the target range of 1.5 to 2.0 times, and a progressive dividend policy.

Principal Risks and Uncertainties

The principal risks and uncertainties facing the Group are set out on pages 72 to 86 of the 2021 Annual Report and Accounts, published on 18 March 2022, and remain unchanged as at 25 June 2022. These risks include, but are not limited to, consumer behaviour and demand, competitors, strategic growth and change programmes, reliance on a small number of key customers, food safety and integrity, health and safety, supply chain, availability, recruitment and retention of colleagues, Brexit disruption, COVID-19 pandemic, IT systems and cyber risk, climate change and sustainability, disruption to Group operations, treasury and pensions and legal and regulatory. The conflict in Ukraine has increased the pressure on global supply chains and further intensified cost inflation including energy costs, and whilst the Group continues to utilise levers to mitigate the impact, 'supply chain' and 'consumer behaviour and demand' risks are heightened.

Condensed Consolidated Income Statement

		26 weeks ended 25 June 2022 (Unaudited)			26 weeks ended 26 June 2021 (Unaudited)		
£ million	Notes	**Underlying activities**	**Exceptional items (Note 4)**	**Total**	Underlying activities	Exceptional items (Note 4)	Total
Continuing operations							
Revenue	3	**1,010.2**	**-**	**1,010.2**	915.7	-	915.7
Cost of sales		**(738.7)**	**-**	**(738.7)**	(645.1)	-	(645.1)
Gross profit		**271.5**	**-**	**271.5**	270.6	-	270.6
Distribution costs		**(42.1)**	**-**	**(42.1)**	(36.8)	-	(36.8)
Other administrative costs		**(188.4)**	**-**	**(188.4)**	(186.8)	-	(186.8)
Share of results of associates after tax		**0.1**	**-**	**0.1**	-	-	-
Operating profit		**41.1**	**-**	**41.1**	47.0	-	47.0
Finance costs	5	**(8.9)**	**-**	**(8.9)**	(8.9)	-	(8.9)
Other gains and (losses)	6	**0.3**	**-**	**0.3**	(3.5)	-	(3.5)
Profit before tax		**32.5**		**32.5**	34.6	-	34.6
Tax	7	**(7.0)**	**-**	**(7.0)**	(10.0)	-	(10.0)
Profit for the period		**25.5**	**-**	**25.5**	24.6	-	24.6
Earnings per share							
Basic	8			**4.4p**			4.2p
Diluted	8			**4.3p**			4.2p

Condensed Consolidated Statement of Comprehensive Income

£ million	**26 weeks ended 25 June 2022 (Unaudited)**	26 weeks ended 26 June 2021 (Unaudited)
Profit for the period	**25.5**	24.6
Other comprehensive income/(expense)		
Items that may be reclassified to the income statement:		
Exchange differences on translation of foreign operations	**13.8**	(4.4)
Gain on cash flow hedges	**6.4**	0.2
Tax relating to these items	**(2.0)**	-
Items that will not be reclassified to the income statement:		
Actuarial (loss)/gain on defined benefit pension schemes	**(0.7)**	16.0
Tax relating to these items	**0.2**	(4.0)
Total other comprehensive income net of tax	**17.7**	7.8
Total comprehensive income	**43.2**	32.4

Condensed Consolidated Statement of Financial Position

£ million	Notes	25 June 2022 (Unaudited)	25 December 2021 (Audited)
Non-current assets			
Goodwill	10	**654.3**	650.1
Other intangible assets		**3.9**	1.7
Property, plant and equipment	11	**556.7**	545.2
Interests in associates and other investments		**12.9**	11.8
Deferred tax asset		**9.9**	9.9
Retirement benefit asset		**37.4**	37.2
Derivative financial instruments		**6.5**	2.6
		1,281.6	1,258.5
Current assets			
Inventories	12	**80.2**	70.8
Trade and other receivables	13	**159.8**	142.8
Cash and cash equivalents	15	**46.3**	31.1
Derivative financial instruments		**1.6**	0.3
		287.9	245.0
Total assets		**1,569.5**	1,503.5
Current liabilities			
Trade and other payables	14	**(418.7)**	(390.8)
Current tax liabilities		**(1.2)**	(1.3)
Borrowings	15	**(7.5)**	(3.0)
Lease liabilities	15	**(10.2)**	(10.8)
Provisions		**(7.4)**	(8.5)
Derivative financial instruments		**(0.2)**	(1.7)
		(445.2)	(416.1)
Non-current liabilities			
Borrowings	15	**(325.6)**	(317.6)
Lease liabilities	15	**(79.1)**	(73.8)
Provisions		**(15.0)**	(14.3)
Derivative financial instruments		**(0.1)**	(0.4)
Deferred tax liabilities		**(45.3)**	(40.6)
		(465.1)	(446.7)
Total liabilities		**(910.3)**	(862.8)
Net assets		**659.2**	640.7
Equity			
Share capital	17	**11.6**	11.6
Own shares held	17	**(2.7)**	-
Merger reserve		**(130.9)**	(130.9)
Hedging reserve		**6.1**	1.7
Translation reserve		**41.0**	27.2
Retained earnings		**734.1**	731.1
Total equity		**659.2**	**640.7**

Condensed Consolidated Statement of Changes in Equity

£ million	Share capital	Own shares held	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total
Balance at 27 December 2020 (Audited)	**11.6**	**-**	**(130.9)**	**(0.7)**	**24.8**	**693.3**	**598.1**
Profit for the period	-	-	-	-	-	24.6	**24.6**
Other comprehensive income/(expense) for the period	-	-	-	0.2	(4.4)	12.0	**7.8**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**0.2**	**(4.4)**	**36.6**	**32.4**
Dividends (Note 9)	-	-	-	-	-	(23.2)	**(23.2)**
Credit for share-based payments	-	-	-	-	-	1.1	**1.1**
Balance at 26 June 2021 (Unaudited)	**11.6**	**-**	**(130.9)**	**(0.5)**	**20.4**	**707.8**	**608.4**

£ million	Share capital	Own shares held	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	Total
Balance at 26 December 2021 (Audited)	**11.6**	**-**	**(130.9)**	**1.7**	**27.2**	**731.1**	**640.7**
Profit for the period	-	-	-	-	-	25.5	**25.5**
Other comprehensive income/(expense) for the period	-	-	-	4.4	13.8	(0.5)	**17.7**
Total comprehensive income for the period	**-**	**-**	**-**	**4.4**	**13.8**	**25.0**	**43.2**
Purchase of own shares (Note 17)	-	(2.7)	-	-	-	-	**(2.7)**
Dividends (Note 9)	-	-	-	-	-	(22.8)	**(22.8)**
Credit for share-based payments	-	-	-	-	-	1.1	**1.1**
Cash-settlement of share-based payments	-	-	-	-	-	(0.3)	**(0.3)**
Balance at 25 June 2022 (Unaudited)	**11.6**	**(2.7)**	**(130.9)**	**6.1**	**41.0**	**734.1**	**659.2**

Condensed Consolidated Statement of Cash Flows

£ million	Notes	26 weeks ended 25 June 2022 (Unaudited)	26 weeks ended 26 June 2021 (Unaudited)
Net cash generated from operating activities	18	**59.2**	57.0
Investing activities			
Purchases of property, plant and equipment		**(21.2)**	(18.9)
Purchase of intangible assets		**(2.3)**	-
Net cash used in investing activities		**(23.5)**	(18.9)
Financing activities			
Dividends paid	9	**(22.8)**	(23.2)
Own shares purchased	17	**(2.7)**	-
Increase in borrowings		**13.8**	13.1
Repayment of borrowings		**(2.1)**	(23.8)
Principal elements of lease payments		**(7.8)**	(6.1)
Net cash used in financing activities		**(21.6)**	(40.0)
Net increase/(decrease) in cash and cash equivalents		**14.1**	(1.9)
Cash and cash equivalents at beginning of period		**31.1**	24.8
Effect of foreign exchange rate changes		**1.1**	(0.4)
Cash and cash equivalents at end of period		**46.3**	22.5

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. General Information

The information for the 26 weeks ended 25 June 2022 and 26 weeks ended 26 June 2021 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 the UK-adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency rules of the Financial Conduct Authority. The Condensed Consolidated Statement of Financial Position as at 25 December 2021 has been derived from the Consolidated Statement of Financial Position included in the Group's Financial Statements for the 52 weeks ended 25 December 2021, 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 Consolidated Financial Statements for the 52 weeks ended 25 December 2021, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Controlling parties

Two of the Company's Directors, Agust Gudmundsson and Lydur Gudmundsson, hold shares in the Company through their beneficial ownership of Carrion Enterprises Limited (the corporate holding structure of Agust Gudmundsson) and Umbriel Ventures Limited (the corporate holding structure of Lydur Gudmundsson). On 20 May 2022, Lydur Gudmundsson purchased 200,000 ordinary shares in the Company. Following the transaction, Umbriel Ventures Limited holds 142,303,505 ordinary shares (representing 24.56% of the issued share capital of the Company) and Carrion Enterprises Limited holds 142,103,505 ordinary shares (representing 24.52% of the issued share capital of the Company).

Lixaner Co Limited, a company owned and controlled by Sigurdur Valtysson, who runs the family office for Agust and Lydur Gudmundsson, holds 6,457,750 ordinary shares (representing 1.11% of the issued share capital of the Company).

Given the close relationship between the parties, Sigurdur Valtysson is to be considered as acting in concert with Agust and Lydur Gudmundsson for the purposes of the definition in the Takeover Code and the parties are controlling shareholders of the Company. The aggregate shareholding in the Company of Carrion Enterprises Limited and Umbriel Ventures Limited and their concert party group (Lixaner Co Limited) is 290,864,760 ordinary shares (representing 50.20% of the issued share capital of the Company).

Principal activities and seasonality

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

2. Significant accounting policies

Basis of accounting

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

Accounting policies

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

Software-as-a-Service arrangements

During the year, the Group revised its accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software-as-a-Service ('SaaS') arrangements in response to the IFRIC agenda decision clarifying its interpretation of how current accounting standards apply to these types of arrangements.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period.

Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received, unless the configuration and customisation activities significantly modify or customise the cloud software, in which case the costs are expensed over the SaaS contract term.

When they meet the definition of and recognition criteria for an intangible asset, cost incurred relating to the development of software code that enhance or modify existing on-premise systems are recognised as intangible assets.

This change in accounting policy has resulted in costs of £1.4 million that would previously have been capitalised being expensed to administration costs for the 26 weeks ended 25 June 2022.

Purchase of own shares

During 2022, the Company began purchasing its own Ordinary shares from the market through an Employee Benefit Trust called the Bakkavor Group plc Employee Benefit Trust. These shares are held to satisfy share awards under the Group's share scheme plans. Own shares are recorded at cost and are deducted from equity.

There have been no changes in the period to the Group's critical accounting judgements and key sources of estimation uncertainty as disclosed in the Group's Annual Financial Statements for the 52 weeks ended 25 December 2021.

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 and covenant compliance under its financing facilities. The Directors have carried out a robust assessment of the significant risks currently facing the Group. This has included scenario planning on the implications of further inflation and continuing labour availability issues. The Group has also modelled the potential impact of lower sales volumes from supply chain issues and reduced consumer demand in response to increasing retail prices.

Having taken these factors into account under the scenario, which is considered to be severe but plausible, the Directors consider that adequate headroom is available based on the forecasted cash requirements of the business. At the date of this report, the Group has complied in all respects with the terms of its borrowing agreements, including its financial covenants, and forecasts to continue to do so in the future.

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 ("CODM") 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 into three regions, the UK, US and China and prepares and markets fresh prepared foods and produce in each region.

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

The following table provides an analysis of the Group's segment information for the period 26 December 2021 to 25 June 2022:

£ million	UK	US	China	Total
Revenue	**849.5**	**116.6**	**44.1**	**1,010.2**
Adjusted EBITDA (Note 21)	**70.6**	**7.2**	**(1.1)**	**76.7**
Depreciation	(25.8)	(3.9)	(3.5)	(33.2)
Amortisation	-	(0.2)	-	(0.2)
Share scheme charges	(1.1)	-	-	(1.1)
Profit on disposal of property, plant and equipment	-	-	0.2	0.2
Share of results of associate	-	-	0.1	0.1
Adjusted operating profit/(loss) (Note 21)	**43.7**	**3.1**	**(4.3)**	**42.5**
Configuration and customisation costs for SaaS projects	(1.4)	-	-	(1.4)
Exceptional items (Note 4)	-	-	-	-
Operating profit/(loss)	**42.3**	**3.1**	**(4.3)**	**41.1**

The following table provides an analysis of the Group's segment information for the period 27 December 2020 to 26 June 2021:

£ million	UK	US	China	Total
Revenue	**787.5**	**81.3**	**46.9**	**915.7**
Adjusted EBITDA (Note 21)	**71.0**	**7.9**	**1.4**	**80.3**
Depreciation	(25.9)	(3.2)	(2.9)	(32.0)
Amortisation	-	(0.2)	-	(0.2)
Share scheme charges	(1.1)	-	-	(1.1)
Adjusted operating profit/(loss) (Note 21)	**44.0**	**4.5**	**(1.5)**	**47.0**
Exceptional items (Note 4)	-	-	-	-
Operating profit/(loss)	**44.0**	**4.5**	**(1.5)**	**47.0**

Major customers

For the 26 weeks ended 25 June 2022, the Group's four largest UK customers accounted for 75.7% (26 weeks ended 26 June 2021: 76.4%) of total Group revenue from continuing operations. These customers accounted for 90.1% (26 weeks ended 26 June 2021: 88.6%) of total UK revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers. The percentage of Group revenue from these customers is as follows:

	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021
Customer A	**33.1%**	34.0%
Customer B	**22.3%**	21.8%
Customer C	**12.0%**	11.6%
Customer D	**8.3%**	9.0%

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

4. Exceptional items

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

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

The Group incurred no exceptional costs in H1 2022 and H1 2021.

5. Finance costs

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Interest on borrowings	**7.1**	7.5
Interest on lease liabilities	**1.5**	1.3
Unwind of discount on provisions	**0.3**	0.1
	8.9	8.9

6. Other gains and (losses)

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Foreign exchange gains	**0.4**	**0.1**
Change in fair value of derivative financial instruments	**(0.1)**	**(3.6)**
	0.3	**(3.5)**

7. Tax

The Group's effective tax rate for the period was 21.5% (2021: 29.0%). The effective tax rate is 2.5% higher (H1 2021: 10.0%) than the UK statutory tax rate of 19% (H1 2021: 19%). The main item which increases the effective rate by 2.4% (H1 2021: 9.2%) is a deferred tax charge arising in connection with the rate at which we provide for deferred tax assets and liabilities. This is following the Government announcement on 3 March 2021 and the substantive enactment of this measure on 24 May 2021, that the UK corporation tax rate will increase to 25% effective from 1 April 2023. This does not impact current taxes however, UK deferred tax liabilities are provided at 25%, being the rate at which timing differences were expected to reverse.

A reconciliation of the expected tax rate to the forecast effective tax rate is as follows:

£ million	**26 weeks ended 25 June 2022**	
Profit before tax	**32.5**	
Expected tax at 19.0%	**6.2**	19.0%
Impact of:		
Non-deductible items	0.5	1.5%
UK rate change	0.8	2.4%
Overseas tax rates	0.1	0.4%
Prior year adjustments	(0.6)	(1.8%)
Total tax charge	**7.0**	21.5%

8. 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 25 June 2022**	26 weeks ended 26 June 2021
Profit for the period	**25.5**	24.6

8. Earnings per share (continued)
Number of shares

'000	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Weighted average number of Ordinary shares	**578,426**	579,426
Effect of potentially dilutive Ordinary shares	**8,978**	8,746
Weighted average number of Ordinary shares for diluted earnings per share	**587,404**	588,172

	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021
Basic earnings per share	**4.4p**	**4.2p**
Diluted earnings per share	**4.3p**	**4.2p**

9. Dividends

At the AGM on 25 May 2022, a final dividend of 3.96 pence per Ordinary share for the financial year ended 25 December 2021 was declared. Following a waiver in relation to 2,439,135 Ordinary shares held in the Bakkavor Group plc Employee Benefit Trust, £22,848,663 was paid to Ordinary shareholders on 30 May 2022.

An interim dividend of 2.77 pence per Ordinary share has been declared in September 2022 (2.64 pence per Ordinary share declared in September 2021) and is payable on 14 October 2022 to Ordinary shareholders registered on the record date at 16 September 2022.

At the AGM on 20 May 2021, a deferred final dividend of 4 pence per Ordinary share for the financial year ended 28 December 2019 was re-instated and declared. The total amount of £23,177,023 was paid to Ordinary shareholders on 25 May 2021.

10. Goodwill

£ million	
At 27 December 2020	649.6
Exchange rate difference during the period	(1.2)
At 26 June 2021	648.4
At 26 December 2021	**650.1**
Exchange rate difference during the period	**4.2**
At 25 June 2022	**654.3**

11. Property, plant and equipment

£ million	
At 27 December 2020	**535.3**
Additions	29.8
Depreciation charge for the period	(32.0)
Impairment of right of use asset	(1.3)
Exchange rate difference during the period	(2.4)
At 26 June 2021	**529.4**
At 26 December 2021	**545.2**
Additions	37.3
Disposals	(0.5)
Depreciation charge for the period	(33.2)
Exchange rate difference during the period	7.9
At 25 June 2022	**556.7**

12. Inventories

£ million	25 June 2022	25 December 2021
Raw materials and packaging	**67.3**	60.7
Work-in-progress	**3.1**	2.0
Finished goods	**9.8**	8.1
	80.2	70.8

13. Trade and other receivables

£ million	25 June 2022	25 December 2021
Amounts receivable from trade customers	**121.6**	118.2
Expected credit loss	**(2.4)**	(2.8)
Net amounts receivable from trade customers	**119.2**	115.4
Other receivables	**23.8**	17.2
Prepayments	**16.8**	10.2
Trade and other receivables due within one year	**159.8**	142.8

During the period, the Group has continued to operate trade receivable factoring arrangements. These are non-recourse arrangements and therefore amounts are de-recognised from trade receivables. At 25 June 2022 £134 million was drawn under factoring facilities, an increase of £16 million compared to 25 December 2021 representing cash collected before it was contractually due from the customer.

As at 25 June 2022, the Group's amounts receivable from trade customers includes £53.4 million (25 December 2021: £53.8 million) which could be factored under the non-recourse trade receivable factoring arrangement.

14. Trade and other payables

£ million	**25 June 2022**	25 December 2021
Trade payables	**258.7**	237.6
Other taxation	**2.0**	2.1
Other payables	**35.9**	21.5
Accruals and deferred income	**122.1**	129.6
Trade and other payables due within one year	**418.7**	390.8

During the period, the Group has continued to operate an arrangement which provides financing for the Group's suppliers. This is a voluntary programme that potentially gives suppliers earlier access to cash. At 25 June 2022, trade payables amounting to £43.5 million (25 December 2021: £31.6 million) were subject to these arrangements. These balances are classified as trade payables, and the related payments as cash flows from operating activities since the original obligation to the supplier remains and has not been replaced with a new obligation to the bank.

15. Net debt

£ million	**25 June 2022**	25 December 2021
Cash and cash equivalents	**46.3**	31.1
Borrowings	**(7.5)**	(3.0)
Lease liabilities	**(10.2)**	(10.8)
Total debt due within one year	**(17.7)**	(13.8)
Borrowings	**(325.6)**	(317.6)
Lease liabilities	**(79.1)**	(73.8)
Total debt due after one year	**(404.7)**	(391.4)
Group net debt	**(376.1)**	(374.1)

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

On 1 March 2022 the Group extended the maturity date of £430 million of its core debt facilities from March 2025 to March 2026.

16. Financial Instruments

The categories of financial instruments are as follows:

£ million	25 June 2022	25 December 2021
Financial assets		
Fair value through OCI or profit and loss:		
Trade receivables	**53.4**	53.8
Derivative financial instruments	**8.1**	2.9
Loans and receivables at amortised cost:		
Trade receivables	**65.8**	61.6
Other receivables	**23.8**	17.2
Cash and cash equivalents	**46.3**	31.1
	197.4	166.6

£ million	25 June 2022	25 December 2021
Financial liabilities		
Fair value through OCI or profit and loss:		
Derivative financial instruments	**0.3**	2.1
Other financial liabilities at amortised cost:		
Trade payables	**258.7**	237.6
Other payables	**35.9**	21.5
Accruals	**120.7**	128.4
Borrowings	**333.1**	320.6
Lease liabilities	**89.3**	84.6
	838.0	794.8

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

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

17. Share capital and own shares held

Issued share capital as at 25 June 2022 and 25 December 2021 amounted to £11.6 million (579,425,585 Ordinary shares of £0.02 each).

During the period, the Company began purchasing shares through an Employee Benefit Trust called the Bakkavor Group plc Employee Benefit Trust (the "Trust"). Own shares purchased are recorded at cost and deducted from equity.

The own shares held represents the cost of shares in Bakkavor Group plc purchased in the market and held by the Trust to satisfy share awards under the Group's share scheme plans. The number of Ordinary shares held by the Trust at 25 June 2022 was 2,492,273 (26 June 2021: nil). This represents 0.43% of total called up share capital at 25 June 2022 (26 June 2021: nil).

No own shares held of Bakkavor Group plc were cancelled during the periods presented.

18. Notes to the Condensed Consolidated Statement of Cash Flows

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Operating profit	**41.1**	47.0
Adjustments for:		
Share of results of associates	**(0.1)**	-
Depreciation of property, plant and equipment	**33.2**	32.0
Amortisation of intangible assets	**0.2**	0.2
Profit on disposal of property, plant and equipment	**(0.2)**	-
Impairment of assets	**-**	1.3
Share scheme charges	**1.1**	1.1
Net retirement benefits charge less contributions	**(1.0)**	(1.0)
Operating cash flows before movements in working capital	**74.3**	80.6
(Increase)/decrease in inventories	**(9.4)**	6.3
(Increase) in receivables	**(16.9)**	(4.3)
Increase/(decrease) in payables	**23.2**	(13.8)
(Decrease)/increase in provisions	**(0.6)**	0.4
Cash generated by operations	**70.6**	69.2
Income taxes paid	**(3.2)**	(3.1)
Interest paid	**(8.2)**	(9.1)
Net cash generated from operating activities	**59.2**	57.0

19. Contingent liabilities

The Group may from time to time, and in the normal course of business, be subject to claims from customers and counterparties. The Group regularly reviews all of these claims to determine any possible financial loss to the Group. No provision was considered necessary in the Consolidated Financial Statements.

20. Events after the Statement of Financial Position date

There are no events to report.

21. Alternative performance measures

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

Like-for-like (LFL) revenue

The Group defines LFL revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold or acquired in the current and prior year and the effect of foreign currency movements.

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

£ million	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021	Change %
Statutory revenue	**1,010.2**	915.7	10.3%
Effect of currency movements	**(10.0)**	-	
Like-for-like revenue	**1,000.2**	915.7	9.2%

The following tables provides the information used to calculate LFL revenue for each segment:

UK

£ million	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021	Change %
Statutory revenue	**849.5**	787.5	7.9%
Like-for-like revenue	**849.5**	787.5	7.9%

US

£ million	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021	Change %
Statutory revenue	**116.6**	81.3	43.4%
Effect of currency movements	**(7.3)**	-	
Like-for-like revenue	**109.3**	81.3	34.6%

China

£ million	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021	Change %
Statutory revenue	**44.1**	46.9	(6.0%)
Effect of currency movements	**(2.7)**	-	
Like-for-like revenue	**41.4**	46.9	(12.0%)

Adjusted EBITDA and Adjusted operating profit

The Group manages the performance of its businesses through the use of ‘Adjusted EBITDA’ and ‘Adjusted operating profit’. In calculating Adjusted operating profit, we exclude restructuring costs, asset impairments, costs incurred to configure or customise ‘software as a service’ (‘SaaS') arrangements, and those additional charges or credits that are considered significant or one-off in nature. In addition, for Adjusted EBITDA we exclude depreciation, amortisation, the share of results of associates after tax and share scheme charges, as this is a non-cash amount. Adjusted operating profit margin is used as an additional profit measure that

21. Alternative performance measures (continued)

assesses profitability relative to the revenues generated by the relevant segment; it is calculated by dividing the Adjusted operating profit by the statutory revenue for the relevant segment.

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period.

Costs incurred to configure or customise, and the ongoing fees to obtain access to the cloud provider's application software, are recognised as operating expenses when the services are received, unless the configuration and customisation activities significantly modify or customise the cloud software, in which case the costs are expensed over the SaaS contract term.

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

£ million	26 weeks ended 25 June 2022	26 weeks ended 26 June 2021
Operating profit	**41.1**	47.0
Configuration and customisation costs for SaaS projects	**1.4**	-
Exceptional items (Note 4)	**-**	-
Adjusted operating profit	**42.5**	47.0
Depreciation	**33.2**	32.0
Amortisation	**0.2**	0.2
Share scheme charges	**1.1**	1.1
Profit on disposal of property, plant and equipment	**(0.2)**	-
Share of results of associates	**(0.1)**	-
Adjusted EBITDA	**76.7**	80.3
Less IFRS 16 impact	**(6.4)**	(6.2)
Adjusted EBITDA pre IFRS 16[1]	**70.3**	74.1

[1] Excludes the impact of IFRS 16 as the Group's bank facility agreement definition of Adjusted EBITDA excludes the impact of this standard

Adjusted EBITDA and Adjusting operating profit by segment are reconciled to operating profit in Note 3.

Operational net debt and leverage

Operational net debt excludes the impact of non-cash items on the Group's net debt. 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 and aligns with the definition of net debt in the Group's bank facility agreements which exclude the impact of IFRS 16. The following table provides a reconciliation from the Group's net debt to the Group's operational net debt.

£ million	25 June 2022	25 December 2021
Group net debt	**(376.1)**	(374.1)
Unamortised fees	**(3.4)**	(3.4)
Interest accrual	**0.7**	0.2
Lease liabilities recognised under IFRS 16	**88.7**	83.6
Group operational net debt	**(290.1)**	(293.7)
Adjusted EBITDA (last 12 months pre IFRS 16 and including covenant adjustments)	**151.6**	155.6
Leverage (Operational net debt/Adjusted EBITDA[1])	**1.9**	1.9

[1]For the last 12 months pre IFRS 16 and including covenant adjustments

21. Alternative performance measures (continued)

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 and intangible assets but before payments of refinancing fees and other exceptional or significant non-recurring cash flows. Free cash flow has benefitted from non-recourse factoring of receivables as set out in Note 13 and the extension of payment terms for certain suppliers as described in Note 14. The Directors view free cash flow as a key liquidity measure, and the purpose of presenting free cash flow is to indicate the underlying cash available to pay dividends, repay debt or make further investments in the Group. The following table provides a reconciliation from net cash generated from operating activities to free cash flow.

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Net cash generated from operating activities	**59.2**	57.0
Purchases of property, plant and equipment	**(21.2)**	(18.9)
Purchase of intangible assets	**(2.3)**	-
Cash impact of exceptional items	**-**	0.7
Refinancing fees	**0.9**	0.9
Free cash flow	**36.6**	39.7

Adjusted earnings per share

The Group calculates Adjusted basic earnings per share by dividing Adjusted earnings by the weighted average number of Ordinary shares in issue during the period. The Group calculates Adjusted diluted earnings per share by dividing Adjusted earnings by the weighted average number of Ordinary shares (including dilutive shares) for diluted earnings per share. Adjusted earnings is calculated as profit for the period adjusted to exclude exceptional items, configuration and customisation costs for SaaS projects and the change in value of derivative financial instruments. 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 for the period to Adjusted earnings.

£ million	**26 weeks ended 25 June 2022**	26 weeks ended 26 June 2021
Profit for the period	**25.5**	24.6
Configuration and customisation costs for SaaS projects	**1.4**	-
Exceptional items (Note 4)	**-**	-
Change in fair value of derivative financial instruments	**0.1**	3.6
Tax on the above items	**(0.2)**	(0.6)
Adjusted earnings	**26.8**	27.6
Add back: Tax on adjusted profit before tax	**7.2**	10.6
Adjusted profit before tax	**34.0**	38.2
Effective tax rate on underlying activities (Tax on Adjusted profit before tax/Adjusted profit before tax)	**21.2%**	27.7%
Number 000's		
Weighted average number of Ordinary shares	**578,426**	579,426
Effect of dilutive Ordinary shares	**8,978**	8,746
Weighted average number of Ordinary shares for diluted earnings per share	**587,404**	588,172
Adjusted basic earnings per share	**4.6p**	4.8p
Adjusted diluted earnings per share	**4.6p**	4.7p

21. Alternative performance measures (continued)

Return on Invested Capital ("ROIC")

The Group defines ROIC as Adjusted operating profit after tax divided by the average invested capital for the rolling 52 week period. Adjusted operating profit after tax is defined as operating profit excluding the impact of exceptional items and configuration and customisation costs for SaaS projects less tax at the Group's effective tax rate. Invested capital is defined as total assets less total liabilities excluding; net debt, pension assets and liabilities (net of deferred tax), and fair values for derivatives not designated in a hedging relationship, at the period end. The Group utilises ROIC to measure how effectively it uses invested capital. Average invested capital is the simple average of invested capital at the beginning of the period and the end of the period.

The Directors believe that ROIC is a useful indicator of the amount returned as a percentage of shareholders' invested capital. The Directors believe that ROIC can help analysts, investors and stakeholders to evaluate the Group's profitability and the efficiency with which its invested capital is employed.

The following table sets out the calculations of Adjusted operating profit after tax and invested capital used in the calculation of ROIC.

£ million	**52 weeks ended 25 June 2022**	52 weeks ended 25 December 2021
Operating profit	**96.1**	102.0
Configuration and customisation costs for SaaS projects	**1.4**	-
Exceptional items	**-**	-
Adjusted operating profit	**97.5**	102.0
Taxation at the underlying effective rate	**(25.4)**	(30.3)
Adjusted operating profit after tax	**72.1**	71.7
Invested capital		
Total assets	**1,569.5**	1,503.5
Total liabilities	**(910.3)**	(862.8)
Net debt at period end	**376.1**	374.1
Derivatives not designated as hedges	**-**	0.9
Retirement benefit scheme surplus	**(37.4)**	(37.2)
Deferred tax liability on retirement benefit scheme	**9.3**	9.3
Invested capital	**1,007.2**	987.8
Average invested capital for ROIC calculation	**999.7**	994.4
ROIC (%)	**7.2%**	7.2%

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 IAS 34: 'Interim Financial Reporting', with ASB's 2007 Statement Half-Yearly Reports, as contained in the UK adopted International Accounting Standard 34, 'Interim Financial Reporting', and that the interim management report includes a fair review of the information required by Disclosure Guidance and Transparency Rules ("DTR") 4.2.7R and DTR 4.2.8R, namely:

- an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and
- material related party transactions that have taken place in the first six months of the current financial year and any material changes in the related party transactions described in the last annual report.

The Board of Directors that served during the six months ended 25 June 2022, and their respective responsibilities, can be found on pages 94 and 95 of the 2021 Annual Report & Accounts. A list of current directors is maintained on the Bakkavor Group plc website at: https://www.bakkavor.com/en/about-us/leadership/group-board/default.aspx

Approved on behalf of the Group Board by:

Agust Gudmundsson
CEO

Ben Waldron
CFO

6 September 2022

Independent review report to Bakkavor Group plc

Report on the condensed consolidated interim financial statements

Our conclusion

We have reviewed Bakkavor Group plc's condensed consolidated interim financial statements (the "interim financial statements") in the half-yearly financial report of Bakkavor Group plc for the 26 week period ended 25 June 2022 (the "period").

Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

The interim financial statements comprise:

- the Condensed Consolidated Statement of Financial Position as at 25 June 2022;
- the Condensed Consolidated Income Statement and the Condensed Consolidated Statement of Comprehensive Income for the period then ended;
- the Condensed Consolidated Statement of Cash Flows for the period then ended;
- the Condensed Consolidated Statement of Changes in Equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half-yearly financial report of Bakkavor Group plc have been prepared in accordance with UK adopted International Accounting Standard 34, 'Interim Financial Reporting' and the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority.

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 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 enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

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

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

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention to suggest that the directors have inappropriately adopted the going concern basis of accounting or that the directors have identified material uncertainties relating to going concern that are not appropriately disclosed. This conclusion is based on the review procedures performed in accordance with this ISRE. However, future events or conditions may cause the group to cease to continue as a going concern.

Responsibilities for the interim financial statements and the review

Our responsibilities and those of the Directors

The half-yearly financial report, including the interim financial statements, is the responsibility of, and has been approved by the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure Guidance and Transparency Rules sourcebook of the United Kingdom's Financial Conduct Authority. In preparing the half-yearly financial report, including the interim financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

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

PricewaterhouseCoopers LLP

Chartered Accountants
London

6 September 2022