Bakkavor Group plc

2022 Full Year results

Robust performance in line with market expectations, executing clear plan to protect future profits

Bakkavor Group plc (the "Company") and its subsidiaries ("Bakkavor" or "the Group"), the leading international provider of fresh prepared food ("FPF"), today announces its audited results for the 53 weeks ended 31 December 2022 ("FY22").

Robust performance in line with market expectations and balance sheet strength maintained

- Like-for-like revenue[1] exceeded £2bn, up 10.6%, with growth led by price and US volume. Including the 53rd week and currency impact, reported revenue of £2,139.2m was up 14.3%.
- Adjusted operating profit[1] of £89.4m, in line with market expectations[2]. Whilst inflation has largely been mitigated through pricing and self-help measures, profits were down £12.6m.
- Operating profit of £37.8m includes £50.1m of exceptional items[3], primarily related to the Group's restructuring plan.
- Good free cash[1] generation of £66.8m (2021: £91.2m), which supported debt reduction, dividend payment and the purchase of shares to satisfy awards under the Group's share scheme plans.
- Leverage[1] of 1.9x maintained within the target range, continued to operate with over £200m of liquidity headroom and a good level of protection from interest rate rises.
- Total 2022 dividend per share of 6.93p up 5.0%; proposed final dividend of 4.16p per Ordinary share.

Strong foundations underpin resilient performance

- UK continued to outperform the market, driven by strong service, breadth of product range and targeted innovation. Operationally remained in good shape despite disruption from ongoing supply chain challenges.
- Strong US revenue momentum, with growing demand for fresh meals. Operational challenges, from the pace of growth and customer contractual dispute, however, put pressure on profits.
- Trading in China impacted by Covid-related disruption, but teams' resilience minimised financial impact and good progress in further strengthening retail presence as we seek to diversify our revenue stream.
- Largely mitigated impact of c.£230m of inflation, leveraging the Group's scale and multi-faceted approach, through pricing, value optimisation, efficiency improvements and tight cost control.
- Investment in our people through pay and engagement activities had a positive impact, and labour pressures have eased; availability improved, and employee turnover has tracked down in H2 2022.
- Targeted approach to sustainability delivered good progress; UK food waste improved by 110bps to 8.05%, and Group net carbon emissions reduced by 18.9%.

Clear plan in place to protect 2023 profits, on track to deliver targeted savings

- Early FY23 trading encouraging; UK volumes in line with expectations, despite recent fresh produce availability challenges, gained further market share and confident of continued outperformance with a strong pipeline of opportunities.
- Near-term focus in the US shifted from growth to profit; operational improvement and cost reduction plans being embedded, with a more measured approach to growth to help minimise disruption.
- Positively in China, volumes have shown a gradual recovery in recent weeks. Whilst we anticipate some ongoing disruption in the near-term, we remain confident in the long-term prospects for the market.
- Plan on track to deliver £15m savings in FY23; embedded new leadership structure, UK operations aligned to two sectors and two UK sites to close, with volume transfer, in Q1 2023.
- The cash costs of implementing the plan are £17.1m, with most of the cash outflow in FY23, and together with £33.0m of impairment charges, are recognised as exceptional items[3] in FY22.
- Confident in delivering 2023 adjusted operating profit within the range of market expectations[2], as our clear strategy, action plan, scale, strong relationships and balance sheet strength, leave us well-placed to move forward with confidence.

FINANCIAL SUMMARY

£ million (unless otherwise stated)	**FY22**	FY21	*Change*
Group revenue	2,139.2	1,871.6	*14.3%*
Like-for-like revenue[1]	2,069.0	1,871.6	*10.6%*
Adjusted EBITDA pre IFRS 16[1]	146.2	154.2	*(5.2)%*
Adjusted operating profit[1]	89.4	102.0	*(12.4)%*
Adjusted operating profit margin[1]	4.2%	5.4%	*(120)bps*
Exceptional items[3]	50.1	-	*(50.1)*
Operating profit	37.8	102.0	*(62.9)%*
Operating profit margin	1.8%	5.4%	*(360)bps*
Profit before tax	18.1	81.4	*(77.8)%*
Basic earnings per share	2.2p	9.8p	*(7.6)p*
Adjusted earnings per share[1]	9.5p	10.4p	*(0.9)p*
Free cash flow[1]	66.8	91.2	*(24.4)*
Operational net debt[1]	(284.9)	(293.7)	8.8
Total dividend per share	6.93p	6.60p	*5.0%*

1. Alternative Performance Measures ("APMs"), including 'like-for-like' ("LFL"), 'adjusted' and 'underlying' are applied consistently throughout the FY22 full year results statement and defined in full and reconciled to the reported statutory numbers in Note 11. Note FY22 includes 53 weeks of trading, and the 53rd week is excluded from LFL revenue. All other FY22 measures include the 53rd week.
2. Based on company compiled consensus ("Consensus") which includes all covering analysts. Adjusted operating profit Consensus for 2022: £88.4m, with a range of £86.7m to £89.1m and 2023: £84.1m, range £80.0m to £89.0m.
3. A breakdown of exceptional items are included in Note 3.

Mike Edwards, CEO, commented:

"2022 has been a year of challenge and disruption. Despite this difficult environment, I am pleased with the robust financial performance, strong operational delivery and the agile response demonstrated by our teams, which has underpinned this delivery. I would like to thank the entire team for their ongoing commitment and relentless energy in dealing with the challenges that we faced through the year.

The decisive action we have taken to protect profits – to restructure our operations, re-focus our regional priorities and be more targeted in our investment – combined with our strong balance sheet, provide us with a stronger platform to move forward with purpose and confidence.

PRESENTATION

A copy of the 2022 full year results is available on www.bakkavor.com/en/investors/results-and-presentations

We will be presenting to analysts in-person and via a webcast at 09.00am on 8 March 2023 through the investor section of the Group's website at: https://app.webinar.net/P6JKR7gR2wz. 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 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. Around 18,500 colleagues operate from 45 sites across our three markets supplying a portfolio of over 2,900 products across meals, pizza & bread, salads and desserts to leading grocery retailers in the UK and US, and international food brands in China.

LEI number: 213800COL7AD54YU9949

Disclaimer – forward-looking statements

This statement includes forward-looking statements. By their nature, forward-looking statements involve risk, uncertainty and other factors, which may cause the actual results and developments of the Group to differ materially from any results and developments expressed or implied by such forward-looking statements. You should not place undue reliance on any forward-looking statements. These forward-looking statements are made as of the date of this statement. The Group is under no obligation to publicly update or review these forward-looking statements other than as required by law.

CHIEF EXECUTIVE'S OVERVIEW

It is an honour to have taken on the role of CEO, and I would like to thank Agust for his outstanding leadership of Bakkavor over the last 36 years and his support during my time in the Group. I joined the business in 2001 and am proud to have played a part in the evolution of the Bakkavor business over the last 20 years or so. The current environment is incredibly challenging, but I strongly believe that challenges create opportunities. Bakkavor is a resilient business with strong foundations – we have a fantastic team, a broad range of quality products, strong customer relationships, scale and flexibility across our operations, and significant growth opportunities internationally.

Clear strategy in place, with refined focus to deliver returns

The strategy of the Group remains clear and unchanged. We are focused on driving returns from our market-leading position in the UK, whilst also accelerating profitable growth internationally. These priorities are underpinned by our relentless focus on operational excellence, and on being a trusted partner for all of our stakeholders. Our strategy remains even more relevant today against a challenging backdrop, but we need to employ different tactics to underpin its delivery. We have already taken decisive action to protect profits, under three focus areas:

1. Leaner organisational structure
2. Clear and focused regional priorities
3. Enhanced focus on managing cash

These initiatives will deliver savings of £15m in FY23 and £25m on an annualised basis, and provide us with a stronger platform from which to move forward positively and with purpose as we face what will be another difficult year. The cash costs of £17.1m to implement the plan, together with £19.5m of non-cash impairment charges, are recognised as exceptional items in FY22.

Supported by our robust financial position, these actions will ensure that we continue to deliver for colleagues, customers and shareholders. As we go through this transition, we will continue to protect the Group's fundamentals around safety, quality and service, with an absolute focus on delivering for our customers.

Decisive action to protect profits under three focus areas

1. Leaner organisational structure

We have put in place a new leadership structure which will create renewed energy, focus and purpose. Operationally, we have aligned our UK business around two sectors, Meals and Bakery, which will deliver synergies. Meals combines our existing Meals and Salads businesses, given the dynamic movement of volume that has become the norm between sites, and Bakery combines our Pizza, Bread and Desserts businesses to exploit their process similarities. To create better alignment across our business, we have streamlined our UK structure by moving to functional reporting for our HR and Finance teams, and plans are underway to implement this in the US too. Together, this has necessarily resulted in a number of people leaving our business and we continue to support our colleagues through this transition.

2. Clear and focused regional priorities

UK: We will drive an aggressive plan to mitigate the impact of ongoing inflation and volume pressures by leveraging our scale and strength, working collaboratively with our customers to recover inflation, and implementing specific cost and efficiency plans. The investment we have made to enhance capacity across our sites, combined with our experience of dynamically transferring volume between sites, means we are well-placed to consolidate volume and better leverage our cost base. Following a detailed review of our footprint, we are closing two UK sites (Bakkavor Desserts Leicester and Bakkavor Salads Sutton Bridge) where volumes can be absorbed across our other sites. We continue to work with affected colleagues to secure alternative roles.

US: The growth opportunity remains attractive as the Fresh Prepared Food market is still in its infancy. To date, the pace of growth in our US business has put pressure on operational performance and impacted margin conversion. We are therefore shifting our focus from growth to profit to drive margin improvement. We have a renewed focus on operational execution and efficiency, and cost reduction plans, as well as further leveraging our UK talent pool to provide support and expertise.

China: Severe Covid-related restrictions have created disruption for our factories and demand, particularly given our customers are largely quick-service restaurants and coffee shops, impacted by lockdowns and high case numbers. Now that restrictions have been lifted, the priority for our China team is on rebuilding volume to leverage our well-invested factory footprint, with a particular emphasis on diversifying our business by growing our presence in the grocery retail channel.

3. Enhanced focus on managing cash

We have reviewed capital plans to reduce our overall spend whilst protecting our strategic investments at our bread site in Crewe, UK and, once profitability improves, our ready meals site in Charlotte, US. We will continue to ensure spend is allocated to critical compliance and maintenance programmes, along with targeting efficiency improvements. We are also seeking to create benefit from improving working capital, with a particular focus on stock reduction.

Robust performance in a tough trading environment

2022 has been a year of challenge and disruption. We have seen significant inflationary pressures across our cost base and on household budgets, which in turn have driven changes in consumer behaviour. We have also had to contend with supply chain disruption as global events continue to cause instability which, combined with a tight labour market, has created a difficult trading environment.

It is in times like these that partnerships and collaboration come to the fore. I would like to thank our colleagues for their ongoing hard work and commitment during this challenging period, and our customers and suppliers for their continued support and for working alongside us to navigate these headwinds.

We have delivered a robust performance against this challenging backdrop. Like-for-like revenue grew by 10.6%, to exceed £2bn. This largely reflects the impact of price, up 9.2%, and in the UK, while volume was broadly flat, we gained market share offsetting soft underlying demand. Strong volume momentum continued in the US, with price increases coming through in the second half, whilst in China Covid restrictions continued to adversely impact volumes.

The UK business has proved resilient against a challenging backdrop, leveraging its scale and flexibility to deliver for customers, whilst using innovation and insights to adapt to changing consumer behaviours and strengthen our market-leading position.

The US delivered good growth, and the future opportunity of the underdeveloped market is significant. Profits, however, came under pressure due to operational disruption from onboarding volume growth, a lag in inflation recovery and the volume impact in Q4 2022 from a contractual dispute with a customer. A renewed focus on driving operational improvement, along with cost reduction plans, should provide a stronger base on which to deliver margin improvement going forward.

Whilst our China business has continued to be impacted by ongoing severe Covid-related restrictions, volumes have shown a steady recovery as mobility restrictions have eased, and we continue to believe in the medium- to long-term prospects for this region, where we now have a well-invested factory footprint.

During my 20-year-long career at Bakkavor I have never experienced such high levels of inflation, equating to c.£230m of cost headwinds in 2022, equivalent to a 14% increase in costs year-on-year. Our multi-faceted approach, across pricing, value optimisation, operational efficiency improvements, leveraging our scale and tight cost control, has enabled us to largely mitigate the impact.

The Group's underlying performance for the year was in line with market expectations, with adjusted operating profit of £89.4m (FY21 £102.0m).

The Group's balance sheet remains in a strong position, with leverage within our target range at 1.9 times and significant liquidity headroom of over £200m against our debt facilities. We have been disciplined in our approach to capital allocation, but continue to have well-invested factories. Our spend in the year has concentrated on expanding capacity at two of our US sites, to underpin the strategic growth opportunity in meals, and on efficiency improvements in the UK to drive operational excellence.

Continued progress in supporting our people and sustainability

I am proud of all we are doing for our teams and communities through our Trusted Partner ESG strategy and broader people agenda. In 2022, 86% of our colleagues participated in our engagement survey, and the feedback provides us with opportunities to make Bakkavor an even better place to work. In particular, we recognise the demands of working in the fast-paced environment that Fresh Prepared Food manufacturing requires, and we also understand that there is more that we can do to support our people.

Whilst the broader labour market remains tight, through the year we have seen the pressures gradually easing. This is particularly evident in the availability of people, with a reduced level of absences in our own workforce and agencies. Furthermore, whilst staff turnover marginally increased on last year, levels have tracked down in H2 2022, albeit remaining higher than ideal.

It is pleasing to see the investment we have made in our people has had a positive impact, with a c.10% investment in factory pay rates, upweighted engagement activities and the launch of our new values. The majority of our factory colleagues benefitted from an out-of-cycle pay award and an annual pay increase. Our new values, launched in early 2022, have been positively received, and we are continuing to embed them into our culture and ways of working.

We have refined our approach under our Trusted Partner ESG strategy to be more targeted. Going forward, our efforts will be centred on three priority issues: food waste, climate and Net Zero, and environmentally sustainable sourcing. As well as having a positive impact from an environmental and social perspective, we also recognise that there are financial benefits to making progress in these key areas. As such, we are focused on improving our non-financial data and processes, and on developing our capital and operational plans.

In 2022 we enhanced our operational understanding and focus on food waste and the benefit of this has already begun to materialise, with food waste reduced by 110 basis points to 8.05% on last year. We have also continued to develop our plans to reach Net Zero by 2040. In 2022, our Group net carbon emissions reduced significantly, by 18.9% year-on-year, which was supported by our investment in refrigeration upgrades and energy initiatives. We also remain committed to delivering on our commitments across the other areas under our Trusted Partner strategy, which are well-embedded into our day-to-day operations.

Confident of emerging stronger from current conditions

We expect the challenging trading environment in 2022 to continue into the coming year, as consumers are impacted by the cost-of-living crisis. Inflation across the cost base is also expected to persist, particularly in energy and labour, and we expect an increase in costs of c.6% to 8% in 2023.

Trading in early 2023 has been encouraging, despite fresh produce availability challenges which are expected to continue until April. Our UK business has continued to gain market share and plans to help drive margin improvement and reduce costs in the US are being embedded, with a new leadership structure in place from April 2023. Our President of Bakkavor USA, Pete Laport, is leaving in mid-March and we thank him for his contribution and commitment during his time with the US business. In China, as the region is emerging from Covid we have seen a gradual recovery in volumes and, whilst we anticipate some ongoing disruption in the coming months, the outlook for the region is more positive.

Progress under our action plan is on track to deliver the expected savings, with the two UK sites due to close by the end of Q1 2023. This decisive action to reduce costs and protect our business, combined with our clear strategy, focused regional priorities, targeted investment, unique scale and breadth and balance sheet strength, provides us with an even stronger platform from which to move forward positively. We are confident in our ability to deliver 2023 in line with market expectations and are well-placed to capitalise on the medium- to long-term opportunity.

OPERATIONAL REVIEW

United Kingdom: Resilient performance, with scale and breadth leveraged to mitigate the impact of macro-headwinds and gain market share. Reshaped operations further strengthen strong foundations.

£ million	FY 2022	FY 2021	Change
Revenue	**1,783.1**	1,592.4	12.0%
Like-for-like revenue[1]	**1,752.3**	1,592.4	10.0%
Adjusted operating profit[1]	**92.7**	97.8	(5.2%)
Adjusted operating profit margin[1]	**5.2%**	6.1%	(90bps)
Operating profit	**54.6**	97.8	(44.2%)
Operating profit margin	**3.1%**	6.1%	(300bps)

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 statutory measures in Note 11.

Trading performance

Like-for-like revenue increased 10.0% to £1,752.3m (2021: £1,592.4m), and was up 12.0% on a reported basis, which includes the impact of the 53rd week. The growth was primarily driven by price and, while volumes were broadly flat, we gained market share, in a period when consumer demand has been under pressure.

In the UK we faced c.£200m of cost inflation in 2022 – the largest level of inflation the UK business has ever experienced. Our teams' commitment to mitigate the impact, through pricing and internal levers across value optimisation, operational efficiency, leveraging our scale and tight cost control, meant adjusted operating profit was only down 5.2% to £92.7m (2021: £97.8m). The dilutionary impact of passing-through cost increases, combined with an element of unrecovered inflation, meant adjusted operating profit margin was down 90 basis points to 5.2%.

As the environment is expected to remain tough, we have taken action to protect profits in 2023. This has resulted in £36.6m of exceptional charges in 2022 related to the corporate and UK operational restructure, and closure of two UK sites (of which £17.1m cash and £19.5m non-cash impairment charges). Including these costs, operating profit was £54.6m at an operating margin of 3.1% (2021: £97.8m, 6.1%).

Outperformed the market, underpinned by strong service, breadth of product portfolio and targeted innovation

At a market level, performance across the Fresh Prepared Food categories has been varied as consumers have adapted their behaviours in response to cost-of-living pressures. Consumers are choosing to eat out less and are seeking more affordable weekend treats, benefitting the top-tier meals and meal deal offers. Pizza and bread have also held up well, with value ranges performing strongly and the category benefitted from the FIFA World Cup in Q4. Desserts volumes, however, were impacted as consumers cut back their spend on more discretionary items, and salads were impacted as consumers switched from more basic products, such as bagged leaf, to cheaper wholehead equivalents.

Against this backdrop, Bakkavor further strengthened its number one position with market share gains. Consistent high customer service levels, the breadth of our product range across categories and price points and targeted innovation set us apart from our competitors. The year also ended strongly with Christmas trading in line with our expectations.

From a market share perspective, Bakkavor outperformed across meals, desserts and salads, whilst our pizza and bread performance was marginally behind the market due to our customer mix and reduced promotional activity. Some of the highlights include a strong performance in our premium and Italian meals ranges, and expanded range and meal-deal offer under the Pizza Express brand. We have also seen new, younger consumers buy into our categories with strong momentum in The Delicious Dessert Company brand, which delivered 370% revenue growth and products are now available in over 1,100 stores.

With our salads range focused on more 'value-added' products, and a good recovery in food-to-go salads and wraps post-Covid, the impact of softer volumes seen across the market in more basic salads products has, for our business, been limited. The hot summer and continued post-Covid recovery supported a good performance for Bakkavor in salads. Servicing peak volumes in the summer for our customers was underpinned by our forward-planning on labour and targeted capacity and efficiency investments.

Value-seeking behaviours by consumers, and our own self-help efforts to mitigate inflationary pressures, have meant that our product development activity in 2022 centred on value optimisation. Of the 850 products we launched in 2022, 60% related to the redevelopment of existing products. Examples include recipe reformulation in pizza to meet HFSS guidelines, packaging weight reduction on a range of ready meals, and the removal of plastic lids from a range of dressed salads to support our sustainability agenda and reduce the use of plastic.

Reshaped operations to protect profits

The scale, agility and resilience of our operations have come to the fore in a period where there has been ongoing and significant supply chain disruption, and unprecedented levels of inflation. Leveraging our well-established global supply chain has been pivotal in helping mitigate the impact, and we have benefitted from the added scale that our customers provide by buying certain ingredients together. We are also thankful for the support we have received from our customers on price, through both pass-through mechanisms and constructive discussions on costs that sit outside these mechanisms. Operationally, we have maintained our shape and delivered strong KPIs across health and safety, food safety and customer service.

Whilst we maintained a tight control of costs through 2022, our Group plan to protect profits saw us take more significant action in Q4. We have operationally consolidated our UK business from four to two sectors, Meals and Bakery, and moved our HR and Finance teams to functional reporting. This has streamlined our structure, helped focus our activity and created greater accountability across our business. We also completed a review of our manufacturing footprint, which resulted in the difficult but necessary decision to close two sites: Bakkavor Desserts Leicester and Bakkavor Salads Sutton Bridge. Both sites are on track to close by the end of Q1 2023; Sutton Bridge closed at the end of February and Leicester is due to close by the end of March, with production transferring to other sites where we have already invested in capacity and capability. Whilst a challenging time for affected colleagues, we have supported them by offering alternative roles at other sites, as well as hosting job fairs and working with local employers.

Targeted investment to drive operational excellence

The ‘Excellence’ pillar of our strategy is underpinned by our relentless focus on efficiency. In 2022, our £43m of capital investment has centred on operational improvement projects, along with ongoing maintenance. Examples include automated salad lines, and capacity increases and packaging equipment replacement in stir-fry. Our new manufacturing system is also now in place at all but one of our UK factories, driving our operational performance improvements. In addition, the conversion to LED lighting and previous investment in harnessing heat released from refrigeration systems has helped reduce costs and supported progress on our sustainability commitments.

With our Group-wide enhanced focus on cash, we will continue to prioritise capital spend on productivity initiatives. Our strategic investment in Bakkavor Bread Crewe, to increase flatbread capacity and productivity, is underway and on track to commission in H2 2023, and we are investing to enhance our fresh-cut fruit capacity and efficiency. The data-driven insight provided by our new manufacturing system is also already helping build our pipeline of future opportunities to drive further efficiency.

Confidence in continued market share gains, with actions underway to further strengthen resilient foundations

We have taken decisive action to protect profits as the trading environment is anticipated to remain challenging through 2023. Our plan in the UK is clear; we will drive an aggressive plan to mitigate the impact of ongoing inflation and volume pressures by leveraging our scale and strength, working collaboratively with our customers to recover inflation and embedding our cost saving and efficiency plans. Whilst we cannot predict exactly how consumer spending will evolve, we will continue to leverage our insight, and adapt our ranges to ensure our products deliver the value and quality that consumers desire. Building on our outperformance in 2022, we are confident we will continue to gain market share, with a strong pipeline of opportunities and we are well placed to benefit from an increasingly unstable supply base. We are encouraged by trading in early 2023, with volumes in line with expectations despite fresh produce availability challenges, and continued market share gains. Overall, our new re-energised leadership team is well-placed to deliver on our plan, and this will further strengthen the resilient foundations of our business.

United States: Delivered strong revenue growth, and demand for fresh meals remains unabated. Looking ahead, we have a clear focus on operational performance to deliver sustainable improvement.

£ million	FY 2022	FY 2021	Change
Revenue	**255.3**	180.1	41.8%
Like-for-like revenue[1]	**226.2**	180.1	25.6%
Adjusted operating profit[1]	**3.3**	8.9	(62.9%)
Adjusted operating profit margin[1]	**1.3%**	4.9%	(360bps)
Operating (loss) / profit	**(0.5)**	8.9	(105.6%)
Operating (loss) / profit margin	**(0.2%)**	4.9%	(510bps)

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 statutory measures in Note 11.

Trading performance

Strong revenue momentum in the US has continued, with like-for-like revenue up 25.6% to £226.2m. This reflects strong volume growth and, in the second half of the year, some impact of price. Including the impact of currency, £25.5m, and the 53rd week, reported revenue was up 41.8%.

Operationally, onboarding this significant growth and the withdrawal of volume by a single customer due to a contractual dispute since November 2022, has created disruption and put pressure on profits. This was particularly apparent in our East and West Coast sites, Charlotte and Carson, where we have seen the majority of volume growth. Combined with the lag in recovering inflation, this has meant adjusted operating profit was down £5.6m to £3.3m at a margin of 1.3% (2021: 4.9%). The operating loss of £0.5m includes £3.8m of exceptional charges related to the impairment of inventory and trade receivables with the above customer.

Strategic and operational progress

Demand for our fresh, high-quality products has remained strong. Our customers continue to see our fresh meals offering as a key differentiator versus their competitors and to attract consumers into store. Fresh meals now comprise over 50% of our US revenue, which is up over 30% year-on-year, benefitting from the full-year effect of the national meals programme win; this launched in the summer of 2021, combined with range extensions and the introduction of over 45 new meals products in 2022. We also onboarded a new customer in July 2022 for whom we are delivering a range of ten fresh meals in over 250 stores across the Midwest region.

Inflation remained elevated through 2022, particularly in poultry and distribution, and whilst there was a timing lag, our customers have been supportive of the pricing action we have taken. We also have several initiatives in place to help mitigate the impact on both costs and our supply chain, including the new sourcing of key commodities to improve price, and reducing sourcing distance and inventory requirements.

Labour availability remains a challenge across our industry. We continue to be agile in our approach to recruitment in order to keep up with the rapid pace of growth, and have plans in place to streamline this process and improve training for new colleagues. We also continue to leverage the wealth of experience from our UK business; the recent appointment of a new US Finance leader, who was previously Financial Controller within our UK Pizza and Bread business, is just one example of this.

Looking ahead, our near-term focus has shifted from growth to profit: driving operational performance and reviewing our cost base to improve margin in a sustainable way. To support the delivery of this, our approach to growth will be more measured and as we seek to minimise disruption, our capacity investment in the region will only recommence once profit momentum in the business has returned. Robust operational improvement and restructuring plans are now being embedded, with a new leadership structure to be in place from April 2023. Our President of Bakkavor USA, Pete Laport, is leaving in mid-March and we thank him for his contribution and commitment during his time with the US business. Whilst the benefit of our plans will take time to deliver, we expect to see some margin improvement through 2023. We are making progress to reach resolution on the contractual dispute with a customer, which is expected to reach closure by end of Q2 2023. The pipeline for growth in this underdeveloped market, however, remains significant and we remain excited about the medium-term opportunity for our business and converting this growth at an attractive and sustainable margin.

China: Trading impacted by Covid-related disruption, but teams' resilience minimised financial impact and good progress made in diversifying our channels. Confident that the long-term prospects remain attractive.

£ million	FY 2022	FY 2021	Change
Revenue	**100.8**	99.1	1.7%
Like-for-like revenue[1]	**90.5**	99.1	(8.6%)
Adjusted operating loss[1]	**(6.6)**	(4.7)	(40.4%)
Adjusted operating loss margin[1]	**(6.5%)**	(4.7%)	(180bps)
Operating loss	**(16.3)**	(4.7)	(246.8%)
Operating loss margin	**(16.2%)**	(4.7%)	(1,150bps)

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 statutory measures in Note 11.

Trading performance

Trading continued to be impacted by ongoing Covid-related challenges, with like-for-like revenue of £90.5m down 8.6% compared to 2021. Reported revenue was up 1.7%, however, including the impact of currency, £8.7m, and the 53rd week. Volumes in the second half began to recover, following a period of severe regional lockdown restrictions earlier in the year; but with rising case numbers in the remaining weeks of the year, they have remained behind pre-pandemic levels.

Underpinned by the teams' resilience, we have sought to protect our business and maintained a tight control of overheads. However, against a backdrop of changes in demand patterns in response to Covid, rising labour costs and inflation, China reported an adjusted operating loss of £6.6m for the year (2021: £4.7m). Included in the operating loss of £16.3m is a £9.7m non-cash impairment of our associate in Hong Kong due to the ongoing impact of Covid on trading performance.

Strategic and operational progress

The trading environment in China remained volatile during FY22 as the government continued to operate a zero-tolerance Covid policy and implement strict regional lockdowns for most of the year. Reduced mobility and depressed consumer spending have had a pronounced negative impact on demand from our customers. This has been particularly evident for our strategic customers operating quick service restaurants and coffee chains.

New product development has been limited through lockdown periods, however, it has quickly returned as we looked to provide new and exciting products for our customers as their stores re-opened. Our existing strategic foodservice customers continue to have aggressive roll-out plans and believe in the medium-term opportunity.

We have continued to make progress against our strategy of diversifying our channels. Retail now comprises almost 20% of revenue and is up over 60% year-on-year. Retail performance has been robust, and we have launched a new range and expanded our store distribution with one of our strategic grocery retail customers, and also expanded our range and increased volumes with another retailer. Whilst office catering was held back by increased working from home, volumes have rebounded strongly as workers returned to the office following relaxation in restrictions.

Operationally, we have had to manage through the challenges resulting from tight labour availability, supply chain disruption and fluctuations in demand. The business and our people have demonstrated great resilience in adapting to this tough environment. Progress was also made to support our Group Net Zero target with the installation of solar panels at our site in Beijing, which provides c.15% of electricity for the site.

Our strategic investment in the region is now complete and we continue to maintain a tight control of capital spend. The last of our new sites, Xi'an, saw production transfer from the old site in mid-November 2022.

Whilst the near-term outlook remains uncertain, it has been positive to see the steady recovery in volumes through the second half of the year as restrictions eased, which also led to improvements in efficiency and margin. The relaxation of quarantine rules in mid-December 2022 has, however, led to a spike in cases which has resulted in further volatility in order patterns and inefficiencies across our factories. Positively, China is emerging from Covid, and whilst trading at the start of 2023 has continued to experience some disruption from the ongoing impact of Covid, the change to China's Covid policy is welcome, and we remain confident in the long-term prospects for the market.

FINANCIAL REVIEW

Robust performance and in a position of financial strength

Revenue

Group revenue increased 14.3% to £2,139.2m (2021: £1,871.6m). LFL revenue, which excludes the benefit of the 53rd week and is at constant currency, was up 10.6% to £2,069.0m. Of this growth, 9.2% was price and 1.4% volume.

UK reported revenue was up 12.0% to £1,783.1m (2021: £1,592.4m), and up 10.0% on a LFL basis to £1,752.3m. This was primarily driven by price increases to mitigate significant inflation seen across our cost base, and some volume growth in the first part of the year. US reported revenue increased 41.8% to £255.3m (2021: £180.1m), and of this increase £25.5m reflected the currency impact of a weaker Sterling. LFL revenue was up 25.6% to £226.2m (2021: £180.1m), driven by strong volume growth from our existing customers combined with pricing action taking effect in the second half of the year. In China, reported revenue increased by 1.7% to £100.8m (2021: £99.1m), with the benefit of currency more than offsetting the decline in volume due to the impact of Covid through the year. LFL revenue was down 8.6% to £90.5m (2021: £99.1m), however, this full-year result masks volatility in revenue movements with significant volume declines during months of severe regional lockdowns, offset by volume recovery as restrictions eased.

Operating profit

Adjusted operating profit decreased by 12.4% to £89.4m (2021: £102.0m). Whilst it is disappointing to see a reduction in profit of £12.6m, this was against a backdrop of £230m of inflation. Adjusted operating margin at 4.2% was down 120 basis points (2021: 5.4%).

In the UK, adjusted operating profit was down 5.2% at £92.7m, as whilst we have been successful in price recovery with customers, along with driving operational efficiency and tight cost control, this has not fully offset the impact of significant inflationary pressure across the cost base. In the US, adjusted operating profit of £3.3m was down 62.9% on 2021. This was driven by the impact of cost inflation and a lag in pricing recovery, combined with operational disruption from onboarding significant volume growth in the first nine months of the year, and in November 2022, the withdrawal of volume from a single site due to a contractual dispute. China's adjusted operating loss increased by £1.9m to £6.6m. This was due to severe regional lockdowns which heavily impacted volumes and reduced efficiency, particularly in the first half of the year, and again in the final few weeks of the year as Covid began to spread rapidly across the population.

Operating profit decreased by 62.9% to £37.8m (2021: £102.0m), with margins down 360 basis points at 1.8%. Operating profit is after a pre-tax exceptional charge of £50.1m and £1.5m of costs incurred in the year associated with the configuration and customisation of software as a service ("SaaS") projects, treated as an Adjusting item.

Exceptional items

Exceptional items, excluded from adjusted operating profit, comprise:

£m	FY 2022	FY 2021
Corporate restructuring costs	**5.3**	-
UK site closures:		
• Closure costs	**11.8**	-
• Impairment charge	**19.5**	-
Investment in associate impairment	**9.7**	-
US customer contractual dispute impairment	**3.8**	-
Total exceptional items	**50.1**	-

In 2022, the Group incurred an exceptional charge of £50.1m. Of this, £17.1m relates to cash restructuring costs for the closure of two of our UK sites (by the end of Q1 2023) and the costs of a corporate restructuring, which includes redundancy payments. The majority of this cash cost will be incurred in 2023. There is a non-cash impairment charge of £19.5m, of which £19.3m relates to fixed assets at the two sites due to close and £0.2m impairment of intangible assets for one of the businesses. The value of the Group's investment in associated undertakings based in Hong Kong has been written down in the period by £9.7m due to the ongoing impact of Covid and reduced tourism on the trading performance of that business. An ongoing contractual dispute with a US customer has resulted in a £3.8m impairment of inventory and receivables related to this customer. However, we continue to pursue the recovery of these assets as we seek to reach resolution on this matter. Of the total exceptionals, £19.3m is cash costs, with £2.5m incurred in FY22 and the balance of the outflow to come in FY23.

Finance costs

Group profit before tax was £18.1m (2021: £81.4m), which includes finance costs of £20.8m in 2022, up 21.6% on 2021 (2021: £17.1m). This increase was driven by rising interest rates during 2022, partially offset by the voluntary repayments of £37.5m of our more expensive debt in April and September 2021 (previously due to mature in June 2024).

The interest cost on the Group's bank facilities is SONIA plus a margin. To hedge against movements in SONIA the Group has £150m of fixed rate interest swaps for SONIA in place until March 2024, at an average rate of 37 basis points, and has continued to closely monitor its interest rate exposure. In July 2022, the Group put in place a further £30m of fixed rate interest swaps for SONIA from March 2024 until March 2026, at an average rate of 233 basis points. The Group's cost of debt at the end of 2022 was c.3.9% per annum and is expected to increase further, to c.5% in FY23, given the recently announced increase in UK interest base rates.

Tax

The Group's profit after tax was £12.5m (2021: £56.8m). The Group tax charge for 2022 decreased by £19.0m to £5.6m (2021: £24.6m). The charge represents an effective tax rate of 30.9% on profit before tax of £18.1m. The underlying effective tax rate was 21.5% (2021: 29.7%), which excludes exceptional and Adjusting items. The effective rate is 2.5% higher than the UK statutory tax rate of 19% mainly due to the effect of non-deductible expenses, overseas tax losses not recognised in deferred tax and the impact of a change in the UK corporation tax rate to 25%. The latter reflecting 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. We expect the effective tax rate for 2023 to increase slightly above the enacted UK corporation tax rate, 25%, given the UK is where we pay the majority of our corporate taxes.

£m	**FY 2022**	FY 2021
Profit before tax	**18.1**	81.4
Tax charge at UK corporation tax rate of 19% (2021: 19%)	**3.4**	15.5
Net non-deductible expenses/ (non-taxable income)	**(1.2)**	(1.8)
Non-deductible impairment of investment	**1.8**	-
Adjustment in respect of prior periods	**(0.3)**	1.5
Other reconciling items[1]	**1.9**	9.4
Tax charge for the period	**5.6**	24.6
Add: Tax credit on exceptional items	**9.1**	-
Tax charge excl. exceptional items	**14.7**	24.6
Add: Tax credit on adjusting items	**0.3**	0.8
Underlying tax charge	**15.0**	25.4
Effective tax rate on underlying profit before tax of £69.8m (2021: £85.4m)	**21.5%**	29.7%

1 Other reconciling items – see Note 5.

Earnings per share
Basic earnings per share ("EPS") decreased from 9.8 pence in 2021 to 2.2 pence in 2022. This was primarily driven by the impact of the exceptional costs which totalled £50.1m.

Adjusted EPS, which excludes the impact of exceptional and adjusting items and the change in fair value of derivative financial instruments, decreased by 0.9 pence to 9.5 pence in 2022. This decrease was driven by lower adjusted operating profit, which was partly offset by a reduction in tax charges. The weighted average number of shares in issue (used to calculate Adjusted EPS) during 2022 was 577,575,716 (2021: 579,425,585), and decreased on 2021 due to the purchase of the Group's Ordinary shares through an Employee Benefit Trust ("EBT") to satisfy share awards under the Group's share scheme plans.

Cash flow
Net cash from operating activities decreased by £16.9m to £127.1m in 2022 (2021: £144.0m). This was mainly due to the lower adjusted operating profit. Working capital, excluding movements in exceptionals, was slightly lower than the prior year due to the 53rd week in 2022. The cash impact of exceptional items in 2022 was £2.5m (2021: £1.2m).

Net cash used in investing activities increased by £8.8m to £63.7m in 2022 (2021: £54.9m). This was driven by an increase in capital expenditure in 2022, primarily the strategic investment in the US, and is against a softer comparative with investment in 2021 delayed to mitigate against the impact of Covid restrictions.

Free cash flow was an inflow of £66.8m, £24.4m lower than the prior year due to the factors set out above.

Capital allocation
We maintain a disciplined approach to capital allocation, with the overriding objective to enhance shareholder value. In 2022, we allocated our free cash inflow of £66.8m across debt reduction (£8.8m) to support the maintenance of leverage and dividends (£38.8m). To satisfy share awards under the Group's share scheme plans, £3.1m was spent to purchase the Group's own Ordinary shares through an EBT. The balance of cash was allocated across IFRS 16 payments, refinancing fees, exceptional items and foreign exchange.

There were no acquisitions in the year, but we continue to consider these 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.

Investment and returns
Group ROIC was 7.1% for the 12 months to 31 December 2022, compared to 7.2% in the prior year. This reflects the year-on-year decrease in adjusted operating profit after tax, with underlying trading performance down, partly offset by the reduction in effective tax rate. There was also a marginal decrease in average invested capital, as the Group has maintained a tight control of capital spend thereby limiting the increase in invested capital.

Over the medium-term, the Group expects to see an improvement in ROIC as recent investments, including the key strategic projects, deliver an increase in returns. With the Group's enhanced focus on managing cash, we expect the level of capital investment to reduce on the prior year at c.£50m.

Debt and leverage

Operational net debt decreased £8.8m to £284.9m. Leverage (the ratio of operational net debt to adjusted EBITDA) was maintained at 1.9 times at December 2022 and is within the Group's target range of 1.5-2.0 times. The Group's liquidity position remains strong with headroom of over £200m against debt facilities of £486m, and comfortable headroom against all financial covenants. From a debt maturity perspective, on 1 March 2022, the Group extended the maturity date of £430m of its core debt facilities from March 2025 to March 2026.

Dividend

During the year, the Group paid £22.8m in respect of the final dividend for FY21 and £16.0m for the interim dividend declared in September for FY22.

The strength of our balance sheet and cash generation supports our long-term growth aspirations and commitment to delivering returns to shareholders. We propose a final 2022 dividend of 4.16 pence per Ordinary share, resulting in a total dividend for 2022 of 6.93 pence per Ordinary share. This represents an increase of 5.0% on 2021 and is in line with the interim dividend announced in September 2022. If approved by shareholders, the final dividend will be paid on 5 June 2023.

Pensions

Under IAS 19 valuation principles, the Group recognised a surplus of £12.8m for the UK defined benefit scheme as at 31 December 2022 (26 December 2021: £37.2m surplus). The decrease in value of plan assets of c.£127m was as a result of volatile markets due to the wider macro-economic environment and this was more than the decrease in the defined benefit obligation arising from the gilt yield increases despite the liability hedging that is in place.

As a result of the volatility in the gilt markets at the end of September and in early October, the scheme Trustees asked the Group to provide further collateral for its liability hedging of interest and inflation rate movements. The Group agreed to provide a £15m short-term line of credit to the scheme to meet this collateral requirement and, following changes to the scheme's investments, the line of credit was fully repaid by the end of the year.

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 £11.7m, which will be paid over an agreed recovery period ending on 31 March 2024, with payments of £2.5m per annum. The Group is currently in discussions with the Trustee in respect of the latest triennial valuation as at 31 March 2022 and the associated updated funding plan.

Summary

The Group delivered a solid performance against a tough backdrop. Strong revenue growth reflected our success in taking pricing action to offset significant inflationary pressures, and Group adjusted operating profit was in line with market expectations. We exit the year in a strong financial position, with leverage within our target range, financing in place through to FY26 and a good level of protection against interest rate rises. Whilst macro-headwinds are expected to persist through 2023, our balance sheet strength, combined with our clear plan to protect profits, provide the strong foundations from which we can continue to deliver on our strategy and deliver for our customers, colleagues and shareholders.

Principal risks and uncertainties

There are a number of potential risks and uncertainties which could have a material impact on future Group performance and could cause actual results to differ materially from expected and historical results. The risk and uncertainties are described in detail in the 'Risk management and risks' section of the Annual Report and Accounts for the year ended 31 December 2022, available on 17 March 2023 on the company website.

Related parties

During the period, Group companies only entered into transactions with related parties who are members of the Group. Transactions with Directors and shareholders are set out in Note 33 in the Group's Consolidated Financial Statements for FY22.

In addition, as a result of the volatility in the gilt markets, the Group's Defined Benefit Pension Scheme was required to provide further collateral for its liability hedging of interest and inflation rate movements. The Group agreed to provide a £15m short-term line of credit to the Scheme in October 2022 to meet this collateral requirement. The line of credit attracted interest at a rate of 2.1% plus SONIA and was fully repaid by 23 December 2022.

CONSOLIDATED INCOME STATEMENT
53 WEEKS ENDED 31 DECEMBER 2022

		53 weeks ended 31 December 2022			52 weeks ended 25 December 2021		
£m	Note	**Underlying activities**	**Exceptional items[1]**	**Total**	Underlying activities	Exceptional items[1]	Total
Continuing operations							
Revenue	2	**2,139.2**	**–**	**2,139.2**	1,871.6	–	1,871.6
Cost of sales		**(1,576.5)**	**–**	**(1,576.5)**	(1,330.9)	–	(1,330.9)
Gross profit		**562.7**	**–**	**562.7**	540.7	–	540.7
Distribution costs		**(89.4)**	**–**	**(89.4)**	(75.1)	–	(75.1)
Other administrative costs (net)		**(385.6)**	**(50.1)**	**(435.7)**	(363.9)	–	(363.9)
Share of results of associates after tax		**0.2**	**–**	**0.2**	0.3	–	0.3
Operating profit/(loss)		**87.9**	**(50.1)**	**37.8**	102.0	–	102.0
Finance costs	4	**(20.8)**	**–**	**(20.8)**	(17.1)	–	(17.1)
Other gains and (losses)		**1.1**	**–**	**1.1**	(3.5)	–	(3.5)
Profit/(loss) before tax		**68.2**	**(50.1)**	**18.1**	81.4	–	81.4
Tax (charge)/credit	5	**(14.7)**	**9.1**	**(5.6)**	(24.6)	–	(24.6)
Profit/(loss) for the period		**53.5**	**(41.0)**	**12.5**	56.8	–	56.8
Earnings per share							
Basic	6			**2.2p**			9.8p
Diluted	6			**2.1p**			9.6p

1 The Group presents its income statement with three columns. The Directors consider that the underlying activities are more representative of the ongoing operations and key metrics of the Group. Details of exceptional items can be found in Note 3 and include material items that are non-recurring, significant in nature and are important to users in understanding the business, including restructuring costs and impairment of assets. In addition, the Group uses further Alternative Performance Measures which can be found in Note 11.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
53 WEEKS ENDED 31 DECEMBER 2022

£m	Note	**53 weeks ended 31 December 2022**	52 weeks ended 25 December 2021
Profit for the period		**12.5**	56.8
Other comprehensive (expense)/income			
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (loss)/gain on defined benefit pension schemes		**(26.3)**	24.5
Tax relating to components of other comprehensive (expense)/income	5	**6.6**	(6.6)
		(19.7)	17.9
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**17.3**	2.6
Gain on cash flow hedges		**13.3**	2.0
Hedging (gains)/losses reclassified to profit or loss		**(1.4)**	0.4
Tax relating to components of other comprehensive income/(expense)	5	**(3.1)**	(0.2)
		26.1	4.8
Total other comprehensive income		**6.4**	22.7
Total comprehensive income		**18.9**	79.5

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2022

£m	Note	**31 December 2022**	25 December 2021
Non-current assets			
Goodwill		**655.1**	650.1
Other intangible assets		**8.8**	1.7
Property, plant and equipment		**548.1**	545.2
Interests in associates and other investments		**3.7**	11.8
Deferred tax asset	8	**12.9**	9.9
Retirement benefit asset		**12.8**	37.2
Derivative financial instruments		**9.9**	2.6
		1,251.3	1,258.5
Current assets			
Inventories		**86.2**	70.8
Trade and other receivables		**161.0**	142.8
Cash and cash equivalents		**40.2**	31.1
Derivative financial instruments		**2.7**	0.3
		290.1	245.0
Total assets		**1,541.4**	1,503.5
Current liabilities			
Trade and other payables		**(430.0)**	(390.8)
Current tax liabilities		**(1.1)**	(1.3)
Borrowings	7	**(13.1)**	(3.0)
Lease liabilities		**(11.3)**	(10.8)
Provisions		**(22.0)**	(8.5)
Derivative financial instruments		**(0.3)**	(1.7)
		(477.8)	(416.1)
Non-current liabilities			
Borrowings	7	**(309.2)**	(317.6)
Lease liabilities		**(85.9)**	(73.8)
Provisions		**(15.0)**	(14.3)
Derivative financial instruments		**–**	(0.4)
Deferred tax liabilities	8	**(35.7)**	(40.6)
		(445.8)	(446.7)
Total liabilities		**(923.6)**	(862.8)
Net assets		**617.8**	640.7
Equity			
Called up share capital	9	**11.6**	11.6
Own shares held	9	**(3.1)**	–
Merger reserve		**(130.9)**	(130.9)
Hedging reserve		**9.5**	1.7
Translation reserve		**44.5**	27.2
Retained earnings		**686.2**	731.1
Total equity		**617.8**	640.7

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
53 WEEKS ENDED 31 DECEMBER 2022

£m	Note	Called up share capital	Own shares held	Merger reserve	Hedging reserve	Translation reserve	Retained earnings	**Total equity**
Balance at 27 December 2020		11.6	–	(130.9)	(0.7)	24.8	693.3	**598.1**
Profit for the period		–	–	–	–	–	56.8	**56.8**
Other comprehensive income for the period		–	–	–	2.2	2.6	17.9	**22.7**
Total comprehensive income for the period		–	–	–	2.2	2.6	74.7	**79.5**
Reclassification		–	–	–	0.2	(0.2)	–	**–**
Dividends	9	–	–	–	–	–	(38.5)	**(38.5)**
Credit for share-based payments		–	–	–	–	–	2.3	**2.3**
Cash-settlement of share based payments		–	–	–	–	–	(0.6)	**(0.6)**
Deferred tax	5	–	–	–	–	–	(0.1)	**(0.1)**
Balance at 25 December 2021		11.6	–	(130.9)	1.7	27.2	731.1	**640.7**
Profit for the period		–	–	–	–	–	12.5	**12.5**
Other comprehensive income/(expense) for the period		–	–	–	8.8	17.3	(19.7)	**6.4**
Total comprehensive income/(expense) for the period		–	–	–	8.8	17.3	(7.2)	**18.9**
Reclassification to inventory		–	–	–	(1.0)	–	–	**(1.0)**
Purchase of own shares	9	–	(3.1)	–	–	–	–	**(3.1)**
Dividends	9	–	–	–	–	–	(38.8)	**(38.8)**
Credit for share-based payments		–	–	–	–	–	1.9	**1.9**
Cash-settlement of share based payments		–	–	–	–	–	(0.6)	**(0.6)**
Deferred tax	5	–	–	–	–	–	(0.2)	**(0.2)**
Balance at 31 December 2022		**11.6**	**(3.1)**	**(130.9)**	**9.5**	**44.5**	**686.2**	**617.8**

CONSOLIDATED STATEMENT OF CASH FLOWS
53 WEEKS ENDED 31 DECEMBER 2022

£m	Note	**53 weeks ended 31 December 2022**	52 weeks ended 25 December 2021
Net cash generated from operating activities	10	**127.1**	144.0
Investing activities:			
Interest received		**0.2**	–
Dividends received from associates		**–**	0.7
Purchases of property, plant and equipment		**(61.1)**	(59.8)
Proceeds on disposal of property, plant and equipment		**0.1**	4.2
Purchase of intangibles		**(2.9)**	–
Net cash used in investing activities		**(63.7)**	(54.9)
Financing activities:			
Dividends paid	9	**(38.8)**	(38.5)
Own shares purchased	9	**(3.1)**	–
Increase in borrowings		**9.7**	28.1
Repayment of borrowings		**(9.2)**	(60.9)
Principal elements of lease payments		**(14.0)**	(11.7)
Net cash used in financing activities		**(55.4)**	(83.0)
Net increase in cash and cash equivalents		**8.0**	6.1
Cash and cash equivalents at beginning of period		**31.1**	24.8
Effect of foreign exchange rate changes		**1.1**	0.2
Cash and cash equivalents at end of period		**40.2**	31.1

1. Significant Accounting Policies

Basis of accounting

The financial information set out in this document does not constitute statutory accounts for Bakkavor Group plc for the period ended 31 December 2022 but is extracted from the Annual Report & Accounts 2022. The Annual Report & Accounts 2022 will be delivered to the Registrar of Companies in due course. The auditors' report on those accounts was unqualified and neither drew attention to any matters by way of emphasis nor contained a statement under either Section 498(2) of Companies Act 2006 (accounting records or returns inadequate or accounts not agreeing with records and returns), or section 498(3) of Companies Act 2006 (failure to obtain necessary information and explanations).

On 31 December 2020, IFRS as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. Bakkavor Group plc transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 26 December 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework. The Consolidated Financial Statements of the Bakkavor Group plc group have been prepared in accordance with UK-adopted International Accounting Standards and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards.

The Consolidated Financial Statements comprise the Financial Statements of the parent undertaking and its subsidiary undertakings (the "Group"), together with the Group's share of the results of associated undertakings comprising a 52 or 53-week period ending on the Saturday of or immediately before 31 December. Where the fiscal year 2022 is quoted in these Financial Statements this relates to the 53-week period ended 31 December 2022. The fiscal year 2021 relates to the 52-week period ended 25 December 2021.

These Financial Statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates. Foreign operations are included in accordance with the foreign currency policy set out below.

The Group considers the impact of climate-related factors in the preparation of the Financial Statements and discloses any material impact in the relevant Notes.

The Financial Statements have been prepared on the historical cost basis, except for the revaluation of financial instruments and retirement benefit plan assets (which are stated at fair value).

Accounting policies and new standards

The accounting policies applied by the Group are consistent with those disclosed in the Group's Annual Report. These policies are consistent with the Accounts for the 52 weeks ended 25 December 2021, except for new standards and interpretations effective for the first time for the reporting period and for the changes described below.

The Group has made a change to its accounting policy in relation to upfront configuration and customisation costs incurred in implementing Software-as-a-Service ('SaaS') arrangements.

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.

Going concern

The Directors have reviewed the historical trading performance of the Group and the forecasts through to March 2024.

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 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 the potential impact of lower sales volumes from 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.

2. Segmental 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 manufactures 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 11.

Measures of total assets are provided to the Management Board; however, cash and cash equivalents, short-term deposits and some other central assets are not allocated to individual segments. Measures of segment liabilities are not provided to the Management Board.

The following table provides an analysis of the Group's segmental information for the period to 31 December 2022:

£m	Note	UK	US	China	Un-allocated	Total
Revenue	11	**1,783.1**	**255.3**	**100.8**	**–**	**2,139.2**
Adjusted EBITDA	11	**147.7**	**12.4**	**(0.1)**	**–**	**160.0**
Depreciation		**(52.8)**	**(8.7)**	**(6.8)**	**–**	**(68.3)**
Amortisation		**(0.3)**	**(0.4)**	**–**	**–**	**(0.7)**
Share scheme charges		**(1.9)**	**–**	**–**	**–**	**(1.9)**
Profit on disposal of property, plant and equipment		**–**	**–**	**0.1**	**–**	**0.1**
Share of results of associates		**–**	**–**	**0.2**	**–**	**0.2**
Adjusted operating profit/(loss)	11	**92.7**	**3.3**	**(6.6)**	**–**	**89.4**
Exceptional items	3	**(36.6)**	**(3.8)**	**(9.7)**	**–**	**(50.1)**
Configuration and customisation costs for SaaS projects		**(1.5)**	**–**	**–**	**–**	**(1.5)**
Operating profit/(loss)		**54.6**	**(0.5)**	**(16.3)**	**–**	**37.8**
Finance costs						**(20.8)**
Other gains and (losses)						**1.1**
Profit before tax						**18.1**
Tax						**(5.6)**
Profit for the period						**12.5**
Other segment information:						
Capital additions		**46.0**	**39.0**	**1.9**	**–**	**86.9**
Interests in associates		**–**	**–**	**3.6**	**–**	**3.6**
Total assets		**1,215.1**	**200.2**	**73.3**	**52.8**	**1,541.4**
Non-current assets		**1,018.1**	**167.8**	**55.5**	**9.9**	**1,251.3**

The following table provides an analysis of the Group's segmental information for the period to 25 December 2021:

£m	Note	UK	US	China	Un-allocated	Total
Revenue	11	1,592.4	180.1	99.1	–	1,871.6
Adjusted EBITDA	11	149.3	15.7	1.8	–	166.8
Depreciation		(52.0)	(6.4)	(6.8)	–	(65.2)
Amortisation		(0.1)	(0.4)	–	–	(0.5)
Share scheme charges		(2.3)	–	–	–	(2.3)
Profit on disposal of property, plant and equipment		2.9	–	–	–	2.9
Share of results of associates		–	–	0.3	–	0.3
Adjusted operating profit/(loss)	11	97.8	8.9	(4.7)	–	102.0
Exceptional items		–	–	–	–	–
Operating profit/(loss)		97.8	8.9	(4.7)	–	102.0
Finance costs						(17.1)
Other gains and (losses)						(3.5)
Profit before tax						81.4
Tax						(24.6)
Profit for the period						56.8
Other segment information:						
Capital additions		59.6	9.0	6.8	–	75.4
Interests in associates		–	–	11.7	–	11.7
Total assets		1,238.7	144.1	86.7	34.0	1,503.5
Non-current assets		1,068.9	120.2	66.8	2.6	1,258.5

All of the Group's revenue is derived from the sale of goods in 2021 and 2022. There were no inter-segment revenues. The un-allocated assets of £52.8m (2021: £34.0m) relate to cash and cash equivalents and derivative financial instruments which cannot be readily allocated because of the Group cash-pooling arrangements that are in place to provide funds to businesses across the Group.

Major customers

In 2022, the Group's four largest customers accounted for 73.2% (2021: 74.0%) of the Group's total revenue from continuing operations. These customers accounted for 87.9% (2021: 87.0%) of total UK revenue from continuing operations. The Group does not enter into long-term contracts with its retail customers.

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

	2022	2021
Customer A	**32.6%**	33.4%
Customer B	**20.5%**	20.3%
Customer C	**12.2%**	11.5%
Customer D	**7.9%**	8.8%

3. Exceptional items

The Group's financial performance is analysed in two ways: review of underlying performance (which does not include exceptional items) and separate review of exceptional items that are material and not expected to reoccur. The Directors consider that the underlying performance is more representative of the ongoing operations and key metrics of the Group.

Exceptional items are those that, in management's judgement, should be disclosed by virtue of their nature or amount. Exceptional items include material items that are non-recurring, significant in nature and are important to users in understanding the business, including restructuring costs and impairment of assets:

£m	**2022**	2021
Corporate restructuring costs	**(5.3)**	–
UK site closures:		
- Closure costs	**(11.8)**	–
- Impairment charge	**(19.5)**	–
Investment in associate impairment	**(9.7)**	–
US customer contractual dispute impairment	**(3.8)**	–
Total exceptional items	**(50.1)**	–
Tax on exceptional items	**9.1**	–
Total exceptional items after tax	**(41.0)**	–

2022

In 2022, the Group incurred an exceptional charge of £50.1m. Of this, £17.1m relates to restructuring costs for the closure of two of our UK sites by the end of Q1 2023, and the costs of a corporate restructuring, which includes redundancy payments, onerous and other closure costs. The majority of the cash impact will be recognised in 2023. There is also an impairment charge of £19.3m in respect of the relevant fixed assets at the two sites due to close and £0.2m for the impairment of intangible assets for one of the businesses and these charges have no cash impact. The value of the Group's investment in associated undertakings based in Hong Kong has been written down in the period by £9.7m due to the ongoing impact of Covid on the trading performance of that business. An ongoing contractual dispute with a US customer has resulted in a £3.8m impairment of inventory and receivables related to this customer. However, we continue to pursue the recovery of these assets as we seek to reach resolution on this matter.

2021

No exceptional costs have been incurred by the Group.

4. Finance costs

£m	**2022**	2021
Interest on borrowings	**16.9**	14.2
Interest on lease liabilities	**3.1**	2.7
Unwinding of discount on provisions	**0.8**	0.2
Total	**20.8**	17.1

There were no borrowing costs included in the cost of qualifying assets during 2021 or 2022. Borrowing costs included in the cost of qualifying assets during prior years arose within the general borrowing pool and were calculated by applying a capitalisation rate of 3.0% to expenditure on such assets.

Amounts included in the cost of qualifying assets have been capitalised under IAS 23 and are therefore subject to deferred tax. The deferred tax credit to income was £nil (2021: £nil).

5. Tax

£m	Note	**2022**	2021
Current tax:			
Current period		**9.7**	7.6
Prior period adjustment		**1.7**	0.2
Total current tax charge (pre-exceptional items)		**11.4**	7.8
Deferred tax:			
Deferred tax relating to the origination and reversal of temporary differences in the period		**3.7**	7.6
Deferred tax relating to changes in tax rates		**1.6**	7.9
Prior period adjustment		**(2.0)**	1.3
Total deferred tax charge (pre-exceptional items)	8	**3.3**	16.8
Tax on exceptional items:			
Current tax		**(3.4)**	–
Deferred tax		**(5.7)**	–
Total tax credit on exceptional items		**(9.1)**	–
Total tax charge for the period		**5.6**	24.6

The Group tax charge for the period was £5.6m (2021: £24.6m) which represents an effective tax rate of 30.9% (2021: 30.2%) on profit before tax of £18.1m (2021: £81.4m). Tax is calculated using prevailing statutory rates in the territories in which we operate however most of the Group's profits are earned in the UK where the statutory tax rate was 19% for 2022 (2021: 19%). The effective tax rate is 11.9% higher (2021: 11.2%) than the UK statutory tax rate of 19% (2021: 19%).

The main item which, increases the effective rate by 10.2% is the tax effect of an exceptional charge relating to impairment of investments (see Note 3). As in the prior year the effective rate is also increased by 2.6% in relation to 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. We have therefore valued deferred tax assets and liabilities at 25% at the balance sheet date.

Excluding exceptional items and other Adjusting items the effective tax rate on underlying activities was 21.5% (2021: 29.7%) (see Note 11).

The charge for the period can be reconciled to the profit per the consolidated income statement as follows:

	2022 £m	**2022 %**	2021 £m	2021 %
Profit before tax:	**18.1**	**100.0**	81.4	100.0
Tax charge at the UK corporation tax rate of 19% (2021: 19%)	**3.4**	**19.0**	15.5	19.0
Net non-deductible expenses/(non-taxable income)	**(1.2)**	**(6.9)**	(1.8)	(2.0)
Non-deductible impairment of investment	**1.8**	**10.2**	–	–
Prior period adjustment	**(0.3)**	**(1.7)**	1.5	1.7
Tax effect of losses carried forward not recognised	**1.0**	**5.5**	0.7	0.9
Unprovided deferred tax assets now recognised	**–**	**–**	(0.1)	(0.2)
Overseas taxes at different rates	**0.4**	**2.2**	0.9	1.1
Deferred tax rate differential	**0.5**	**2.6**	7.9	9.7
Tax charge and effective tax rate for the period	**5.6**	**30.9**	24.6	30.2

In addition to amounts charged to the consolidated income statement, the following amounts in respect of tax were charged/(credited) to the consolidated statement of comprehensive income and equity:

	2022 £m	2021 £m
Tax relating to components of other comprehensive income/(expense):		
Deferred tax:		
Remeasurements on defined benefit pension scheme actuarial (loss)/gain	**(5.0)**	4.6
Deferred tax rate change on defined benefit pension scheme actuarial (loss)/gain	**(1.6)**	2.0
Cash flow hedges and cost of hedging	**3.1**	0.2
Deferred tax on share schemes	**0.2**	0.1
	(3.3)	6.9
Tax relating to components of other comprehensive income/(expense):	**(3.5)**	6.8
Tax relating to share-based payments recognised directly in equity:	**0.2**	0.1
	(3.3)	6.9

HMRC had previously raised an enquiry into the structure used to fund our overseas investment in the US business. Although a number of earlier years were agreed, for the years ended 2019 onwards and including the current period ended 31 December 2022, there is uncertainty in connection with the applicability of the UK tax rules to the structure which could lead to additional UK tax payable. This is a complex area with a range of possible outcomes and judgement has been used in calculating the provision. For these reasons it cannot be known with certainty whether additional amounts of UK tax will be due, however, we consider it is unlikely that there will be material amounts due over and above the provisions currently held.

In 2022 the tax risk provision was £1.0m (2021: £1.0m) because it is considered likely that additional liabilities will become due to the tax authorities.

6. 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, excluding own shares held.

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 £m	**2022**	2021
Profit for the period	**12.5**	56.8

Number of shares '000	**2022**	2021
Weighted average number of Ordinary shares	**577,576**	579,426
Effect of potentially dilutive Ordinary shares	**9,767**	9,775
Weighted average number of Ordinary shares including dilution	**587,343**	589,201

	2022	2021
Basic earnings per share	**2.2p**	9.8p
Diluted earnings per share	**2.1p**	9.6p

The Group calculates Adjusted basic earnings per Ordinary share and details of this can be found in Note 11, Alternative performance measures.

7. Borrowings

The interest rates and currency profile of the Group's borrowings at 31 December 2022 were as follows:

	Currency	Facility amount £m	Amount drawn down at year end £m	Interest rate	Non-utilisation fee	Maturity date
Term Loan	GBP	225.0	225.0	SONIA[2] plus a margin of 2.1%	N/A	Mar 2026[1]
Revolving Credit Facility ("RCF")	GBP	230.0	60.0	SONIA[2] plus a margin of 2.1%	0.735%	Mar 2026[1]
Asset Finance Facility	GBP	19.2	19.2	Fixed interest rate	N/A	Aug 2027
Asset Finance Facility	GBP	10.4	10.4	Fixed interest rate	N/A	Jun 2028
Asset Finance Facility	USD	1.7	1.7	SOFR[3] plus 2.12%	N/A	Feb 2023
Total		**486.3**	**316.3**[4]			

1 £12.4m of the term loan and £12.6m of the RCF mature in March 2024.
2 The interest rate for these facilities includes a Credit Spread Adjustment following the transition from LIBOR to SONIA in September 2021.
3 SOFR stands for Secured Overnight Financing Rate.
4 £316.3m represents the committed facilities of the Group, the Group's Consolidated Statement of Financial Position discloses £322.3m which includes local overdraft facilities, unamortised fees and interest accrued.

On 18 March 2020, the Group completed a refinancing of its core debt facilities through a new term loan and Revolving Credit Facility totalling £455m. The refinancing resulted in the addition of new lenders to the Group. The new facilities were due to mature in March 2024, with an option to extend the tenure by a further two years subject to lender approval. £430m of these facilities were extended in March 2021 and further extended in March 2022 to mature in March 2026.

The Group's total banking facilities amount to £455.0m (2021: £455.0m) comprising:

a. £225.0m in term loans (2021: £225.0m term loan), with £12.4m maturing in March 2024 and £212.6m in March 2026; and

b. £230.0m Revolving Credit Facilities ("RCF") (2021: £230.0m RCF), which includes an overdraft and money market facility of £20.0m (2021: £20.0m) and further ancillary facilities of £13.3m (2021: £13.3m). For the RCF, £12.6m matures in March 2024 and £217.4m in March 2026. The bank facilities are unsecured and are subject to covenant agreements including the Group maintaining a minimum interest cover of 4.0x and not exceeding an Adjusted leverage of 3.0x.

The Asset Finance Facility is made up of three separate facilities which are secured against specific items of plant and machinery as follows:

a. £25.0m facility, which could be drawn against up to August 2020, of which the Group initially drew down £24.9m with £19.2m outstanding at the end of 2022. No further draw down can be made against this facility. The facility has been drawn in tranches, with each tranche being repaid on a quarterly basis over a period of seven years, and the weighted average interest rate for the facility at 31 December 2022 was 2.41% (2021: 2.41%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche.

b. £13.1m drawn down during 2021 under a separate asset financing facility with £10.4m outstanding at the end of 2022. No further draw down can be made against this facility. The facility has been drawn in tranches, with each tranche being repaid on a monthly basis over a period of seven years, and the weighted average interest rate for the facility at 31 December 2022 is 3.20% (2021: 3.20%). The interest rate is fixed at the prevailing rate on commencement of the loan tranche.

c. Bakkavor Foods USA Inc has entered into an asset financing facility of up to $5.0m (£4.1m) of funding, based on approved funding requests. As at 31 December 2022 £1.7m funding had been approved and drawn and the interest rate for this was a variable rate of SOFR plus 2.12%.

In September 2021 the Group transitioned from LIBOR to SONIA which impacted £455.0m of the total debt facilities.

In addition, the Group has access to £8.9m (2021: £8.4m) of local overdraft facilities in the US and China which are uncommitted and unsecured. One of the Group's UK subsidiary companies, Bakkavor Finance (2) Limited, has provided Corporate Guarantees totalling $5m for the US local overdraft facility and RMB 40m for the China local overdraft facility.

During the previous financial period, the Group repaid two term loans with total capital repayments being £57.5m.

£m	**31 December 2022**	25 December 2021
Bank overdrafts	**8.2**	–
Bank loans	**314.1**	320.6
	322.3	320.6
Borrowings repayable as follows:		
On demand or within one year	**13.1**	3.0
In the second year	**16.1**	2.9
In the third to fifth years inclusive	**292.4**	303.1
Over five years	**0.7**	11.6
	322.3	320.6
Analysed as:		
Amount due for settlement within 12 months (shown within current liabilities)	**13.1**	3.0
Amount due for settlement after 12 months	**309.2**	317.6
	322.3	320.6

	2022 %	2021 %
The weighted average interest rates paid were as follows:		
Bank loans and overdrafts	**3.50**	2.54

Apart from the Asset Finance Facility, interest on the Group's term loan and other borrowings are at floating rates, thus exposing the Group to cash flow interest rate risk. This risk is mitigated using interest rate swaps.

The fair value of the Group's borrowings is as follows:

£m	**31 December 2022**	25 December 2021
Fair value of the Group's borrowings	**324.5**	323.8

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 lease liabilities and is as follows:

£m	**31 December 2022**	25 December 2021
Analysis of net debt		
Cash and cash equivalents	**40.2**	31.1
Borrowings	**(14.1)**	(4.1)
Interest accrual	**(0.4)**	(0.2)
Unamortised fees	**1.4**	1.3
Lease liabilities	**(11.3)**	(10.8)
Debt due within one year	**(24.4)**	(13.8)
Borrowings	**(310.4)**	(319.7)
Unamortised fees	**1.2**	2.1
Lease liabilities	**(85.9)**	(73.8)
Debt due after one year	**(395.1)**	(391.4)
Group net debt	**(379.3)**	(374.1)

8. Deferred tax

The following are the major deferred tax liabilities and assets recognised by the Group and movements thereon during the current and prior reporting period.

£m	Accelerated tax depreciation[1]	Fair value gains	Provisions	Retirement benefit obligations and share schemes	Overseas tax losses and accrued interest	US goodwill	Total
At 27 December 2020	(25.9)	0.2	0.5	(1.9)	28.9	(8.5)	(6.7)
(Charge)/credit to income	(13.8)	0.2	0.2	–	(2.6)	(0.8)	(16.8)
Exchange differences	(0.1)	–	–	–	(0.2)	–	(0.3)
Charge to equity and other comprehensive income	–	(0.2)	–	(6.7)	–	–	(6.9)
At 25 December 2021	**(39.8)**	**0.2**	**0.7**	**(8.6)**	**26.1**	**(9.3)**	**(30.7)**
(Charge)/credit to income	(6.3)	(0.2)	0.2	0.5	3.4	(0.9)	(3.3)
Credit to income on exceptional items	4.7	–	–	–	1.0	–	5.7
Exchange differences	(0.9)	–	–	–	3.1	–	2.2
(Charge)/credit to equity and other comprehensive income	–	(3.1)	–	6.4	–	–	3.3
At 31 December 2022	**(42.3)**	**(3.1)**	**0.9**	**(1.7)**	**33.6**	**(10.2)**	**(22.8)**

1 IAS23 Capitalised interest and Intangibles deferred tax balances are shown within the Accelerated tax depreciation values above.

Certain deferred tax assets and liabilities have been offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes:

£m	**31 December 2022**	25 December 2021
Deferred tax asset	**12.9**	9.9
Deferred tax liabilities	**(35.7)**	(40.6)
	(22.8)	(30.7)

Included in the above are deferred tax assets of £33.6m (2021: £26.1) in connection with US tax losses and accrued interest amounts which will be deductible in future accounting periods. These deferred tax assets are offset by liabilities for which there is a legally enforceable right to do so. The US tax losses and accrued interest amounts can be carried forward indefinitely and used against future US taxable profits.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

In evaluating whether it is probable that sufficient taxable profits will be earned in future accounting periods, all available evidence has been considered by management including forecasts and business plans. These forecasts are consistent with those prepared and used internally for business planning and impairment testing purposes. Following this evaluation, management determined there would be sufficient taxable profits generated to continue to recognise these deferred tax assets in full.

Deferred tax assets in respect of some capital losses as well as trading loses have not been recognised as their future recovery is uncertain or not currently anticipated. The total gross deferred tax assets not recognised are as follows:

£m	**31 December 2022**	25 December 2021
Capital losses	**5.0**	3.4
Trading losses	**21.2**	14.6
	26.2	18.0

The capital losses arose in the UK and are available to carry forward indefinitely but can only be offset against future capital gains. The trading losses are non-UK losses and are available to offset against future taxable profits. These losses are timebound and £20.3m (2020: £13.5m) will expire after five years if unused.

There are no deferred tax liabilities associated with undistributed earnings of subsidiaries due to the availability of tax credits against such liabilities or the exemption from UK tax on such dividends.

Temporary differences arising in connection with interests in associates are insignificant.

9. Called up share capital and dividends

Called up share capital

£m	31 December 2022	25 December 2021
Issued and fully paid:		
579,425,585 (2021: 579,425,585) Ordinary shares of £0.02 each	**11.6**	11.6

All Ordinary shares of £0.02 each are non-redeemable, and carry equal voting rights and rank for dividends and capital distributions, whether on a winding up or otherwise.

Own shares held

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 31 December 2022 was 2,940,514 (25 December 2021: nil). This represents 0.51% of total called up share capital at 31 December 2022 (25 December 2021: nil).

Total cash purchases made through the EBT during the year amounted to £3.1m (2021: £nil).

£m	Number of shares	£000
Balance at 26 December 2021	–	–
Acquisition of shares by the Trust	2,994,036	3,128
Distribution of shares under share scheme plans	(53,522)	(54)
Balance at 31 December 2022	**2,940,514**	**3,074**

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

Dividends

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 reinstated and declared. The total amount of £23,177,023 was paid to Ordinary shareholders on 25 May 2021.

An interim dividend of 2.64 pence per Ordinary share was declared in September 2021. The total amount of £15,296,835 was paid to Ordinary shareholders on 15 October 2021.

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 was declared in September 2022. Following a waiver in relation to 2,492,273 Ordinary shares held in the Bakkavor Group plc Employee Benefit Trust, £15,981,053 was paid to Ordinary shareholders on 14 October 2022.

This has resulted in total dividend payments of £38,829,716 (2021: £38,473,858) during the year.

A final dividend of 4.16 pence per share has been proposed for approval at the Annual General Meeting on 31 May 2023 and will be payable on 5 June 2023 to Ordinary shareholders on the register at 28 April 2023.

10. Net cash generated from operating activities

£m	**2022**	2021
Operating profit	**37.8**	102.0
Adjustments for:		
Share of results of associates after tax	**(0.2)**	(0.3)
Depreciation of property, plant and equipment	**68.3**	65.2
Amortisation of intangible assets	**0.7**	0.5
Profit on disposal of property, plant and equipment	**(0.1)**	(2.9)
Impairment of assets	**29.2**	1.3
Share scheme charges	**1.3**	1.7
Net retirement benefits charge less contributions	**(2.2)**	(1.4)
Operating cash flows before movements in operating assets and liabilities	**134.8**	166.1
(Increase) in inventories	**(15.8)**	(7.0)
(Increase) in receivables	**(17.3)**	(6.2)
Increase in payables	**32.8**	18.9
Increase/(decrease) in exceptional provisions[1]	**18.4**	(0.4)
(Decrease) in provisions	**(1.4)**	(2.9)
Cash generated by operations	**151.5**	168.5
Income taxes paid	**(5.1)**	(6.5)
Interest paid	**(19.3)**	(18.0)
Net cash generated from operating activities	**127.1**	144.0

1 Included within the increase in exceptional provisions are inventory and receivable provision movements of £3.3m (2021: £nil).

Analysis of changes in net debt

£m	26 December 2021	Cash flow	Lease additions	Exchange movements	Other non-cash movements[1]	**31 December 2022**
Borrowings	(320.6)	(0.5)	–	(0.2)	(1.0)	**(322.3)**
Lease liabilities	(84.6)	14.0	(25.6)	(1.0)	–	**(97.2)**
Total liabilities from financing activities	(405.2)	13.5	(25.6)	(1.2)	(1.0)	**(419.5)**
Cash and cash equivalents	31.1	8.0	–	1.1	–	**40.2**
Net debt	(374.1)	21.5	(25.6)	(0.1)	(1.0)	**(379.3)**

£m	27 December 2020	Cash flow	Lease additions	Exchange movements	Other non-cash movements[1]	**25 December 2021**
Borrowings	(354.6)	32.8	–	–	1.2	**(320.6)**
Lease liabilities	(82.0)	11.7	(14.2)	(0.1)	–	**(84.6)**
Total liabilities from financing activities	(436.6)	44.5	(14.2)	(0.1)	1.2	**(405.2)**
Cash and cash equivalents	24.8	6.1	–	–	0.2	**31.1**
Net debt	(411.8)	50.6	(14.2)	(0.1)	1.4	**(374.1)**

1 Includes accrued interest at 31 December 2022 of £0.4.m (2021: £0.2m) and prepaid bank fees of £2.6m (2021: £3.4m). The net reduction in these balances in the period of £1.0m (2021: net increase of £1.2m) is shown in the table above as 'Other non-cash movements' in Borrowings.

11. 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 revenue

The Group defines like-for-like revenue as revenue from continuing operations adjusted for the revenue generated from businesses closed or sold in the current and prior year, revenue generated from businesses acquired in the current and prior period, the effect of foreign currency movements and revenues. In addition revenues for week 53 are taken out in the relevant financial years to ensure that like-for-like revenue is shown on a 52 week basis each year.

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

£m	2022	2021	Change %
Statutory revenue	**2,139.2**	1,871.6	14.3%
Effect of currency movements	**(34.2)**	–	
Week 53 revenue	**(36.0)**	–	
Like-for-like revenue	**2,069.0**	1,871.6	10.6%

The following tables provide the information used to calculate like-for-like revenue for each segment.

UK

£m	2022	2021	Change %
Statutory revenue	**1,783.1**	1,592.4	12.0%
Week 53 revenue	**(30.8)**	–	
Like-for-like revenue	**1,752.3**	1,592.4	10.0%

US

£m	2022	2021	Change %
Statutory revenue	**255.3**	180.1	41.8%
Effect of currency movements	**(25.5)**	–	
Week 53 revenue	**(3.6)**	–	
Like-for-like revenue	**226.2**	180.1	25.6%

China

£m	2022	2021	Change %
Statutory revenue	**100.8**	99.1	1.7%
Effect of currency movements	**(8.7)**	–	
Week 53 revenue	**(1.6)**	–	
Like-for-like revenue	**90.5**	99.1	(8.6)%

Adjusted EBITDA and Adjusted operating profit

The Group manages the performance of its businesses through the use of 'Adjusted EBITDA' and 'Adjusted operating profit', as these measures exclude the impact of items that hinder comparison of profitability year-on-year. 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 these are non-cash amounts. Adjusted operating profit margin is used as an additional profit measure that 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 Group adjusts for the cost of these projects as they are infrequent in nature and relate to significant systems changes within the business.

The Group calculates Adjusted EBITDA on a pre-IFRS 16 basis for the purposes of determining covenants under its financing agreements.

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

£m	Note	**2022**	2021
Operating profit		**37.8**	102.0
Exceptional items	3	**50.1**	–
Configuration and customisation costs for SaaS projects		**1.5**	–
Adjusted operating profit		**89.4**	102.0
Depreciation		**68.3**	65.2
Amortisation		**0.7**	0.5
Share scheme charges		**1.9**	2.3
Profit on disposal of property, plant and equipment		**(0.1)**	(2.9)
Share of results of associates after tax		**(0.2)**	(0.3)
Adjusted EBITDA post IFRS 16		**160.0**	166.8
Less IFRS 16 impact		**(13.8)**	(12.6)
Adjusted EBITDA pre IFRS 16[1]		**146.2**	154.2
Covenant adjustments		**0.6**	1.4
Adjusted EBITDA (pre IFRS 16 and including covenant adjustments)		**146.8**	155.6

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 is reconciled to operating profit in Note 2.

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

£m	Note	**31 December 2022**	25 December 2021
Group net debt	7	**(379.3)**	(374.1)
Unamortised fees		**(2.6)**	(3.4)
Interest accrual		**0.4**	0.2
Lease liabilities recognised under IFRS 16		**96.6**	83.6
Group operational net debt		**(284.9)**	(293.7)
Adjusted EBITDA (pre IFRS 16 and including covenant adjustments)		**146.8**	155.6
Leverage (Operational net debt/Adjusted EBITDA pre IFRS 16 and including covenant adjustments)		**1.9**	1.9

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 and other exceptional or significant non-recurring cash flows. Free cash flow has benefitted from non-recourse factoring of receivables and the extension of payment terms for certain suppliers. 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.

£m	2022	2021
Net cash generated from operating activities	**127.1**	144.0
Interest received	**0.2**	–
Dividends received from associates	**–**	0.7
Purchases of property, plant and equipment	**(61.1)**	(59.8)
Proceeds on disposal of property, plant and equipment	**0.1**	4.2
Purchase of intangibles	**(2.9)**	–
Cash impact of exceptional items	**2.5**	1.2
Refinancing fees	**0.9**	0.9
Free cash flow	**66.8**	91.2

Adjusted 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 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 following table reconciles profit for the period to Adjusted earnings.

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

£m	2022	2021
Profit for the period	**12.5**	56.8
Exceptional items (Note 3)	**50.1**	–
Configuration and customisation costs for SaaS projects	**1.5**	–
Change in fair value of derivative financial instruments	**0.1**	4.0
Tax on the above items	**(9.4)**	(0.8)
Adjusted earnings	**54.8**	60.0
Add back: Tax on Adjusted profit before tax	**15.0**	25.4
Adjusted profit before tax	**69.8**	85.4
Effective tax rate on underlying activities		
(Tax on Adjusted profit before tax/Adjusted profit before tax)	**21.5%**	29.7%

Number of shares ‘000	2022	2021
Weighted average number of Ordinary shares	**577,576**	579,426
Effect of dilutive Ordinary shares	**9,767**	9,775
Weighted average number of diluted Ordinary shares	**587,343**	589,201

	2022	2021
Adjusted basic earnings per share	**9.5p**	10.4p
Adjusted diluted earnings per share	**9.3p**	10.2p

Return on Invested Capital (“ROIC”)

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

The Directors believe that ROIC is a useful indicator of the amount returned as a percentage of shareholders’ invested capital and 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.

£m	Note	2022	2021
Operating profit		**37.8**	102.0
Exceptional items	3	**50.1**	–
Configuration and customisation costs for SaaS projects		**1.5**	–
Adjusted operating profit		**89.4**	102.0
Taxation at the underlying effective rate		**(19.2)**	(30.3)
Adjusted operating profit after tax		**70.2**	71.7
Invested capital			
Total assets		**1,541.4**	1,503.5
Total liabilities		**(923.6)**	(862.8)
Net debt at period end		**379.3**	374.1
Derivatives not designated as hedges		**–**	0.9
Retirement benefit scheme surplus		**(12.8)**	(37.2)
Deferred tax liability on retirement benefit scheme		**3.2**	9.3
Invested capital		**987.5**	987.8
Average invested capital for ROIC calculation		**987.7**	994.4
ROIC (%)		**7.1%**	7.2%

12. Statement of directors' responsibilities in respect of the financial statements

We confirm to the best of our knowledge that:

- The Group Financial Statements, which have been prepared in accordance with UK-adopted International Accounting Standards, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The announcement includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Approved on behalf of the Group Board by:

Mike Edwards
Chief Executive Officer

Ben Waldron
Chief Financial Officer and Asia Chief Executive Officer

7 March 2023